

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF AN INQUIRY)
INTO RENEWABLE ENERGY AS A)
SOURCE OF ELECTRICITY)**
_____)

Utility Case No. 3619

**COMMENTS OF
THE COALITION FOR CLEAN AFFORDABLE ENERGY**

The Coalition for Clean Affordable Energy (“CCAIE”), pursuant to the Public Regulation Commission's ("Commission") Notice of Inquiry issued on May 15, 2001, hereby submits comments and suggestions for furthering the development of renewable energy in New Mexico.

CCAIE is a coalition of eight environmental and public interest groups active in New Mexico and the broader Rocky Mountain and Desert Southwest region that was formed in 1997 to promote environmental and clean energy interests in the restructuring of New Mexico’s electric utility industry. CCAIE consists of the Conservation Voters Alliance, the Land and Water Fund of the Rockies, the National Parks Conservation Association, New Mexico Citizens for Clean Air & Water, the New Mexico Public Interest Research Group, the New Mexico Solar Energy Association, the Rio Grande Chapter of the Sierra Club, and the Southwest Research and Information Center. The organizations comprising CCAIE have over 10,000 members who live in New Mexico.

I. Introduction

CCAIE's interest in this docket is to recommend that the Commission promulgate certain rules to encourage the development of renewable energy in New Mexico. CCAIE proposes that the best policies to encourage renewable energy development in New Mexico are: (1) a renewable portfolio standard and (2) a requirement that utilities offer voluntary renewable energy programs to their customers. The following comments describe the key components of these rules, the reasons for them, and the associated benefits for the state of New Mexico.

II. Abundant Renewable Energy Resources Exist in New Mexico

New Mexico has some of the best renewable energy resources in the country. For example, according to the US Department of Energy's State Energy Alternatives website:

Wind - New Mexico has the potential to produce 436,000,000 MWh of wind power per year, about 2,539% of the entire state's current electricity consumption.

Solar - There is a virtually unlimited amount of solar energy in New Mexico. As an example of this, a PV array with a collector area equal to the size of a football field in one of New Mexico's better locations would produce around 1,222,000 kWh per year - enough to power approximately 122 homes.

Biomass - An estimated 1.6 billion kWh of electricity could be generated using renewable biomass fuels in New Mexico. This is enough electricity to fully supply the annual needs of 157,000 average homes, or 35% of the residential electricity use in New Mexico.

Geothermal - 20 of New Mexico's 33 counties have geothermal resources suitable for both electrical generation and direct-use applications. According to the US Geological Survey, the state's geothermal resource base contains the thermal energy equivalent of more than 100 billion barrels of oil.

III. Benefits of Increased Use of Renewable Energy

CCAIE recommends the incorporation of renewable energy into the state's supply mix to provide for local economic development benefits, environmental benefits and reduced economic risks associated with a diversified energy portfolio.

A. Economic Development Benefits

Renewable energy development in New Mexico presents important opportunities for local economic development. Increasing the amount of renewable resources in the state's energy mix will create a reliable demand for renewable energy technologies, thus giving renewable energy developers and manufacturers the assurance they need to commit to building manufacturing facilities and creating jobs in the state.

More specific economic benefits, particularly in rural areas, include increased property tax revenue, job creation and stable electric prices. For example, 240 MW of wind capacity installed at several sites in Iowa in 1998 and 1999 produced: 200 six-month-long construction jobs, 40 permanent operations jobs, \$2 million per year in tax payments to counties and school districts and \$640,000 per year in direct lease payments to landowners.

B. Environmental Benefits

Compared to fossil fuel generation, renewable resources have much lower environmental impacts. In New Mexico, for example, fossil fuel-fired power plants are responsible for over 30% of sulfur dioxide emissions and nearly 25% of nitrogen oxides emissions - pollutants that contribute to visibility degradation, acid rain and public health problems. Fossil fuel-fired power plants are also responsible for over 50% of the state's carbon dioxide emissions, the principal pollutant associated with the risk of global climate change. Increased use of renewable resources can help reduce emissions of these pollutants at a reasonable cost, particularly in light of past, and expected future, price declines in renewable technologies. Distributed renewable resources have the added benefit of avoiding construction of new transmission capacity.

C. Risk Diversification

Including renewable resources, which have no fuel costs, in the state's electric supply mix can help reduce the economic risks associated with rising or fluctuating fossil fuel prices. The Commission acknowledged the importance of fuel diversity for "an adequate, reliable and reasonably priced supply of electricity." CCAIE agrees, and believes that increasing the use of renewable resources in New Mexico is critical given recent fossil fuel price fluctuations. In addition, because using renewable resources lowers overall environmental impacts, they also reduce the risk that more stringent environmental regulations may raise electric rates.

IV. CCAIE's Recommendations for Encouraging the Development of Renewable Energy

There are a wide variety of mechanisms that can be used to encourage the development of renewable energy, ranging from financial incentives such as tax credits and rebate programs to educational efforts to regulatory policies like public benefits funds and portfolio standards. CCAIE believes that the most appropriate policies the Commission can implement for developing renewable resources in New Mexico are: (1) a renewable portfolio standard and (2) a

requirement that electricity providers offer a voluntary renewable energy option to their customers.

A. Renewable Portfolio Standard

CCAIE recommends that the Commission establish a baseline standard for renewable energy resources to be included in the supply mix for each regulated utility in New Mexico. A renewable portfolio standard (RPS) would ensure a minimum level of development of renewable resources. Several states, including Arizona, Nevada and Texas, have recently adopted portfolio standards. Details of each program are listed in the following table:

Provisions	Arizona	Nevada	Texas
Total Amount Mandated by percentage	1.1%	15%	(about 3.3%)
Total Amount Mandated in megawatts	(about 180 MW)		2000 MW
Effective Date	3/30/01	1/1/03	1/1/02
Target Date for Total Amount	2009	2013	2009
Trading Credits Program	Yes	Yes	Yes: Adminstered by state
Eligible Technologies	Solar Thermal Electricity, Photovoltaics, Wind, Biomass, Hydro, Geothermal Electric, Waste	Solar Thermal Electricity, Photovoltaics, Wind, Biomass, Geothermal Electric	Solar Thermal Electricity, Photovoltaics, Wind, Biomass, Hydro, Geothermal Electric, Wave, Tidal, Landfill Gas
Applicable Sectors	Utility, Investor-Owned Utility, Publicly-Owned Utility, Rural Cooperative,	Utility, Investor-Owned Utility, Publicly-Owned Utility,	Utility
Initial Minimum	0.2%		400 MW
Year Enacted	2000	2001	1999
Existing Renewables			880 MW
Penalties	yes	yes - administrative fines	lesser of \$50 per MWh or 200% of the average cost of credits traded during the year
Minimum required amount of solar	Solar must make up 50% in 2001, increasing to 60% for 2004 through 2012	Solar must be 0.5% of total electricity delivered, to be achieved beginning 2004 by adding at least .01% annually	Solar must make up at least 5% of the renewable energy generated
Funding for building of new generation	Existing SBC and new surcharge collected by regulated utilities	Cost of doing business	Cost of doing business

B. Key Components of a Renewable Portfolio Standard

Although standards differ from state to state, there are several key elements CCAIE believes should be transferred to New Mexico to encourage local development of renewable resources. CCAIE bases these recommendations on elements of portfolio standards developed in other states, and the National Association of Regulatory Utility Commissioners' publication, "The Renewables Portfolio Standard: A Practical Guide."

1. The RPS standard should initially be set at a low percentage of all retail kWh sales in the state, and be increased annually.
2. To maximize economic development benefits for New Mexico, the RPS rule should encourage in-state development of renewable resources.

3. A credit trading system, where the Commission (or other party) issues credits for kilowatt-hours generated, which are then sold or traded among utilities to meet their RPS requirements, will ensure the most efficient development of renewable resources.
4. The Commission's rule should encourage the development of a diverse mix of renewable resources.
5. Distributed resources, such as grid-tied PV systems, should be encouraged.
6. A price cap limiting the impact of an RPS on consumers should be considered.
7. Utilities should receive extra credit for early installation of renewable energy systems.
8. Utilities should be required to file annual reports with the Commission with details on the resources or credits they acquired to meet the RPS.
9. The RPS rule should include adequate penalty provisions to ensure compliance.

C. Recommendation to Form a Stakeholder Working Group to Develop an RPS

CCAIE recommends that the Commission form a stakeholder working group, including Commission staff, to draft a renewable portfolio standard. This group could review portfolio standards implemented in other states and make specific recommendations to the Commission on the best policy for New Mexico (including the percentage mandated, price caps, eligible resources, etc.). The Arizona Environmental Portfolio Standard working group, organized by the Arizona Corporation Commission, could serve as a model for how such a group would function.

All parties filing comments in this docket, as well as those who have participated in previous rulemakings related to renewable energy, and those parties participating in the New Mexico Sustainable Energy Collaborative should be invited to participate.

D. Voluntary Renewable Energy Option

In addition to recommending that the Commission establish a minimum standard for renewable energy in the state's supply mix, CCAIE suggests the Commission should require utilities to give consumers the opportunity to purchase additional amounts of renewable energy. Voluntary renewable energy programs (also called "green pricing" programs) allow consumers to support increased utility investment in renewable energy by paying a premium on their electric bill to cover the cost of renewable energy. Since participation in these programs is voluntary, there is no price impact to customers who do not participate, and since the cost of renewable energy acquired by utilities is passed on to participating customers, there is little financial risk to the utility. The price charged for these programs is established in renewable energy tariffs, which must be approved by the Commission. Southwestern Public Service Company's Windsource program is an example of a voluntary renewable energy program. Through this program, customers agree to pay a \$3.00 per month premium for 100 kWh of wind power.

According to the US Department of Energy, voluntary renewable energy programs have led to the development of over 100 MW of solar, wind and other renewable resources across the country, the majority of which have been installed since 1999. Electricity providers have planned an additional 170 MW of renewable resources to meet demand for these programs.

One of the most successful examples of this type of program is Xcel Energy/Public Service Company of Colorado's Windsource program. Since 1997, over 14,000 residential customers and several hundred businesses have agreed to participate in the program. Customers pay an additional \$2.50 monthly charge for each 100 kWh block of wind power delivered to the grid. This program has led to the development of over 50 MW of wind power in Colorado between 1997 and 2001.

Voluntary renewable energy offerings would also serve as a pilot project for retail choice in the interim before competition is scheduled to start. This would provide an easy way for consumers to begin learning more about their energy options and help prepare them to choose among competitive power suppliers when the time comes. Additionally, these programs give utilities the opportunity to develop and market new products.

E. Key Components of a Voluntary Renewable Offering Requirement

Four states have recently required utilities to offer voluntary renewable energy programs to their customers: Iowa, Minnesota, Montana, and Washington. Based on these states' requirements, and general knowledge of green pricing programs, CCAE recommends the following critical elements of a rule requiring utilities to offer voluntary renewable energy programs:

1. All electricity providers (public utilities, municipal utilities, and cooperatives) offering retail service to customers in New Mexico should be required to offer a program that allows customers of all rate classes the choice to purchase electricity generated from renewable sources.
2. Each regulated electricity provider should be required to file an implementation plan with a description of resources they plan to acquire, pricing structure, and marketing plan. Utilities should be allowed flexibility in designing the programs, and the Commission's rule should encourage utilities to develop a mix of renewable resources at fair prices for these programs.
3. Rates charged for these optional programs should be calculated based on the difference between the cost of generating or purchasing the renewable energy and the regular cost charged for generating or purchasing regular system power.
4. The Commission should also establish a system to certify renewable energy facilities. This could be done by an independent third party, and responsibility for demonstrating certification could rest with the electricity providers.
5. Information about the voluntary program should be provided to customers on at least a quarterly basis, either as a bill stuffer or separate mailing.
6. Annual reports should be filed with the Commission describing the program(s) offered, the rate of customer participation, the amount of renewable energy acquired or produced, and the amount of renewable energy purchased by customers.
7. Voluntary renewable energy programs should be energy-based - meaning that consumers pay a fixed charge for a certain kilowatt-hour amount of renewable energy.
8. To ensure the successful development of renewable resources, the Commission should require that the utilities expand programs in response to consumer demand.
9. The Commission should investigate steps to promote successful advertising and marketing of these projects, to ensure that consumers are aware of the choice.

V. Conclusion

CCAЕ appreciates the opportunity to submit comments on these issues and looks forward to working with the Commission and other parties to encourage the development of renewable resources in New Mexico.

Dated this 14th day of August, 2001.

Respectfully submitted,

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ON BEHALF OF THE COALITION FOR
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