

## **Renewables Portfolio Standard Program Specifics and Implementation Details**

The California Renewables Portfolio Standard (RPS) Program ([SB 1078](#), Statutes 2002) obligates load-serving entities (LSEs) to increase the share of electricity they procure from [renewable generation resources](#) ([link to Q&A](#)). Investor-owned utilities (IOUs), energy service providers ([ESPs](#)) and community choice aggregators ([CCAs](#)) must procure an additional 1% of retail sales per year from eligible renewable sources until 20% is reached, no later than 2010. Municipal utilities are directed to develop a program that achieves the same goals, but are not obligated to report their progress to any state agency.

RPS implementation at the California Public Utilities Commission (CPUC) currently takes place in the following dockets:

- [R.04-04-026](#), the RPS Rulemaking that addresses ongoing implementation
- [R.06-02-012](#), the RPS Rulemaking that addresses outstanding RPS design issues including participation rules for obligated entities such as Energy Service Providers
- [L.00-11-001](#), the Commission's general Transmission Investigation (for RPS transmission policy)
- [R.04-03-017](#), the Distributed Generation Rulemaking (a limited set of RPS issues for DG is scheduled for consideration here).

### **I. Procurement Process**

The CPUC has determined that RPS procurement must take place regardless of fit with LSE portfolio need ([D.03-06-071](#)). Procurement begins with each LSE's submission to the CPUC of an annual RPS procurement plan and draft request for offers (RFO). Commission approval of this plan triggers the annual RPS solicitation, in which each LSE requests and evaluates offers from generators/sellers of renewable energy. The procurement process employs the following key elements:

- **Least Cost/Best Fit bid ranking** ([D.04-07-029](#)): The LSE employs transparent, Commission-approved criteria to the analysis of bids, and balances the need for "portfolio fit" against cost minimization objectives.
- **Comparison of Renewable Energy Price to a Market Price Referent (MPR)** ([D.04-06-015](#)): By statute, the CPUC must calculate MPRs representing the long-run avoided cost of non-renewable energy procurement.
  - The MPR establishes the ceiling for LSE cost responsibility. After the LSE accepts a generator's offer of renewable energy, the portion of approved bid prices that is above the MPR is paid to the generator by the California Energy Commission (CEC) from the Supplemental Energy Payment (SEP) fund, collected from the [Public Goods Charge](#).
  - This mechanism keeps the LSE indifferent to renewable and nonrenewable procurement from a price perspective.

- If these SEP funds are exhausted, the LSEs are excused from the corresponding portions of their RPS procurement obligations<sup>1,2</sup>.
- The CPUC makes public the annual MPRs when the LSEs have finalized their short lists. This provision, required by statute, is intended to minimize the influence on bid prices of the CPUC's MPR calculations.
- Contracts at or below the MPR are submitted directly to the CPUC for consideration. Contracts for projects requiring SEP funds must apply first to the CEC before being considered by the CPUC.
- **Standard Contract Terms and Conditions (D.04-06-014)**: Parties deliberated extensively in 2003 to develop a standard contract for use in RPS procurement.
- **Estimation of Transmission Cost Adders (D.04-06-013)**: In order to achieve the least cost/best fit selection of resources, the LSE must be able to approximately determine the final cost of upgrading the transmission system to bring renewable power to load.
  - Typically the [California Independent System Operator](#) (CAISO) will perform System Integration Studies and Facility Studies to determine these costs in detail.
  - However, in order to enable developers that have not undertaken these studies to submit bids, the Commission adopted a methodology for estimating these costs. The LSEs solicit information from prospective bidders and produce Transmission Ranking Cost Reports in advance of each solicitation.

## II. Measuring Compliance

The RPS program measures renewable generation, not installed capacity, as a percentage of an LSE's total retail energy sales. Under CPUC rules, each LSE must report on its progress towards the RPS goals twice annually<sup>3</sup>. This progress is measured against each LSE's **Annual Procurement Target (APT)**.

- **Flexible compliance tools in the RPS**: LSEs are allowed to carry, for up to three years, procurement deficits greater than 25% of that year's incremental procurement target without penalty if they have demonstrated to the CPUC an allowable reason for noncompliance, four of which are:
  - 1) Insufficient response to the RPS solicitation
  - 2) Contracts already executed will provide future deliveries sufficient to satisfy current year deficits
  - 3) Inadequate public goods funds to cover above-market renewable contract costs

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<sup>1</sup> Commission staff presently calculates MPRs for two products, baseload and peaking generation. In future RPS solicitations the Commission may calculate a broader range of MPRs, potentially including a multi-point "Time of Delivery" MPR.

<sup>2</sup> The MPR is influential in governing after-the-fact reasonableness reviews. Approved contracts at or below the MPR are not subject to Commission review for reasonableness.

<sup>3</sup> This summary refers to policy determinations as applicable to all LSEs, anticipating that the majority of determinations previously reached for IOUs will be equally applicable to other entities obligated under the RPS.

#### 4) Seller non-performance

Shortfalls in excess of 25% are also permitted upon a persuasive showing of lack of effective competition, that a deferral would promote ratepayer interests and the overall procurement objectives of the RPS program, or upon showing of good cause.

### **III. Agency Roles in RPS Implementation**

Under SB 1078, the CPUC and the California Energy Commission (CEC) collaboratively implement California's RPS. The division of labor pursuant to the legislation and collaborative agreement is as follows:

CPUC is responsible for:

- Approving or rejecting contracts executed to procure RPS-eligible electricity
- Establishing each LSE's initial baseline and adjusting the baseline going forward
- Determining each LSE's procurement targets annually
- Implementing flexible compliance rules, making determinations regarding RPS compliance, and imposing penalties for non-compliance

CEC is responsible for:

- Certifying renewable generating facilities as RPS-eligible
- Verifying the RPS-eligibility of energy procured to meet RPS targets
- Certifying "incremental geothermal" facilities and identifying the amount of generation that qualifies as incremental geothermal<sup>4</sup>
- Verifying, to the extent possible, that RPS procurement serves only the California RPS and no other market claim for renewable energy procurement
- Verifying that RPS procurement from out-of-state facilities meets delivery requirements
- Applying statutory requirements to identify baseline procurement and applying CPUC's rules, to the extent possible, to identify baseline, incremental procurement, and annual procurement
- Comparing CPUC's annual procurement targets and incremental procurement targets for each LSE with the Energy Commission's findings for how much procurement qualifies toward the targets

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<sup>4</sup> Public Utilities Code Section 399.12(a)(2) states that "The Energy Commission shall determine historical production trends and establish criteria for measuring incremental geothermal production that recognizes the declining output of the steamfields and contribution of capital improvements in the facility or wellhead."