North Carolina to Revise PURPA Implementation

PURPA has Gained Relevance through Cost Declines of Renewables but Utility Opposition Foreshadows Changes

July 5, 2017

JUNE 30 NORTH CAROLINA PURPA BILL

On June 30, 2017, the North Carolina General Assembly passed legislation (HB 589) that would **overhaul utility power procurement rules under the 1978 Public Utility Regulatory Policies Act (PURPA)**, which has helped the state become the nation's second-largest solar market after California. If signed into law, HB 589 **will reduce the contract length** which has been **instrumental in propelling solar in North Carolina**.

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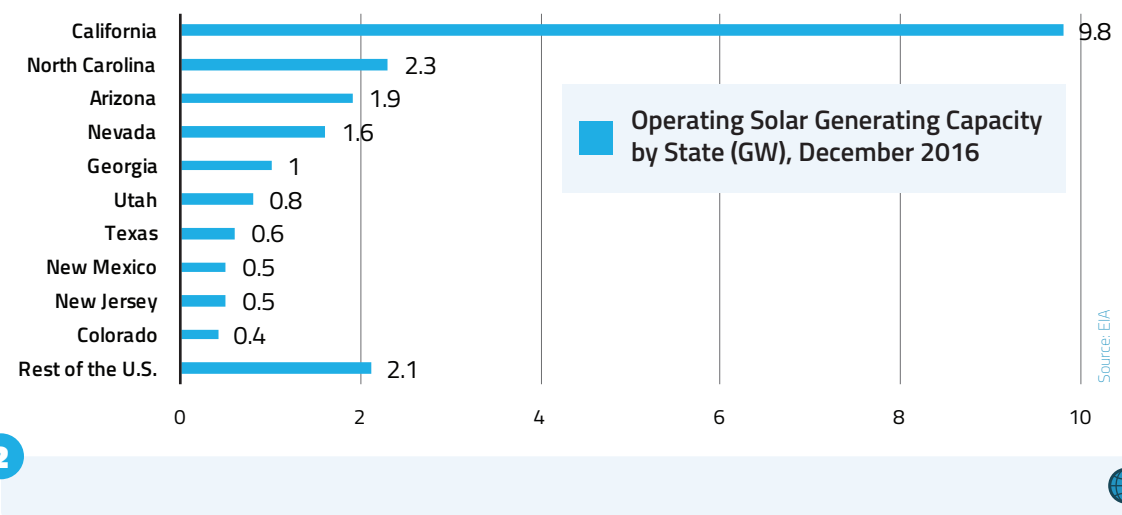
North Carolina PURPA bill

HB 589: a mixed bag of provisions for renewables

- Would require utilities to offer standard 10-year contracts instead of 15-year contracts
- Would reduce the capacity of qualifying projects to 1 MW instead of 5 MW
- Would grandfather small generators that are currently eligible for avoided-cost rates
- Would authorize the leasing of third-party-owned solar and community solar
- Would authorize solar rebates and a competitive bidding process for new renewable energy facilities
- Would impose a moratorium on the permitting of new wind projects through December 31, 2018

Long-term contracts under PURPA made North Carolina a major market for utility-scale solar. According to an August 2016 report from the EIA, North Carolina has more PURPA-driven installations than any other state, with **92 percent of North Carolina's 1,271 MW utility-scale solar capacity certified to have a qualifying facility (QF) status.**



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PURPA: Solar Developers vs Utilities

North Carolina is among several states where utilities have been pushing for changes in PURPA rules to modify contract lengths and project size thresholds. Policy debates and open dockets in select states include:

WA — U-161024, 9/2016
In the Matter of PURPA, Obligations of the Utility to Qualifying Facilities

ID — IPC-E-17-01, 2/2017
Proceeding on petition of Idaho Power Company for a declaratory order regarding proper contract terms, conditions, and avoided cost pricing for battery storage

MI — U-18089, 5/2016
Proceeding to establish the method and avoided cost calculation for Alpena Power Company to fully comply with PURPA

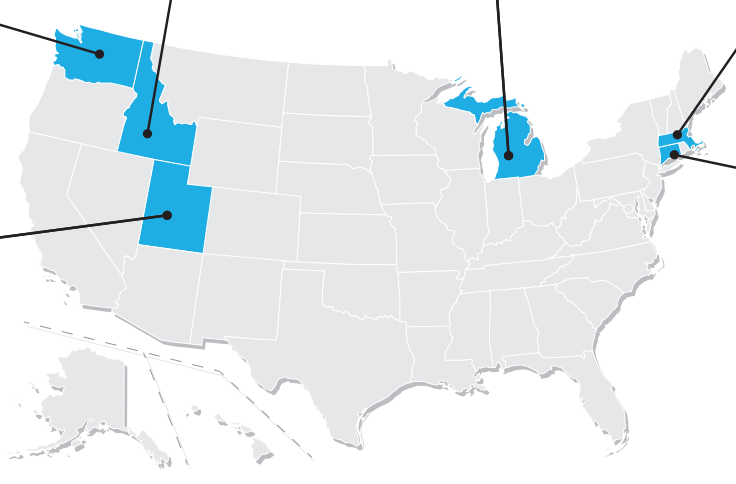
MI — U-18090, 1/2017
Proceeding to establish a the method and avoided cost calculation for Consumers Energy Company to fully comply with PURPA

MA — 17-54, 3/2017
Investigation of the DPU commencing a rulemaking pursuant to PURPA following a September 2016 court order finding that the Department's regulations governing the sales of electricity by QFs to electric distribution companies are inconsistent with FERC's regulations and are, therefore, invalid

UT — 17-035-25, 5/2017
Proceeding on the application of Rocky Mountain Power's request for a declaratory ruling regarding allocation of interconnection costs under PURPA

UT — 17-035-T07, 4/2017
Proceeding regarding Rocky Mountain Power's proposed tariff revisions to electric service Schedule No. 37, avoided cost purchases from QFs

CT — 16-09-26, 9/2016
Proceeding to review Connecticut's implementation of PURPA



Idaho

In August 2015, ID PUC granted a request by the state's three major electric utilities (IPC-E-15-01, AVU-E-15-01, PAC-E-15-03) to reduce the length of PURPA contracts to two years from the previous 20 years. The ID PSC found that the previous contract length made utilities and customers pay unreasonable costs for renewable generation.
In February 2017, Idaho Power requested the ID PUC to address the terms of battery storage omitted in the 2015 decision saying they should be considered the same as a solar, which is the ultimate source of energy for battery storage.

Montana

More recently, on June 23, the Montana Public Service Commission (MT PSC) announced its decision to cap the length of long-term electricity supply arrangements entered into by NorthWestern Energy, citing concerns that forecasting errors related to long-term market predictions could increase costs for customers. The new changes come a year after the MT PSC temporarily suspended PURPA (Docket No. D2016.5.39), placing several projects in regulatory limbo and impeding solar development in the state.
The Montana decision reduces the contract length to ten years – down from 25 – with rates to be recalculated after five years. The MT PSC also decided to update the QF standard biannually to reflect recent market information. Further, for solar QFs up to 3 MW in size, separate payment rates apply to each demand period. During periods of high demand, the utility must pay $31.54 per megawatt hour (MWh), but when the demand falls, the rate drops to $23.32 per MWh. A payment of $9.10 per MWh is to be made during heavy load hours in December, January, February, July, and August in order compensate for the additional capacity that QFs provide to the utility system. The Commission set the capacity value of solar – contribution to meet peak demand – at approximately 6 percent. Although the issue surfaced during a proceeding to set a standard rate for small, renewable energy projects up to 3 MW, the MT PSC chose to apply the limit to all energy projects owned by utilities as well as independent developers.

Oregon

In March 2016, Oregon decided to retain 20-year contracts under PURPA, saying that longer terms help align the financing period with an asset's useful life. Idaho Power (Docket No. UM 1725) and Pacific Power (UM 1734) sought to reduce the length of PURPA contracts to 2 and 3 years, respectively.

Utah

In January 2016, Utah reduced contracts lengths from 20 years to 15 years, rejecting Rocky Mountain Power's request to shorten the length to three years (Docket No. 15-035-53).

Wyoming

In May 2017, Rocky Mountain Power proposed modifications to PURPA rates with the WY PSC; last year, the WY PSC declined Rocky Mountain Power's request to modify contract lengths.

Michigan

In Michigan, state regulators are using PURPA to develop the solar market. In May 2016, the MI PSC initiated proceedings (Docket No. U-18089) to establish updated avoided costs for rate-regulated electric utilities under PURPA.

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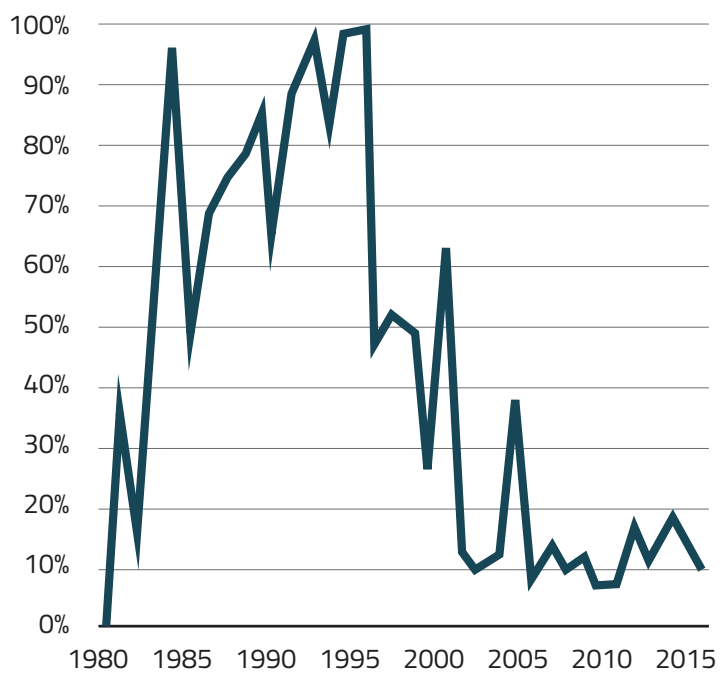
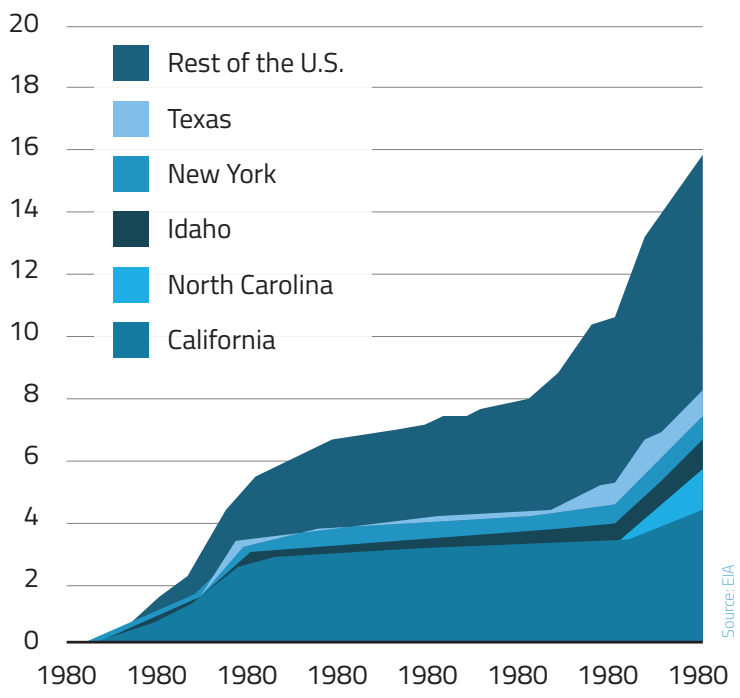
Debate on PURPA

Utilities have long complained that PURPA requirements compel them to purchase electricity they do not need at uneconomic prices that will be ultimately be borne by ratepayers. Prompted by such discussions, in June 2016, FERC **held a technical conference (Docket No. AD16-16-000) on the rates and terms that QFs are paid under PURPA and the proper size of QFs.**

PURPA qualifying facilities, % of total renewable capacity



Cumulative capacity of PURPA qualifying facilities, GW



California's implementation of PURPA significantly contributed to the growth of renewable electricity generation capacity by independent power producers in 1980s and early 1990s. **After that, PURPA's influence decreased** as declining fuel prices made renewables less competitive, and **several states revised their PURPA rules** to reduce avoided-cost rates and contract lengths. Furthermore, the **Energy Policy Act of 2005 allowed states with competitive electricity markets to opt out of PURPA altogether**, and many of them did so. However, **PURPA has remained relevant in the Southeast and Northwest where states do not participate** in regional wholesale markets.

BOTTOM LINE

To Be or not to Be
For more than 10 years, renewable energy developers have relied on RPS policies established under state laws as the primary means for power purchase agreements that can support project financing. However, the growing cost-competitiveness of renewable energy has led developers to utilize the infrequently used PURPA to find a long-term market for their electricity generation. The ongoing debate over PURPA will likely prompt reforms by modifying implementation terms or pushing legislation for future changes.

Mix and Match
Given the rapid pace of technological change in the energy industry, policies can often lag behind market realities. Fortunately, states have a wide array of building blocks for constructing their energy policies, ranging from RPS to net metering to PURPA, the implementation of which can be tailored to the local conditions in each state.

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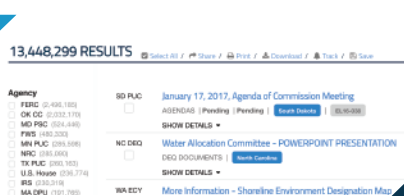

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