

STATE OF NEW HAMPSHIRE

Intra-Department Communication

DATE: December 11, 2009

AT (OFFICE): NHPUC

FROM: Maureen L. Reno *MLR*
Utility Analyst III

SUBJECT: Staff Recommendation Re: DE 09-212, William P. Short III on behalf of Indeck Energy-Alexandria, LLC Application for Class I Eligibility of the Indeck Alexandria Facility's Station Service Pursuant to RSA 362-F

TO: Chairman Thomas B. Getz
Commissioner Clifton C. Below
Commissioner Amy L. Ignatius
Debra A. Howland, Executive Director and Secretary

CC: Jack K. Ruderman, Director of the Sustainable Energy Division *JKR*
Suzanne Amidon, Staff Attorney

Summary

On November 2, 2009, William P. Short III submitted an application on behalf of Indeck Energy-Alexandria, LLC (Indeck) requesting the Commission grant approval of the Indeck Alexandria biomass facility's (Alexandria facility) station service to produce Class I renewable energy certificates (RECs) pursuant to RSA 362-F, New Hampshire's Electric Renewable Portfolio Standard (RPS) law. Mr. Short asked that the Commission certify the portion of Alexandria's electric production used in the generation of power, defined as station service or parasitic load, as eligible for Class I RECs. Based on its review of the application, the intent of New Hampshire's RPS law and the ISO New England's (ISO-NE) definition of distributed generation, Staff recommends that the Commission deny Mr. Short's request.

Mr. William P. Short's Proposal

The Alexandria facility is conditionally certified as a New Hampshire Class I source, subject to meeting emission limits required by RSA 362-F. When the facility meets such emissions requirements, the electric production recorded by and sold to Public Service Company of New Hampshire (PSNH) will receive Class I RECs. Mr. Short averred that the electricity production used to operate the Alexandria facility, defined as station service, would also qualify for Class I RECs because the facility is a customer-sited source and its output is not tracked by ISO-New England (ISO-NE). RSA 362-F:6 II states that electricity production not tracked by ISO-NE from customer-sited

sources is eligible to receive RECs provided that the source is located in New Hampshire and the production is verified and reported by an independent monitor. Mr. Short proposes to monitor this otherwise “lost” production and report it to the NEPOOL generation information system (GIS). Once this lost production is reported, the GIS administrator would then create RECs associated with the facility’s station service.

According to Mr. Short, the Alexandria facility is a customer-sited source similar to smaller behind-the-meter sources, such as the Richey Woodworking facility that was approved for New Hampshire Class I REC on September 1, 2009. In the Richey Woodworking facility case, Class I RECs are created for all the production from the wind turbine provided that this output is verified and reported to the NEPOOL GIS by an independent monitor. Mr. Short asserts that the Alexandria facility is also a customer-sited source, as defined by the RPS statute. RSA 362-F:2 V defines a customer-sited source as a source that is interconnected on the end-use customer’s side of the retail electricity meter. The electricity produced by such a source displaces all or part of the metered consumption that would otherwise have been purchased from an electricity service provider.

Mr. Short further argues that the Alexandria facility qualifies as a customer-sited source because it is an end-use customer that purchases retail electricity from PSNH during off-line, shut-down and start-up periods. RSA 362-F:2 IX defines an end-use customer as any person that purchases retail electricity from another person. This definition explicitly excludes a generating facility that acquires electricity for station service from ISO-NE or a facility that self-supplies from its other generating station(s). Mr. Short continues by stating that since the Alexandria facility does not take service from ISO-NE nor self-supply from its other generating stations, it meets the definition of an end-use customer, thereby qualifying it as a customer-sited source.

Staff’s Analysis

Staff disagrees with Mr. Short’s interpretation that the Alexandria facility is an end-use customer and, as a result, is a customer-sited source that is eligible to receive Class I RECs under New Hampshire’s RPS law. As stated above, the RPS statute’s definition of an end-use customer excludes facilities that receive station service from the wholesale market or from its other generating units. Since the statute excludes generators with these two types of station service, Staff deduces that the statute also excludes a facility that generates its own station service from being eligible as an end-use customer.

Furthermore, station service does not meet the intent of the RPS statute. The intent of the RPS law is to support qualified renewable energy sources that displace electricity from non-renewable sources, thereby lowering New England’s dependence on fossil fuels. Customer-sited sources meet this criterion because the electricity produced from such sources would otherwise be acquired from the wholesale market where electricity dispatched on the margin is produced by natural gas facilities. Electricity produced or purchased for station service is not eligible because the electricity is

necessary to operate the facility and would otherwise not displace electricity from non-renewable facilities.

ISO-NE also excludes electricity for station service from being eligible for programs in which customer-sited distributed generation is qualified to participate. Customer-sited distributed generation qualifies to participate in ISO-NE's installed capacity (ICAP) and forward capacity markets (FCM). FERC Electric Tariff No. 3 states that distributed generation for purposes of the ICAP transition period and the FCM market must be generation resources directly connected to end-use customer load behind the billing meter. A distributed generation source must reduce the amount of energy and capacity that would otherwise have been drawn from the electricity network in the New England Control Area.¹ As a result, the electricity and capacity associated with the Alexandria facility's station service does not qualify as a distributed generation source as defined by ISO-NE.

If the Commission were to grant Mr. Short's request, Indeck would receive approximately 11,169 Class I RECs per year for the Alexandria facility's station service.² Applying the most recent 2010 Vintage REC price reported by Evolution Markets of \$34.00 per REC yields total revenues of \$379,746.³ Mr. Short also intends to file additional requests asking the Commission to grant the other New Hampshire biomass facilities' station service eligible for Class I or Class III RECs.⁴ If the Commission grants Mr. Short's requests, the Alexandria facility and the other New Hampshire biomass facilities would earn approximately 60,000 Class I and 22,500 Class II RECs per year. The total RECs from these facilities' station service would be used by electricity service providers to meet 54.0 percent and 3.7 percent of New Hampshire's estimated Class I and Class III REC obligations for 2010, respectively. Assuming that the current market price for 2010 Vintage RECs hold, Indeck and other New Hampshire biomass facility owners could earn approximately \$1 million in REC revenues, all else being equal.⁵

Recommendation

Staff believes that the electricity and capacity associated with the Alexandria facility's station service does not meet the intent of New Hampshire's RPS law. Moreover, the facility's station service is not analogous to smaller customer-sited sources because it does not meet the RPS statute's definition of a customer-sited source or ISO-

¹ *FERC Electric Tariff No. 3, Section III – Market Rule 1 – Standard Market Design*, ISO New England Inc., Sheet No. 7023

² Multiplying a capacity factor of 85 percent by the total number of hours in a year, 8,760, and 1.5 megawatts in capacity yields approximately 11,169 megawatt-hours or RECs per year.

³ Since there is no price data for 2010 Vintage New Hampshire Class I and Class III RECs, Staff uses the Massachusetts Class I REC price of \$34.00 and the Connecticut Class I REC price of \$28.50 as proxies for 2010 Vintage New Hampshire Class I and Class III RECs, respectively.

⁴ The other New Hampshire Class I biomass facilities include Schiller and Springfield Power. Springfield Power is still pending conditional approval from the Commission. The Pinetree Tamworth and Pinetree Bethlehem facilities qualify as New Hampshire Class III facilities.

⁵ This figure excludes \$1.3 million in revenues that would otherwise be earned from the sale of Class I RECs from Schiller Unit 5. Staff assumes that PSNH would use Schiller Unit 5 RECs towards New Hampshire RPS compliance.

NE's definition of distributed generation. Therefore, Staff recommends that the Commission deny Indeck's request for certification of Alexandria's station service as eligible for Class I RECs pursuant to RSA 362-F.