

## **Groups Craft Distributed Generation Policies To Push In 112th Congress**

Posted: December 6, 2010

Electric policy groups and think tanks are crafting legislative principles they hope the divided 112th Congress will take up to support the development of small distributed generation (DG) resources, touting the policies as cost-effective alternatives to expensive loan guarantees for conventional power plants, sources say.

Republican successes in the midterm elections that resulted in the GOP winning the House and gaining seats in the Senate are expected to result in a Congress focusing heavily on fiscal responsibility, energy security, and enhancing American competitiveness, according to sources with the groups crafting the policies. That focus could create an opening for energy policies such as DG if they are shown to help save money, the sources say.

DG refers to any small scale non-central power generation, such as solar and wind resources on buildings and homes, and even small modular nuclear reactors.

The groups, which include the influential Center for American Progress (CAP), the Feed-In Tariff (FIT) Coalition, and the Galvin Electricity Initiative, believe Republicans will be more receptive to DG as a lower-cost alternative to building new baseload generation, which the government does not have the financial resources to support.

But moving ahead on DG would require state action to promote alternative rate systems, such as dynamic rate pricing, which has been controversial for use with residential consumers, say the sources. There must also be federal support to give states more latitude in implementing feed-in tariffs that would create incentives for the use of DG resources by establishing long-term contracts for DG power purchases, say the sources. Such tariffs guarantee the DG owners can sell their surplus electricity back to the grid at a set rate utilities must pay.

A senior official with one of the groups says next year will be marked by intense discussion with lawmakers and related stakeholders to finalize a set of legislative principles, culminating in a national summit to be held in Washington, DC, next fall as part of a rally to push for DG and overall power grid innovation in the states.

FERC has recently issued guidance on feed-in tariffs giving the states additional latitude to implement the necessary rate structures under the 1978 Public Utility Regulatory Policies Act (PURPA), which sought to create a market for non-utility power producers. Although a federal law, PURPA was left up to the states to implement, which very few have done. But the foreseen need for renewable energy resources has driven many states to reexamine PURPA and to develop feed-in tariffs programs, with California being a leader in the nation.

The FIT Coalition and CAP have begun putting together a legislative strategy in recent weeks on feed-in tariffs, while other groups like the Galvin Electricity Initiative, founded by former telecom mogul Bob Galvin, has been developing legislative principles to support its vision of developing so-called "micro grids," which the DOE has provided support for in demonstration projects.

A micro grid is a local collection of DG resources in combination with grid upgrades, such as smart grid, that enable consumers to have more control over their energy use. The micro grid vision is to improve the retail electricity markets overseen by states through the development of incentives to drive DG, as well as other enhancements to promote to improve overall grid reliability by encouraging states to strive for greater electricity efficiency, for example, through standards to improve electricity transmission to cut down on wasted power.

A senior official with Galvin believes the federal government must give stronger direction to the states to guide this development. Legislation is needed that would provide FERC with enhanced authority to direct the states to improve grid efficiency and to identify other areas where the federal government can assist the states in making decisions that enhance reliability and promote DG, the source says. Galvin plans to begin wider discussion with CAP and others to begin merging priorities and gather consensus on principles for such legislation, says the official.

The Galvin official says the big obstacle to moving legislation that would promote DG and grid upgrades will be the the federal government's natural hesitancy to appear as though it is encroaching on state jurisdiction.

Congress has to make this a national energy security priority, with demonstrable benefits to the states in terms of lower costs, improved service and higher levels of reliability, says the source, who is a former Republican adviser. Congress tends to be very deferential to states rights, "but there is a point where the federal government has to correct states' wrongs," the source says. The federal government has to devise a way to "hold states accountable" for grid upgrades that benefit the consumer and increase efficiency, the source adds.

The source says the 2007 energy law scratched the surface of the reforms necessary to increase efficiency, including through provisions for smart grid standards, but more can be done to drive the states.

Galvin also wants more to be done on promoting dynamic rates in the states. Such rates will be needed to realize the benefits of a smart grid, including electric vehicle use to offset fossil fuels, increased renewable energy integration, increased DG and less dependence on large fossil fuel power stations. Dynamic rate pricing gives the consumer the ability to receive compensation

from a utility for shifting demand from peak to off-peak times. States and utilities believe some form of dynamic rate pricing needs to be worked out to fully capture the benefits of a smart grid, according to sources.

As the economy improves, utilities and states will be more likely to examine these approaches as they look to build out the grid to support industry demands for power generation. Republicans could readily support policies that improve grid innovation as part of a broader move to enhance competitiveness, which the GOP has traditionally supported along with free enterprise and giving the consumer more freedom to make energy choices, say sources with the groups.

A source with the FIT Coalition says a national shift to DG rather than relying on large baseload plants is more "fiscally responsible," given that, "you get the innovation you want without the taxpayer subsidizing industry" as they do with loan guarantees for big nuclear plants. The FIT Coalition has been working in state legislatures to enhance DG policies as a means of helping states meet their state or regional renewable electricity standards (RES), says the source.

There is currently federal legislation that would help in this regard by giving states wider discretion in implementing feed-in tariff programs. The bill S.3923, offered by Bernie Sanders (I-VT), would remove the PURPA obstacles limiting states' ability to implement feed-in tariffs. The Sanders bill, or something like it, would likely become a key part of the groups' legislative principles, the source says. Also, if the Congress moves ahead on a federal RES, or clean energy standard, the Sanders bill should be passed alongside it, says the source.

CAP and the FIT Coalition are expecting to have follow-up conversations, as CAP is preparing to release a new policy paper on feed-in tariffs and policies to move DG ahead in the states. Galvin is planning to meet with the groups in the coming months as it prepares to outreach with the Republican leadership in the House and to Senate lawmakers.

CAP held a closed meeting with FIT coalition and others last week to discuss feed-in tariff policies, says a CAP source.