

Renewable Energy Question 22: Michigan law currently contains provisions for incentive renewable energy credits, and advanced cleaner energy credits. What impact has the provisions for incentive renewable energy credits and advanced cleaner energy credits had on renewable energy in Michigan? What has been the impact of similar provisions in other jurisdictions?

Executive Summary

Michigan has chosen to indicate preferences for certain technologies through the award of incentive renewable energy credits and advanced cleaner energy credits:

1. The use of incentive credits can make it difficult to transfer credits from the Michigan program to other jurisdictions, although there is complexity in other methods as well.
 2. The renewable capacity standard requirements have reduced the value of renewable energy credits and incentive renewable energy credits. As a result the presence of incentive renewable energy credits and advanced cleaner energy credits have not resulted in significant changes in compliance behavior.
 3. Incentive Renewable Energy Credits and Advanced Cleaner Energy Credits have the potential to reduce the cost of compliance so as to allow participants to use market mechanisms to achieve lowest costs.
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1. The use of incentive credits can make it difficult to transfer credits from the Michigan program to other jurisdictions, although there is complexity in other methods as well.

Michigan law makes provisions for incentive renewable energy credits for a variety of preferences, including local content, local labor, on-peak production, storage, and solar. Advanced Cleaner Energy Credits are provided for certain technologies that do not use renewable fuels, but use non-renewable fuels in a more environmentally sustainable manner.

Many other jurisdictions appear to indicate preferences through separate compliance requirements for each preference. For instance, Ohio requires providers to demonstrate compliance with their renewable requirement by surrendering a certain amount of renewable energy credits. They also require providers to demonstrate compliance with solar requirements by surrendering a certain amount of solar renewable energy credits. Solar renewable energy credits generally trade at a different price than renewable energy credits. This approach increases the complexity of the renewable portfolio standard.

Michigan's approach can result in renewable energy credits being viewed as incompatible and for that reason not transferred to other jurisdictions. Mechanisms have been proposed to "normalize" Michigan credits so they are equivalent to credits

Joint response from Consumers Energy and MEGA

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in other jurisdictions. Michigan's tracking system has been modified to accommodate that normalization process, but has not yet been approved by the governing boards of other tracking system.

- 2. The renewable capacity standard requirements have reduced the value of renewable energy credits and incentive renewable energy credits. As a result the presence of incentive renewable energy credits and advanced cleaner energy credits have not resulted in significant changes in compliance behavior.**

Requirements for providers with more than 1 million customers to build or purchase a certain amount of new renewable resource capacity have complicated the compliance strategies for electric providers that serve about 80 percent of Michigan's citizens. As a result of the capacity requirement an oversupply of renewable energy credits has occurred and the value of renewable energy credits and incentive renewable energy credits is significantly lower than the incremental net cost of the renewable energy technologies that the renewable energy credits were intended to monetize. Without the Renewable Energy Credit value being available to justify the incremental cost of the preferential technologies, providers have no incentive to incur the incremental cost associated with the preferential technologies.

- 3. Incentive Renewable Energy Credits and Advanced Cleaner Energy Credits have the potential to reduce the cost of compliance so as to allow participants to use market mechanisms to achieve lowest costs.**

Absent the renewable capacity issue, to the extent Michigan elects to incent the use of certain technologies the incentive renewable energy credit concept provides flexibility and opportunities to optimize compliance behaviors. Additionally incentive renewable energy credits reduce the investment that would otherwise be required to be incurred in order to meet specific compliance requirements.