

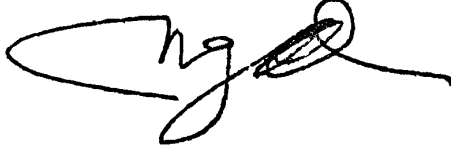
Government of the District of Columbia  
Office of the Chief Financial Officer



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Kwame R. Brown  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer 

**DATE:** May 25, 2011

**SUBJECT:** Fiscal Impact Statement – “Distributed Generation Amendment Act of 2011”

**REFERENCE:** Bill 19-10

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**Conclusion**

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed legislation. The proposed legislation would increase collections at the Renewable Energy Development Fund (REDF) by \$89.1 million over the four-year financial plan period.

**Background**

The proposed legislation would amend the Renewable Energy Portfolio Standard Act of 2004 (“REPS Act”)<sup>1</sup>, to increase the share of solar power that would count towards the renewable energy portfolio standard (REPS). The REPS Act specifies a minimum percentage of District electric providers’ supply that must be derived from renewable energy sources, beginning January 1, 2007. Renewable energy sources include solar energy, wind, biomass, methane (from a landfill or a wastewater treatment plant), geothermal, and ocean.<sup>2</sup>

The proposed legislation would increase the share of solar energy in REPS, starting in 2011. Under current law, solar energy is required to compose at least 0.04 percent of the renewable energy portfolio in 2011, gradually increasing to at least 0.40 percent in 2020. The proposed legislation would increase the minimum share of solar energy to 0.40 percent of the portfolio in 2011 and to 1.58 percent in 2020. It would also require that solar systems be certified to certain standards by the International Organization of Legal Metrology.

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<sup>1</sup> Effective April 12, 2005 (D.C. Law 15-340; D.C. Official Code § 34-1431 *et seq.*)

<sup>2</sup> These constitute what is known as “tier-one” sources. “Tier-two renewable sources” include hydroelectric power other than pumped storage generation, and waste-to-energy.

The proposed legislation would also limit the renewable energy credits from solar energy to solar systems of 5 megawatts ("MW") or less located within the District or in locations served by the distribution grid serving the District prior to January 31, 2011. Under current law, any supplier could register as a source of credits. By limiting the size and location of eligible renewable energy providers, the proposed legislation would significantly reduce the market from which solar energy can be purchased.

Finally, the proposed legislation sets the compliance fee of 50 cents for each kilowatt-hour of shortfall from required solar energy sources through 2016. The rate would decline to 35 cents in 2017, 30 cents in 2018, 20 cents in 2019 and 2020, 15 cents in 2021 and 2022, and to 5 cents in 2023 and thereafter.

### Financial Plan Impact

Funds are sufficient in the FY 2011 through FY 2014 budget and financial plan to implement the proposed legislation. Implementation of this legislation will cost the District approximately \$0.8 million in FY 2013 and \$0.9 million in FY 2014 in higher energy costs. However, these additional costs will be offset by a projected collection of Alternative Compliance Payments of \$28.3 million in FY 2013 and \$34.0 million in FY 2014.

Energy suppliers are required to pay a fine, the Alternative Compliance Payment ("ACP"), into the REDF if they cannot meet the renewable energy requirements of the REPS Act. The ACP is currently \$500 per megawatt hour ("MWH"). According to the Public Services Commission, solar suppliers and energy suppliers, there is unlikely to be ample supply of solar energy located in the District of Columbia to meet the requirements of this legislation over the next several years. The effect of this lack of supply of solar energy is that the cost of solar energy will reach parity with the ACP at \$500 per MWH. As a result, energy suppliers will have to either purchase solar energy at \$500 per MWH or pay the ACP at \$500 per MWH. The higher costs to comply with this proposed legislation will be passed along to energy consumers in the District, increasing energy bills.

<b>Table 1. Projected Fiscal Impact of B19-10</b>					
	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2011 - FY 2014</b>
New Costs to District's General Local Fund	\$0.0	\$0.0	\$0.8	\$0.9	\$1.7
Positive Impact to REDF through ACP Payments	\$0.0	\$28.5	\$28.3	\$34.0	\$90.8
Transfer Out to General Local Fund	\$0.0	\$0.0	(\$0.8)	(\$0.9)	(\$1.7)
<b>Net Positive Fiscal Impact to REDF</b>	<b>\$0.0</b>	<b>\$28.5</b>	<b>\$27.5</b>	<b>\$33.1</b>	<b>\$89.1</b>

The proposed legislation exempts current contracts from the increased solar requirements. The District currently has a purchase contract with Washington Gas Energy Services, Inc. that runs through calendar year 2012. After this contract expires, the District would be required by this legislation to enter into a new contract under the increased solar energy requirements and would pay higher energy costs to meet those requirements. The District does have two one-year extension options for the current contract, but is also looking into other options at this time. The OCFO cannot

project what contract the District will be under in 2013 based on current information. The OCFO projects the District will purchase energy under the new solar requirements at an additional cost of \$0.8 million in FY 2013 and \$0.9 million in FY 2014 in order to comply with this proposed legislation (Table 1). Detailed calculations for the projected impact of the new standards and ACP collections are provided in the Appendix.

**Appendix – Cost and ACP Payment Projections**

<b>Table 2. Totals and Projections for District of Columbia</b>				
<i>(figures are in MWHs)</i>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
MWH used in District <sup>1</sup>	11,895,950	11,895,950	11,895,950	11,895,950
Current Solar Capacity <sup>1</sup>	1,996	1,996	1,996	1,996
Projected Solar Capacity <sup>2</sup>	1,996	2,489	2,981	3,474
Required % of Solar (Current)	0.04%	0.07%	0.10%	0.13%
Required % of Solar (B19-10)	0.40%	0.50%	0.50%	0.60%
Solar Capacity to Satisfy B19-10	47,584	59,480	59,480	71,376

<sup>1</sup> Source: Public Service Commission.

<sup>2</sup> ORA estimate based on the pipeline for solar power projects in the District.

<b>Table 3. Alternative Compliance Payment (ACP) Collections</b>					
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Current ACP Collections <sup>1</sup>	\$456,000	\$456,000	\$2,189,000	\$4,457,000	\$5,995,000
Incremental ACP Collections under B19-10 <sup>2</sup>	\$0	\$0	\$28,500,000	\$28,300,000	\$34,000,000

<sup>1</sup>FY 2011 figure is expected collections according to DDOE. FY 2012-2014 are ORA projections.

<sup>2</sup>ORA estimate based on Table 2.