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May 16, 2011

Senator Michael Thibodeau, Senate Chair
Representative Stacey Fitts, House Chair
Joint Standing Committee on Utilities, Energy and Technology
115 State House Station
Augusta, ME 04333

Dear Senator Thibodeau and Representative Fitts:

I am writing to report on the "Alternative Energy Resources Working Group", which was included in LD 1786 An Act Regarding Energy Infrastructure Development enacted as Public Law 2010, Chapter 655, from the 124th Legislature's Second Session. Included in the legislation was a provision for the Governor's Office of Energy Independence and Security (OEIS) to convene a working group on alternative energy resources in order to "examine and make recommendations regarding the allocation of revenues from the energy infrastructure benefits fund."

The purpose of LD 1786 was to create three statutory energy infrastructure corridors on state-owned land and to create a process for energy infrastructure development in both statutory and petitioned corridors. The revenues generated from such development are to be deposited in the Energy Infrastructure Benefits Fund in order to "ensure the steady transition to energy independence and security for the people, communities, economy and environment of the State in accordance with the (Efficiency Maine Trust's) triennial plan in which the trust may provide grants, loans, programs and incentives on a competitive basis. The trust shall apportion the expenditures of funds pursuant to this paragraph in any fiscal year as follows:

(1) Seventy-five percent for energy efficiency initiatives; and

(2) Twenty-five percent for alternative energy resources initiatives";

Currently, there is no revenue in the Energy Infrastructure Benefits Fund as no energy infrastructure development projects have been built. However, Bangor Hydro and National Grid have a proposed transmission project and have presented preliminary information to the Interagency Review Panel which has decision-making authority for issuing long-term occupancy agreements on the corridors.

Pursuant to the statute, OEIS convened a working group with representatives from the following state agency and organizations:

- Representative of the Efficiency Maine Trust
- Representative of Community Energy Partners
- Representative of Environment Northeast
- Representative of the Conservation Law Foundation
- Representative of the Maine Renewable Energy Association
- Representative of the Natural Resources Council of Maine
- Representative of the Maine Association of Building and Efficiency Professionals

OEIS held one face-to-face working group meeting and several teleconference calls in order to examine and craft recommendations regarding the allocation and use of revenues from the Energy Infrastructure Benefits Fund for alternative energy purposes.

Attached is a list of specific recommendations that the working group stakeholders submitted and agreed that revenues from the Infrastructure Benefits Fund should fund. The OEIS does not take a position on these recommendations, but offers them as examples of potential projects offered by stakeholders that might be considered.

Sincerely,

Kenneth Fletcher

Kenneth C. Fletcher, Director
Governor's Office of Energy Independence and Security

Discussion Ideas from Alternative Energy Resources Working Group for Use of Corridor Funds

Community Energy Partners

1. Prior to suggesting project ideas before the funding is available, recommendation to examine the best ways to maximize and grow the amount and ultimate distribution of funds. For example, some states in similar situations have wisely and thoughtfully invested these types of annual revenues into conservative investment strategies, such as the California Public Employees' Retirement System (CalPERS). Under CalPERS, the AIM Environmental Technology Program is described in the following way:

   CalPERS is building a "best of breed," diversified portfolio of clean technology-focused investments by investing across stages, strategies, geographies, and structures. We define environmental or clean technologies as solutions that are more efficient and less polluting than existing or legacy products, services, or technologies. Areas of particular interest include, but are not limited to, alternative and renewable energy (clean energy), water technologies (clean water), advanced materials or nanotechnology (clean material), air purification technologies (clean air), and transitional infrastructure opportunities. It is expected that investment returns in this sector will be commensurate with the risk-adjusted returns of the general private equity market.

   CalPERS works with professionals to ensure the highest of fiduciary standards. Its goals are to achieve positive financial returns, while fostering energy savings, sustainable growth and sound environmental practices.

2. Earmark funding for community energy projects under 20 MW in all areas of Maine, with particular emphasis in school-based wind projects (typically under 100 kw), and small merchant community wind projects under 20 MW. The reasons for these two categories are 1) wind turbines in schools provide first-time opportunities for kids to learn about wind, and have proven to be strong catalysts for student interest in wind technology, math and science oriented skills and interests; and 2) community wind projects under 20 MW are the "sweet spot" for strong local benefits and positive support. Earmark funding for renewable energy technologies that are not covered by other sources of state funding. For instance, biomass can be funded through Efficiency Maine, while wind and other technologies are not at this time.

3. Allow for funding feasibility studies or necessary studies that are part of a comprehensive feasibility study (such as interconnection studies, wind studies, etc.).

4. Allow for funding of statewide wind data collection (tower and anemometry) network that would serve schools, private developers, and others in understanding Maine's wind data and resources in a more efficient and cost-effective manner. Each site could also serve as learning sites for students of all ages and the public in learning more about wind technologies.

Efficiency Maine Trust

1. Encourage 100% of any funds received by Efficiency Maine from this revenue stream should go to increasing the efficient use of unregulated heating fuels, including #2 distillate, kerosene and propane in connection with a fuel blind program design. It should also be allowed that these funds could be used for fuel switching, so long as the measures are cost-effective in terms of avoided energy use, and ensure that appropriate insulation and air sealing are completed before moving to heating system measures.

2. Strengthen existing program offerings, reflecting priorities as outlined in the Triennial Plan.

3. Implementing program concepts of a Direct Install program consistent as described in the Heating Fuels Efficiency and Weatherization Fund Report submitted by the Trust to the Utilities, Energy and Technology Committee on January 3, 2011.

Environment Northeast

1. Resources to assist municipalities with model wind zoning/siting ordinances.

2. Developing a pilot on a high efficiency/solar type project that develops information on the performance of specific technologies in Maine's climate – there is currently not enough data on benefits, operations and costs.

3. Funding a small port electrification study.

4. Using funds to augment EMT programs, particularly the heating fuel programs.

Maine Association of Building and Efficiency Professionals

1. For the small renewable energy industry, creating a stable source of funding for the State's modest Solar/Wind rebate program is a priority. Though the rebate amounts are actually very small, they are enough to spur people into doing projects, but the on-again-off-again nature of the funding of this program over the last 5 years has really done substantial damage to the industry's growth. For a fairly modest dollar amount, this program leverages substantial private investment and supports good distributed renewable energy projects which are visible and many of which have a valuable education and outreach component to them as well.

2. Develop the expertise and infrastructure (perhaps at Efficiency Maine) to collect, aggregate and sell Renewable Energy Credits from small renewable energy installations around the state. The sale of RECs in Maine is currently not attractive enough at the small scale to attract for-profit REC aggregation and trading, but it might be if the aggregator is a not for profit or quasi-state agency. This would be most effective with a stronger RPS or a carve out for Solar or other appropriate new renewable energy system.

Natural Resources Council of Maine

Larger scale ideas (for several million $ annually)

1. Funds to support additional long-term contracts for renewable energy.

Currently, the Maine Public Utilities Commission (MPUC) has the ability to contract for renewables ("long-term contracting authority"), but those contracts must be at market rates or below what the MPUC predicts market rates may be in the future. Because the MPUC is risk-adverse with regard to ratepayer funds, some opportunities may be missed to contract for renewable energy that may be good for ratepayers—and the broader economy—over time.

The MPUC also has authority to offer above market contracts for smaller, community owned renewables – at fixed rates that are slightly above market rates for the smallest project (a type of feed-in tariff), and through a competitive process for slightly larger MW-class projects.

Finally the MPUC has authority for a single-use long-term contract for a small (25 MW) offshore wind power project that can be above market rates but is not allowed to raise overall rates beyond a small amount.

All of these initiatives were severely limited by policymakers over concerns about ratepayer risk and short-term costs. The fund could be used in one or all of these categories to provide the additional funding necessary to jumpstart long-term contracts—the lack of which is one of the principle barriers to additional investment in renewable energy in Maine—without requiring as much cost or risk from ratepayers.

2. Support development of well-sited transmission line connecting Aroostook to ISO-NE.

The State of Maine needs to find a way to bring Aroostook renewable energy to broader markets. Ratepayers in Maine and throughout New England have some reluctance to pay for transmission and the private sector is reluctant to invest in a large-scale line along that gap (though some may invest in long generator lead lines).
Maine could use this fund to help leverage investment in some kind of publically- or utility-owned line.

3. Robust "Renewables for Towns" program.

Following the model of Efficiency Maine Trust programs (e.g., the Business Program which also helps municipalities), the fund may offer incentives for cost-effective investments (but with the appropriately long time frames for schools and other municipal buildings/institutions.) – *i.e.,* develop a real program, not just a series of grants. Be inclusive of solar, wind, and high-efficiency biomass heating. Also, connect to energy efficiency programs and priorities by fostering comprehensive retrofits that reduce consumption and switch to cleaner energy sources.

4. Robust/large-scale pilot program on use of electricity from renewables to replace oil in homes and transportation.

With a significant source of ongoing funding, Maine could support a very well developed and/or large-scale pilot project that would yield very substantial, scalable information about costs and benefits with different models, ranging from testing technologies to testing pricing and contractual agreements. If successful, this broad strategy could be very meaningful over the long-term for both benefiting consumers and supporting renewable energy development.

Smaller scale ideas (for $1-2 million or less/year)

5. Augment the existing Renewable Resources Fund

Make more explicit the division between projects that are cost-effective and demonstration/feasibility projects that are (in the words of the Efficiency Maine Trust's Triennial Plan) "enabling" of long-term strategies and market-transformation. In other words, have twin funds that have different standards but both fund the kinds of projects funded by the existing fund.

6. Augment the current solar & wind rebate funds.

This fund could be increased and made more stable in order to grow a stronger small/solar energy market in Maine.

7. Scaled-back renewables for towns or schools program.

8. Support ongoing ratepayer education about renewable energy options

Current law allows renewable energy providers access to utility customers through information inserts into bill mailings, at their own cost. The MPUC is also directed to try and offer a Green Standard Offer (presumably above market rates, for customers who want to sign up.) If such an Offer is established it will undoubtedly benefit from real, and continuous education to ratepayers about the option, benefits, etc. This fund could support that.