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Joint Committee on Finance

Paper #120

Renewable Energy Appropriations for State Facilities (Administration -- Facilities)

[LFB 2017-19 Budget Summary: Page 47, #3; Page 136, #11;
Page 237, #13; Page 371, #4; Page 461, #9; and Page 471, #6]

CURRENT LAW

Under 2005 Act 141, the Department of Administration (DOA) is required to establish renewable energy goals for DOA and the Departments of Corrections (DOC), Health Services (DHS), Public Instruction (DPI), and Veterans Affairs (DVA), as well as the University of Wisconsin (UW) System, such that by December 31, 2011, 20% of annual electric energy generated or purchased by the state for power, heating, or cooling purposes for state-owned or leased facilities would be derived from renewable resources. These requirements are specified under s. 16.75(12) of the statutes.

GOVERNOR

Administration. Create an annual PR appropriation under DOA for electric energy derived from renewable resources, funded at \$325,400 PR annually, and specify that funding for the appropriation would be moneys received from agencies (DOA, DOC, DHS, DPI, DVA, and UW System) for electric energy derived from renewable resources that is purchased under s. 16.75(12) of the statutes. Reduce funding for DOA's appropriation for facility operations and maintenance by \$325,400 PR annually and specify that no moneys may be expended from the appropriation for such renewable energy purchases.

Other Agencies. Create annual appropriations for electric energy derived from renewable resources under DOC, DHS, DPI, DVA, and the UW System and make funding adjustments to appropriations as indicated in Table 1. Specify that the existing appropriations that are amended under the bill may not be used to pay for electric energy derived from renewable resources that is

purchased under s. 16.75(12) of the statutes.

TABLE 1

Energy Appropriation Funding Adjustments by Agency, 2017 AB 64 / SB 30

	<u>Fund</u>	<u>Type</u>	<u>Funding Adjustment</u>	
			<u>2017-18</u>	<u>2018-19</u>
Administration				
Facility operations and maintenance; police and protection functions	PR-S	Annual	-\$325,400	-\$325,400
Electric energy derived from renewable resources	PR-S	Annual	325,400	325,400
Corrections				
Energy costs; energy-related assessments	GPR	Annual	-560,800	-560,800
Electric energy derived from renewable resources	GPR	Annual	560,800	560,800
Health Services				
Energy costs; energy-related assessments	GPR	Annual	-241,400	-241,400
Electric energy derived from renewable resources	GPR	Annual	241,400	241,400
Public Instruction				
Energy costs; WI Educational Services Program for the Deaf and Hard of Hearing and WI Center for the Blind and Visually Impaired; energy-related assessments	GPR	Annual	-14,500	-14,500
Electric energy derived from renewable resources	GPR	Annual	14,500	14,500
Veterans Affairs				
Institutional operations	PR	Annual	0*	0*
Electric energy derived from renewable resources	PR-S	Annual	54,000	54,000
UW System				
General program operations	GPR	Biennial	-4,367,000	-4,367,000
Electric energy derived from renewable resources	GPR	Annual	4,367,000	4,367,000
Total -- Reductions			-\$5,509,100	-\$5,509,100
Total -- New Appropriations			<u>5,563,100</u>	<u>5,563,100</u>
Net Total			\$54,000	\$54,000

*For the Department of Veterans Affairs appropriation, expenditure authority must be retained in the existing appropriation to allow the program revenue to be transferred to the new appropriation.

In summary, the Governor recommends specifying the maximum amount and fund source from which each agency may purchase renewable energy to meet renewable energy goals and reducing funding in existing agency appropriations by the same amounts and fund sources (with the exception of the current law DVA appropriation, which must retain expenditure authority to transfer program revenue to the new appropriation).

DISCUSSION POINTS

1. The administration indicates that the purpose of the budget provision is "to make more transparent the amount the state pays as a premium when it purchases renewable energy rather than non-renewable energy." The Department of Administration procures certain types of fuel and utilities centrally: fuel for heating plants; coal; natural gas; and renewable attributes purchased under s. 16.75(12) of the statutes. Agencies in DOA-managed buildings pay for heating and cooling expenses through rental charges, and manage separate contracts and meters with utilities for electricity. For buildings that are not managed by DOA, agencies receive a central fuel invoice from DOA for the types of fuel and utilities that are procured centrally and the agencies manage contracts for other fuel and utility expenses such as electricity.

2. In 2008, DOA executed contracts with four utility companies to purchase "renewable attributes" for the purpose of meeting goals set in accordance with 2005 Act 141. Contracts were established with the following entities: (a) Madison Gas and Electric (expires April, 2018); (b) We Energies (expires April, 2018); (c) Wisconsin Public Power, Inc. contracts with six utility members (WPPI contracts expire April, 2023); and (d) Wisconsin Public Service Corporation (WPSC contract expires November, 2030). The contracts vary in per-unit price and other terms.

3. Under the contracts, the term "renewable attributes" is generally used to represent any of the following: renewable resource attributes, renewable energy credits, pollution or emissions credits, environmental air quality credits, credit certificates, credits for greenhouse gas reduction, tradable generation rights, or any other environmentally related attributes that are recognized by a governmental authority. The attributes or credits must be attributable to the production, purchase, or sale of renewable energy and renewable energy equivalents.

4. According to information provided by the administration, the amounts paid by the state under the contracts are not representative of the cost to purchase units of energy itself. Rather, the payments are for renewable energy attributes. State agencies additionally pay utilities for actual use of electricity that the utility has delivered, which is not necessarily associated with any particular energy source, renewable or otherwise. Separately, under the renewable energy contracts described above, DOA purchases renewable energy attributes.

5. The Department essentially pays for a guarantee that a certain amount of renewable energy has been produced. Under the agreements with WPPI and WPSC, specific sources of renewable energy production within the state are indicated. The agreements with WPPI members also indicate that purchases may be supplemented with renewable energy equivalents, if renewable energy production from the source identified is less than anticipated. The agreements with Madison Gas and Electric and We Energies do not specify a particular source of renewable energy. While the production of the renewable energy is verifiable and can be purchased and sold on the market, the payments made under the contract may or may not result in the delivery of tangible units of renewable energy that a specific state agency would directly consume. In other words, the state pays for: (a) what the administration describes as a "premium" for renewable attributes associated with a certain amount of renewable energy that has been produced; and (b) the full retail rate for the amount of electricity that the state actually consumes.

6. Table 2 shows the amounts paid by the state under each renewable energy contract, the number of kilowatt-hours associated with the renewable attributes purchased, and the cost per kilowatt-hour under each contract from 2012-13 to 2015-16. Overall average per-unit costs each year are also provided. In comparison, according to a 2014-15 state energy report, the average cost for purchases of electricity for all state agencies was \$0.1018 per kilowatt-hour. The renewable energy "premium" for the same year shown in Table 2, \$0.032 per kilowatt-hour, is approximately 31.4% of the average base rate for electricity for all agencies. In terms of the number of kilowatt-hours of electricity consumed by the six agencies subject to the renewable energy goal, the agencies used 983.6 million kilowatt-hours in 2014-15. As a result, renewable energy attribute purchases relative to total electricity purchases for these agencies totaled 15.1%.

TABLE 2

State Renewable Attribute Payments under Contract, 2012-13 to 2015-16

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Madison Gas and Electric				
Payment	\$400,000	\$400,000	\$400,000	\$400,000
Kilowatt-Hours	40,000,000	40,000,000	40,000,000	40,000,000
Per-Unit Cost	\$0.010	\$0.010	\$0.010	\$0.010
We Energies				
Payment	\$309,689	\$439,604	\$407,756	\$363,168
Kilowatt-Hours	19,400,004	19,400,004	19,400,004	19,400,004
Per-Unit Cost	\$0.016	\$0.023	\$0.021	\$0.019
Wisconsin Public Power, Inc.				
Payment	\$1,131,546	\$857,441	\$1,028,461	\$1,227,504
Kilowatt-Hours	27,605,438	26,418,885	27,949,176	28,796,006
Per-Unit Cost	\$0.041	\$0.033	\$0.037	\$0.043
WI Public Service Corporation				
Payment	\$2,525,953	\$2,148,306	\$2,906,295	\$3,572,405
Kilowatt-Hours	64,796,898	64,810,900	61,292,800	62,658,002
Per-Unit Cost	\$0.039	\$0.033	\$0.047	\$0.057
Total Payments	\$4,367,188	\$3,845,352	\$4,742,512	\$5,563,077
Total Kilowatt-Hours	151,802,340	150,629,789	148,641,980	150,854,012
Average Per-Unit Cost	\$0.029	\$0.026	\$0.032	\$0.037

7. The amounts provided to each agency's appropriation under the bill are based on the amounts expended by each agency in 2015-16 to reimburse DOA for central purchases under the contracts. Table 3 shows the amounts assessed to each agency from 2012-13 to 2015-16 associated with purchases of renewable attributes. The Department of Administration makes payments centrally from a clearing account established for administrative purposes, which is not established as a separate appropriation in Chapter 20 of the statutes and which does not appear in the schedule of appropriations. Payments are allocated to each agency based on the percentage of electricity

consumption of the agency relative to the total for all six agencies.

TABLE 3

Renewable Attribute Payments by State Agency, 2012-13 to 2015-16

	2012-13		2013-14		2014-15		2015-16	
	Payment	Percent	Payment	Percent	Payment	Percent	Payment	Percent
Administration	\$274,696	6.29	\$205,726	5.35	\$275,066	5.80	\$325,440	5.85
Corrections	473,403	10.84	409,914	10.66	488,479	10.30	560,758	10.08
Health Services	189,099	4.33	171,118	4.45	203,928	4.30	241,438	4.34
Public Instruction	12,665	0.29	11,536	0.30	14,228	0.30	14,464	0.26
Veterans Affairs	41,925	0.96	38,069	0.99	47,425	1.00	53,962	0.97
UW System	<u>3,375,400</u>	<u>77.29</u>	<u>3,008,988</u>	<u>78.25</u>	<u>3,713,387</u>	<u>78.30</u>	<u>4,367,016</u>	<u>78.50</u>
Total	\$4,367,188	100.00	\$3,845,352	100.00	\$4,742,512	100.00	\$5,563,077	100.00

8. It is unknown at this time how much expenditure authority would be needed in 2017-18 and 2018-19 for renewable energy payments for several reasons including: (a) changing electricity demand and usage; (b) fluctuations in the price of renewable attributes or credits; and (c) the amount of renewable energy actually produced by entities that may be specified in each contract. Further, as shown in Table 3, the percentage of renewable energy payments that is assigned to each of the six state agencies changes each year based on electricity usage of each agency. Therefore, the relative share of payments for each agency in 2017-18 and 2018-19 is also unknown at this time.

9. On one hand, the administration argues that DOA's current practice of purchasing renewable energy attributes through an administratively established clearing account could be made more transparent by establishing separate appropriations under each of the six state agencies that pay for renewable energy. Therefore, the Committee could choose to approve the Governor's recommendation to create annual appropriations for electric energy derived from renewable resources under each of the six agencies, reduce funding in existing appropriations as indicated in Table 1, and specify that the existing appropriations may not be used to pay for such purchases. It should be noted that under the contracts, the state reserves the right to cancel the agreement in whole or in part without penalty if the Legislature fails to appropriate the funds necessary to complete the agreement. Therefore, if the amounts appropriated to each agency are not sufficient, the state may take action consistent with provisions in the contracts to ensure expenditures do not exceed appropriated authority. [Alternative 1]

10. On the other hand, there are several reasons to consider modifying the proposal to facilitate administrative flexibility for agencies that pay renewable energy assessments or provide a different amount of expenditure authority. First, each of the six agencies pay for electricity from multiple appropriations, while only one appropriation per agency is amended and has expenditure authority reduced under the bill. The number of appropriations used to pay for electricity for each agency in 2015-16 is as follows: (a) DOA, four (all PR); (b) DOC, 11 statutory appropriations (four GPR and seven PR); (c) DHS, nine statutory appropriations (five GPR, one FED, and three PR); (d)

DPI, two GPR; (e) DVA, nine statutory appropriations (two FED and seven PR); and (f) UW System, six (one GPR, one FED, and four PR). The administration noted in its March 31, 2017, errata letter that in the case of DHS, renewable energy assessments are paid from GPR and PR although only a GPR appropriation is created under the bill. [An alternative creating multiple appropriations for each agency is not provided due to the increased administrative complexity and inefficiency it would entail.] Agencies could be permitted to manage such expenses with more flexibility than would be allowed under the bill. Second, the percentage allocation to each agency changes each year. Third, it could be argued that a greater or lesser amount of funding should be provided given that: costs may increase in the future; and costs have fluctuated in years prior to 2015-16, such that the four-year average expenditure was \$4,629,500 in comparison to \$5,563,100 provided under the bill.

11. Therefore, the Committee could consider modifying the provision to create one annual PR appropriation for electric energy derived from renewable resources, specify that payments to utilities for renewable energy purchases under s. 16.75(12) of the statutes may be made only from this appropriation and that payments in total may not exceed the amounts in the schedule of appropriations. Under this alternative, the source of funding for the appropriation would be assessments to DOA, DOC, DHS, DPI, DVA, and the UW System for each agency's share of the renewable energy purchases. It should be noted that although the change to bill funding would appear to increase expenditures, funding would be PR from chargebacks to agencies. Therefore, expenditures for renewable energy under Alternative 2 would be no more than under current law. The alternative would restore funding to each agency's existing appropriation and delete changes that would amend the authorizing language of the existing appropriations. The Committee could choose to provide any amount of expenditure authority to the PR appropriation created under DOA, such as: (a) \$5.75 million PR annually, to allow for some growth in expenditures [Alternative 2a]; or (b) \$5,563,100 PR annually, the total amount of funding expended in 2015-16 and allocated under the bill for this purpose [Alternative 2b].

12. Alternatively, the Committee could delete the provision and instead: (a) amend the renewable energy purchase requirement to specify that no more than \$5,563,100 may be expended in any state fiscal year to purchase renewable energy for the agencies (the amount that would be provided in the bill); and (b) specify that the amount could be adjusted by the Committee under passive review pursuant to a request submitted by DOA. Under this alternative, if the Secretary of DOA submits a request to the Committee to adjust the amount that may be expended and the Committee does not, within 14 working days of the request, schedule a meeting for the purpose of reviewing the proposed adjustment, the request would be approved. The approved adjustment would be effective thereafter. This alternative would: increase the transparency of the amounts expended under the contracts; maintain flexibility for agencies in determining which appropriations to utilize in paying assessments to DOA; allow for changes in the percentage allocation of assessments to agencies based on actual electricity usage; and provide a process by which a limit on expenditures could be modified if necessary. [Alternative 3]

13. Finally, it could be argued that the provision is not necessary to increase transparency and that providing a separate annual appropriation, or multiple annual appropriations, could cause the state to cancel the agreements in whole or in part due to the potential failure to appropriate

sufficient funds to make payments under the contracts. The Department may post detailed reports relating to expenditures for renewable energy attributes by contract, state agency, and fund source. Such a report could be posted to DOA's Internet site at the agency's discretion. Therefore, the Committee could delete the provision. [Alternative 4]

ALTERNATIVES

1. Approve the Governor's recommendation to establish separate annual appropriations for electric energy derived from renewable resources under DOA, DOC, DHS, DPI, DVA, and the UW System and make funding adjustments to appropriations as indicated in the bill. Specify that the existing appropriations that are amended under the bill may not be used to pay for electric energy derived from renewable resources that is purchased under s. 16.75(12) of the statutes.

ALT 1	Change to	
	Base	Bill
<u>DVA</u>		
PR	\$108,000	\$0

2. Modify the provision to create only one annual PR appropriation under DOA for electric energy derived from renewable resources. Specify that payments to utilities for renewable energy purchases under s. 16.75(12) of the statutes may be made only from this appropriation and that payments in total may not exceed the amounts in the schedule of appropriations. Further, specify that the source of funding for the appropriation is assessments to DOA, DOC, DHS, DPI, DVA, and the UW System for each agency's share of the renewable energy purchases. Restore funding to each agency's existing appropriation and delete changes that would amend the authorizing language of the existing appropriations. Provide the following amount of expenditure authority to the PR appropriation created under DOA (funding would be from chargebacks to agencies and expenditures would be no more than under current law):

a. \$5,750,000 PR annually. [Maximum annual expenditures under the renewable energy requirement would be \$186,900 higher than under the bill.]

ALT 2a	Change to	
	Base	Bill
<u>DOA</u>		
PR	\$11,500,000	\$11,500,000
<u>DVA</u>		
PR	\$0	-\$108,000
Total	\$11,500,000	\$11,392,000

b. \$5,563,100 PR annually. [Maximum annual expenditures under the renewable energy requirement would be the same as under the bill, paid from one appropriation funded from assessments to each state agency.]

ALT 2b	Change to	
	Base	Bill
<u>DOA</u>		
PR	\$11,126,200	\$11,126,200
<u>DVA</u>		
PR	\$0	-\$108,000
Total	\$11,126,200	\$11,018,200

3. Delete provision. Instead, specify that no more than \$5,563,100 may be expended in any state fiscal year to meet the renewable energy requirement and that the amount may be adjusted under a 14-day passive review request submitted by DOA to the Committee.

ALT 3	Change to	
	Base	Bill
<u>DVA</u>		
PR	\$0	-\$108,000

4. Delete provision.

ALT 4	Change to	
	Base	Bill
<u>DVA</u>		
PR	\$0	-\$108,000

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