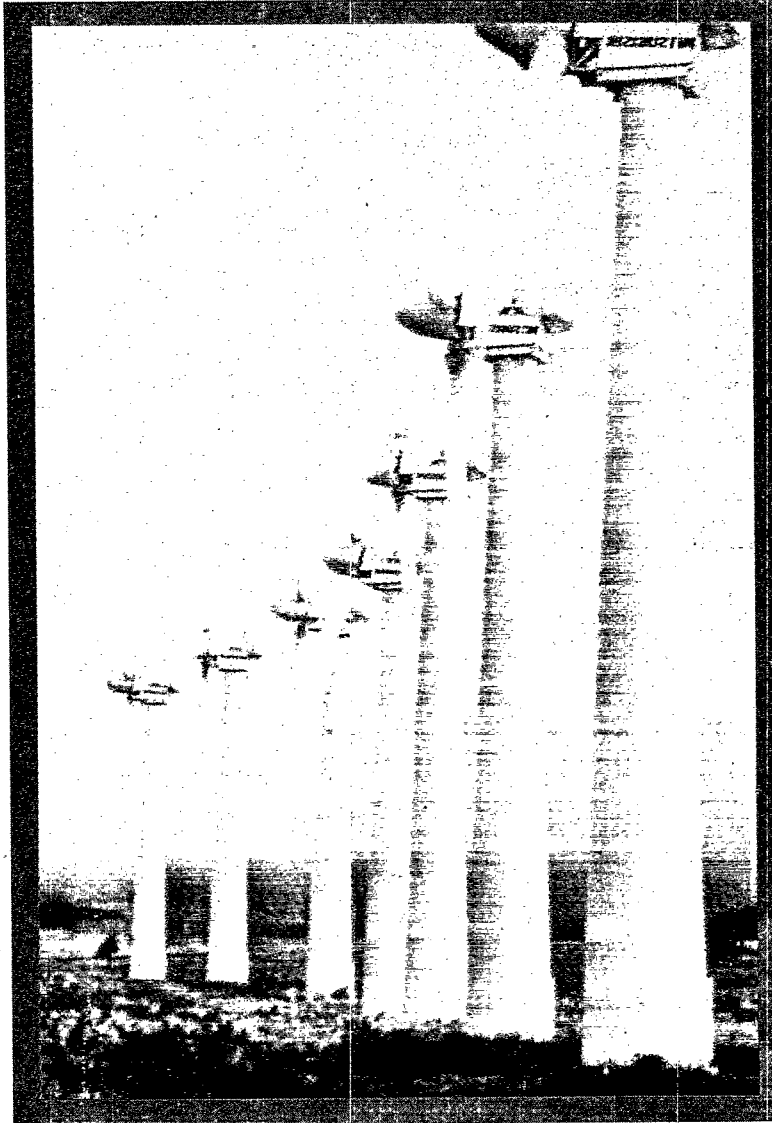




Acid Rain Program

Conservation and Renewable Energy Reserve



Source: American Wind Energy Association

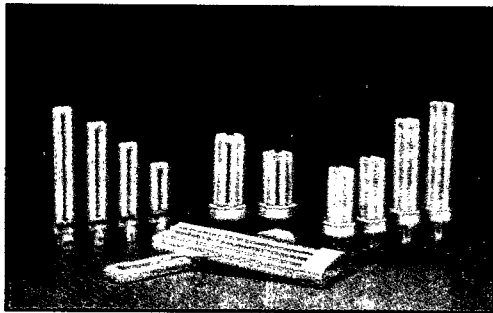
UPDATE

OVERVIEW



Established under EPA's Acid Rain Program, the Conservation and Renewable Energy Reserve (The Reserve) promotes pollution prevention.

ENERGY EFFICIENCY



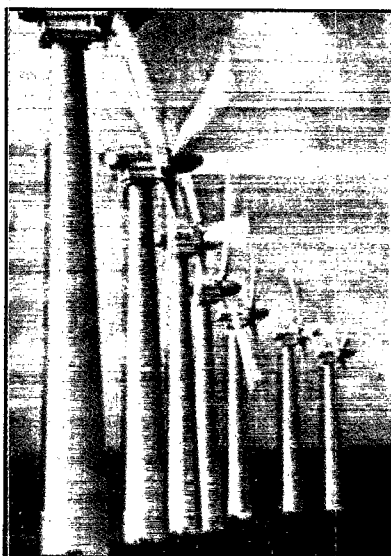
SOURCE: OSRAM SYLVANIA, INC.

Allowances awarded to utilities from the Reserve can be used for compliance with the Acid Rain Program or banked for future use. These allowances can make it less costly for affected utilities to comply with the emissions limitations mandated by the Acid Rain Program.

The Reserve bonus allowances are just the beginning of the benefits of efficiency and renewable energy. Both financial and environmental benefits accrue as emissions of a variety of pollutants are avoided at the utilities that employ these technologies.

The Reserve is a pool of 300,000 sulfur dioxide (SO₂) allowances set aside to award utilities that initiate efficiency and renewable energy programs. A utility can earn one SO₂ allowance for every 500 megawatt hours of energy saved through demand side efficiency or renewable energy generation.

RENEWABLE ENERGY



SOURCE: AMERICAN WIND ENERGY ASSOCIATION

"THESE [CONSERVATION AND RENEWABLE ENERGY] MEASURES NOT ONLY REDUCE SO₂ EMISSIONS - THUS FREEING UP ALLOWANCES - THEY ALSO REDUCE EMISSIONS OF OTHER POLLUTANTS, SUCH AS NITROGEN OXIDES, CARBON MONOXIDE, CARBON DIOXIDE, PARTICULATES AND HAZARDOUS AIR POLLUTANTS."

-UTILITY ENVIRONMENT REPORT, MAY 13, 1994



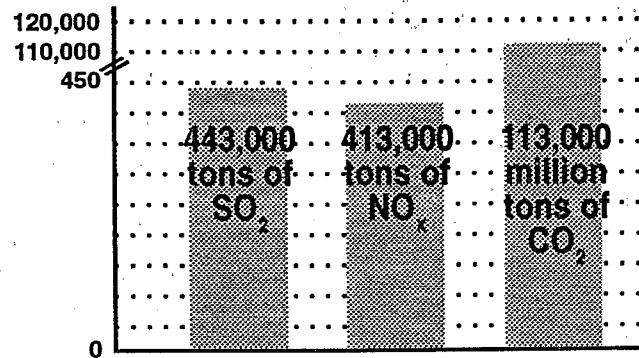
ENVIRONMENTAL IMPACT OF THE RESERVE

ENVIRONMENTAL BENEFITS



SOURCE: DEPARTMENT OF THE INTERIOR

The 300,000 bonus allowances contained in the Reserve represent a conversion of 150 billion kilowatt hours to efficiency or renewable energy. The net air pollution that will be avoided by the full implementation of the Reserve program is estimated as follows:



The bonus allowances awarded from the Reserve thus far represent an avoidance of approximately 6,400 tons of SO₂, 3,900 tons of NO_x, and 1 million tons of CO₂. The avoidance of 1 million tons of CO₂ is equivalent to planting 168 million trees a year or taking 200,000 cars off the road each year.

FOR FURTHER INFORMATION ABOUT THE ACID RAIN PROGRAM

WRITE OR CALL:

US EPA

ACID RAIN DIVISION (6204J)

ATTN: ENERGY EFFICIENCY SECTION

401 M STREET SW

WASHINGTON, DC 20460

ACID RAIN HOTLINE

(202) 233-9620



BONUS ALLOWANCES AWARDED FROM THE RESERVE

In the Reserve's first year of operation, utilities from across the nation received bonus allowances for measures ranging from efficient lighting and motors to landfill gas renewable energy projects.

As of September 30, 1994 a total of 2,832 allowances had been awarded to 15 utilities.

The recipients of the first bonus allowances from the Reserve were announced at the National Association of Regulatory Utility Commissioners Conference (NARUC) meeting in New York City. A total of 532 allowances were awarded to 5 utilities. The second group of 398 bonus allowances were awarded to 8 applicants in April 1994. An additional 1,902 allowances were awarded to 6 applicants on September 30, 1994.

OPPORTUNITY FOR UTILITIES

"THIS PROGRAM IS
CREATING A CULTURE
CHANGE WHERE UTILI-
TIES ARE LOOKING
FOR OPPORTUNITIES
EVERYWHERE."

- JAMES MAHONEY,
NEW ENGLAND
ELECTRIC SYSTEM

The Reserve provides a unique opportunity for utilities to earn bonus SO₂ allowances through the implementation of efficiency or renewable energy generation measures, thus making compliance with the Acid Rain Program less costly.

As utilities add new energy efficiency or renewable energy measures each year, allowances earned from the Reserve can accumulate rapidly. For example, the New England Electric System (NEES) companies were awarded 130 allowances from the Reserve in 1993 and 1994. Based on current estimates of future efficiency and renewable energy initiatives, the NEES companies expect to apply for a total of 14,000 allowances from the Reserve by 1999.

Utilities owning Phase I and/or Phase II plants began applying to the Reserve on July 1, 1993. EPA accepts applications beginning on July 1 of each year for the savings and generation of the previous year.

BONUS ALLOWANCE RECIPIENTS



Name of Recipient	No. of Allowances Awarded	Initiative
City of Austin	18	Commercial, residential, and municipal efficiency programs
New England Electric System (Naragansett Electric, Massachusetts Electric, Granite State Electric)	130	Commercial, industrial, residential efficiency programs and landfill gas renewable energy project
Portland General Electric	277	Commercial, industrial, and residential efficiency programs
Puget Sound Power and Light	1,002	Commercial, industrial, and residential efficiency programs
Florida Power and Light (ESI Energy)	109	Geothermal energy
Centerior Energy (Cleveland Electric Illuminating Company, Toledo Edison)	6	Commercial efficiency programs
Connecticut Light and Power	173	Commercial, industrial, and residential efficiency programs
Dayton Power and Light	4	Commercial and government efficiency programs
Minnesota Power	8	Commercial, industrial, and residential efficiency programs
Niagara Mohawk	177	Commercial, industrial, and residential efficiency programs
Wisconsin Public Power Inc.	3	Commercial, industrial, agricultural efficiency programs and purchase of geothermal energy
Sierra Pacific	835	Purchase of geothermal energy
PSI Energy	41	Commercial, industrial, and residential efficiency programs
Otter Tail Power Company	42	Purchase of biomass energy
Rochester Gas and Electric	7	Commercial, industrial, and residential efficiency programs
Total Allowances Awarded	2,832	



ELIGIBILITY REQUIREMENTS

Utilities affected in Phase I (1995-2000) of the Acid Rain Program are eligible to earn Reserve allowances for savings or generation of renewables from January 1, 1992 up until their compliance date of January 1, 1995. Utilities affected in Phase II (2000 on) of the Acid Rain Program are eligible from January 1, 1992 up until their compliance date of January 1, 2000.

To participate in the Reserve program a utility must meet the following requirements:

- Applicant must sell electricity (utility or independent power producer).
- Applicant or the applicant's holding company must own or operate, in whole or in part, a unit affected by the Acid Rain Program in Phase I or Phase II.
- Applicant must be subject to a least cost plan or planning process that is approved or accepted by the applicant's ratemaking entity. The least cost plan or planning process must meet the following requirements: (1) public participation; (2) evaluation of a full range of resource options; (3) treatment of supply-side and demand-side resources on a consistent and integrated basis; (4) accounting for system operation and risk factors; and (5) implementation of least-cost resources.
- Investor-owned utilities applying for credit from efficiency programs must be subject to a ratemaking process that provides for "net income neutrality," whereby the utility's earnings are not reduced due to its conservation efforts. Applications for net income neutrality must be certified by the Department of Energy.

REGULATORY IMPACT OF THE RESERVE



Because eligibility for allowances from the Reserve is conditioned upon the implementation of least cost planning, Congress clearly intended to encourage regulators to level the playing field for investments in energy efficiency and renewables. Since enactment of the Clean Air Act Amendments, there have been many such initiatives undertaken by state regulators, some of which specifically cited opportunities for bonus allowance awards. Here are some examples:

"THE AVAILABILITY OF THESE ALLOWANCES HAS ENCOURAGED PUBLIC UTILITY COMMISSIONS TO ESTABLISH INTEGRATED RESOURCE PLANNING PROGRAMS AND HAS LED TO A MORE COLLEGIAL RELATIONSHIP BETWEEN UTILITIES AND PUCs."

-RENZ JENNINGS, CHAIR OF THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONER'S SUBCOMMITTEE ON RENEWABLES.

- **Minnesota Public Utility Commission**
opened two dockets to consider utility applications for allowances from the Reserve.
- **Public Utility Commission of Texas**
proposed a policy statement encouraging integrated resource planning for electric utilities. If adopted, it will establish a procedure whereby the Commission would review utility integrated resource plans, facilitating applications to the Reserve.
- **New York Public Service Commission**
undertook a special review of its utilities' least-cost plans to determine whether or not they met EPA's eligibility requirements for the Reserve.
- **Public Utilities Commission of Ohio**
adopted a rate-making mechanism for its utilities that is intended to meet the "net income neutrality" eligibility requirements for allowances from the Reserve.
- **Connecticut Department of Public Utility Control**
opened a docket to consider utility applications for allowances from the Reserve.



