



The Need for an Alternative Energy Portfolio Standard

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As the price of energy continues to rise, the United States will be competing more and more in the global market for limited energy resources. A viable solution is needed to ensure reliability and to stabilize prices for Ohioans. The Office of the Ohio Consumers' Counsel (OCC) believes the development of an alternative energy portfolio standard is one responsible solution to energy use that can take Ohio into the 21st century.

What is an alternative energy portfolio standard?

An alternative energy portfolio standard promotes the use of clean energy – such as wind, solar and biomass – as a mandatory percentage of the total retail electricity sold. It works by simply requiring that electric service providers obtain a percentage of their supply from an alternative energy resource. This type of policy promotes competition, efficiency and technological breakthroughs that can make alternative energy an affordable commodity.

Twenty-two states and Washington D.C. have designed and implemented some form of an alternative energy portfolio standard. These states, including Texas, Wisconsin, Illinois and Massachusetts, have committed thousands of megawatts or a percentage of their total electric generation to alternative energy. These policies are implemented for a number of reasons including, to increase fuel diversity and energy independence, to reduce price volatility of electricity, to relieve transmission congestion, to lower the negative byproducts associated with fossil fuel-generated electricity and to reduce the cost of alternative energy by increasing the market share of alternative energy.

The promise of innovation in policy and technology that will benefit consumers is what has developed alternative energy portfolio standards as a viable option for the future production of energy. With the advent of technology in the alternative energy arena, the state standard will be able to maintain itself. Electric companies can then seek these more cost-effective technologies to provide energy to its customers through a competitive bidding process.

How does an alternative energy portfolio standard work?

With an alternative energy portfolio standard policy in place, the energy market will drive the development of renewable energy to meet the standard. Investors and companies that generate electricity will decide how to comply with the requirements by selecting the type of alternative energy to acquire, such as solar, wind, biomass, and the price to pay, among others.

With this flexibility, an electric company needs to demonstrate it has generated the electricity sold with a percentage of alternative energy sources. The alternative energy portfolio standard usually requires utility companies to obtain renewable energy certificates, which demonstrate to a state's regulator that the company has produced a percentage of its annual sales through alternative energy resources.

In addition to approving the certificates, state regulators would monitor compliance with the requirements and impose penalties on the utilities, if they fail to meet the standard requirements. Penalties for noncompliance are designed to be significantly more than the cost of using alternative energy resources to encourage compliance. This makes it more economical to adhere to the requirements than not.



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