U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

The Department of Energy's Renewable Energy Efforts

OAS-M-12-04

April 2012

Department of Energy
Washington, DC 20585

April 30, 2012

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's Renewable Energy Efforts"

BACKGROUND

In an effort to promote generation of renewable energy, the Energy Policy Act of 2005 (EPAct) requires that by Fiscal Year (FY) 2013 at least 7.5 percent of a Federal agency's annual electricity consumption be from renewable sources. Renewable sources include wind, solar, geothermal, hydropower, and various forms of biomass. Agencies can obtain renewable energy by producing it on Federal lands, a method encouraged by EPAct, or by procuring it from developers or utility companies. According to the U.S. Environmental Protection Agency, by replacing conventional energy with renewable sources, agencies can reduce greenhouse gas emissions by more than one pound of carbon dioxide per kilowatt hour. As required by Executive Order 13514, *Federal Leadership in Environmental, Energy, and Economic Performance*, the Department of Energy has also established a goal to reduce its greenhouse gas emissions by 28 percent by FY 2020. The Department can use renewable energy sources to assist in achieving its greenhouse gas reduction goal.

The Department has emphasized the need for its actions to set the example for energy and greenhouse gas stewardship in the Federal government, the Nation's largest energy consumer. The Department's Sustainability Performance Office, created in October 2010, oversees Departmental efforts required by Executive Order 13514 and related laws and regulations, such as the EPAct. Because of the importance of the Department's commitment to sustainability, we initiated this audit to determine whether the Department was effectively meeting the EPAct renewable energy requirements.

CONCLUSIONS AND OBSERVATIONS

In FY 2010, 3 years before it was required to do so, the Department reported that it had met EPAct's overall requirement that at least 7.5 percent of its energy consumption be from renewable sources. Specifically, the Department acquired approximately 461,000 megawatt

hours from renewable sources, representing over 9 percent of its annual electricity consumption of 4.8 million megawatt hours. Although the Department's progress exceeded EPAct requirements, our audit identified opportunities for improvement. Specifically:

- Despite EPAct's preference for producing renewable energy on Federal lands, the Department relied almost exclusively on purchases of renewable energy. In fact, in FY 2010, on-site renewable energy generation represented less than 1 percent of total electricity consumed Department-wide. The lack of large-scale on-site projects occurred, at least in part, because of the challenges the Department faced in financing renewable energy projects;

- Sites may not have always purchased renewable energy in the most cost-effective manner. In particular, we noted significant variability in the costs sites paid to purchase renewable energy— ranging from $0.44 to $26.67 per megawatt hour. The cost variability we noted was often a result of the sites' lack of awareness about available purchasing options and was not generally based on a detailed cost analysis of options that identified the best value. Additionally, the Department guidance on renewable energy purchases did not provide sites with advice regarding how to evaluate the different purchase options to ensure procurement at the best value; and,

- The Department had not ensured its sites reported consistent and accurate renewable energy data. For example, some sites inaccurately reported either the megawatt hours or the cost of renewable energy purchased. We noted that the Department's guidance did not provide detailed instructions to site officials concerning data input. However, it is important to note that the Department's achievement of EPAct's energy usage goals was not affected by the errors.

As detailed in the remainder of our report, improvements in these areas could enhance the Department's efforts to satisfy national priorities related to energy efficiency and could bolster its reputation as a leader in the field.

Reliance on Renewable Energy Purchases

Contrary to EPAct's preference for producing renewable energy on Federal lands, very little of the Department's renewable energy has been generated on-site. While Department sites have implemented approximately 260 on-site renewable energy projects, most of these projects are small and have done little to offset the Department's energy use. In fact, in FY 2010, the Department's on-site renewable energy production was less than 1 percent of its total electricity consumed. Further, only 2 of 38 sites met individual renewable energy requirements solely through projects on Federal lands.

For the most part, sites met EPAct requirements either through purchasing renewable energy credits (RECs) or paying a premium for "green power." In FY 2010, purchases of RECs and green power accounted for 441,000 megawatt hours. RECs are claims to the environmental benefits associated with renewable energy generation. When procuring RECs, the purchaser

receives certificates that represent the generation of one megawatt hour of electricity from an eligible source of renewable energy. RECs are not tied to the physical delivery of electricity, and thus, can be purchased from suppliers other than a site's local electricity provider. Green power purchases, on the other hand, are offered by many electricity providers as an optional service in which a premium is paid in exchange for electricity generated from renewable power sources. Attachment 3 describes the process for purchasing RECs and green power.

Continued reliance on RECs and green power purchases not only affects the Department's ability to achieve EPAct's preference regarding production of renewable energy on Federal lands, but also subjects the Department to future price uncertainty. While renewable energy purchases of RECs and green power usually require no up-front capital and are relatively easy to procure, the benefits delivered are only for the purchased year. Therefore, unexpected price increases could negatively impact the Department's ability to meet its renewable energy requirements in the future. For example, in the report *Defense Infrastructure: DOD Needs to Take Actions to Address Challenges in Meeting Federal Renewable Energy Goals* (GAO-10-104, December 2009), the U.S. Government Accountability Office found that the Department of Defense had missed meeting its renewable energy goals in FY 2008 because of a significant increase in RECs prices over the prior year. Future price increases could be the result of any number of factors, including new state regulatory mandates for electricity suppliers, the introduction of national renewable standards, and any additional Federal policies on renewable energy, greenhouse gases, or climate change. New standards could result in an increased demand for RECs. Also, as with other commodities, higher demand for limited resources could result in higher prices.

While the Department's progress in meeting EPAct goals is laudable, the lack of large-scale on-site projects, in our opinion, calls into question the Department's leadership in promoting the development of renewable energy. A number of Department sites are located in areas with abundant renewable energy resources, including solar in New Mexico; wind in Texas and Idaho; and, biomass in South Carolina. The Department has recognized the need to demonstrate leadership in this area and plans to implement more on-site projects in the future. In its FY 2011 *Strategic Sustainability Performance Plan*, the Department set a goal of increasing renewable energy used, with emphasis on developing renewable energy generation on Department sites.

Financing Renewable Energy Projects on Federal Lands

The Department faces significant challenges in financing large-scale on-site renewable energy projects. In our previous report, *The Department of Energy's Energy Conservation Efforts* (OAS-L-11-02, February 2011), we noted that the appropriations needed for on-site energy-related projects is in direct competition with mission critical needs for increasingly scarce Federal resources. Since many renewable energy projects require high upfront capital investment, the Department is often faced with difficult funding dilemmas. In addition, alternative financing mechanisms, such as a power purchase agreement (PPA), have not been feasible for large-scale renewable energy projects due to legislative limits on the Department's contracting authority. PPAs are agreements in which a private entity installs, owns and operates a renewable project on a Federal site, and the site purchases the energy generated by the project through a long-term utility contract. Under Title 40 U.S. Code Section 501, the term of the

Department's utility contracts, including PPAs, cannot exceed 10 years, whereas, renewable energy developers typically need 20 years or more to recoup costs.

To its credit, the Department is aware of the barriers to the implementation of PPAs and is working to develop strategies to overcome them. To that end, in March 2011, the Department's Federal Energy Management Program issued a Request for Information (RFI) on Federal government PPA issues, requesting industry input for the Department's consideration in order to improve potential future PPA procurements. The RFI included various options for comment. Unfortunately, the Department's analysis of industry feedback found that "none of the options presented were compelling as financiers would consider them to be high risk." In the continued absence of a comprehensive solution, the Department is considering expanding the use of broader contracting authority available to the Western Area Power Administration (Western) to execute PPAs for Department sites located in Western's region. Western is authorized, within its region, to execute PPA contracts with terms up to 40 years, and can enter into intra-agency agreements to purchase and sell renewable energy on a site's behalf. Western has executed four PPAs at the Department's National Renewable Energy Laboratory in Golden, Colorado, including two rooftop photovoltaic (PV) systems and two ground-mounted PV systems.

Renewable Energy Purchases – Cost Variability

Department sites may not have always purchased renewable energy in the most cost-effective manner. We observed wide variability in the cost of renewable energy purchases within the Department. In particular, we noted that renewable energy costs for the 10 sites we reviewed varied from $0.44 to $26.67 per megawatt hour during FY 2010.

In FY 2010, 29 Department sites spent approximately $1 million on renewable energy purchases. The 10 sites included in our review represented 52 percent of the Department's renewable energy purchases and, at $665,071, accounted for nearly 70 percent of the cost. Our analysis focused only on the costs specifically associated with the purchase of electricity from renewable sources, including the costs for purchasing RECs and the additional premium paid for purchasing green power.

We found the Department incurred lower costs when it purchased RECs through experienced third party intermediaries, including private sector energy brokers or Federal contracting agencies such as Western, the Defense Logistics Agency Energy (DLA Energy) and General Services Administration (GSA). These intermediaries solicited bids on behalf of the sites and arranged for the purchase of RECs. Intermediaries do not own RECs, but connect buyers and sellers. Six sites we reviewed purchased RECs using intermediaries. The cost for those RECs ranged from $0.44 to $5.00 per megawatt hour.

Four of the 10 sites we reviewed purchased green power directly from utility providers and paid more per unit than those sites purchasing RECs through third party intermediaries. For example, the Oak Ridge National Laboratory (ORNL) purchased green power from the Tennessee Valley Authority at a cost of $26.67 per megawatt hour. ORNL officials noted their green power

purchase was small and made in the interest of supporting a 10-year partnership with the Tennessee Valley Authority's Green Power Switch program. Additionally, the Hanford Site, Pacific Northwest National Laboratory (PNNL) and National Energy Technology Laboratory (NETL) purchased green power from Bonneville Power Administration at a cost of $10.50 per megawatt hour. To their credit, when PNNL officials became aware of additional procurement options, they decided to purchase RECs through DLA Energy and realized a $9.00 per megawatt hour savings.

The chart below shows the types and prices of renewable energy purchased for the sites we reviewed:

FY 2010 RENEWABLE ELECTRIC ENERGY PURCHASES AT SELECTED DEPARTMENT SITES

Site	Type	Purchase Source	Energy Source	MWh Purchased	Total Cost[1]	Cost per MWh
Ames Laboratory	RECs	Utility	Wind	570	$1,995	$3.50
Brookhaven National Laboratory	RECs	Broker	Mix	10,000	$19,600	$1.96
	RECs	Broker	Mix	25,000	$24,750	$0.99
Hanford Site	Green Power	Utility	Wind	20,040	$210,420	$10.50
Headquarters	RECs	GSA	Wind	23,000	$57,960	$2.52
	RECs	GSA	Wind	12,000	$33,000	$2.75
Kansas City Plant	RECs	Western	Wind	4,500	$7,515	$1.67
Los Alamos National Laboratory	RECs	Western	Wind	6,750	$11,273	$1.67
	RECs	Western	Biomass	24,000	$120,000	$5.00
	RECs	Western	Biomass	1,500	$660	$0.44
National Energy Technology Laboratory	Green Power	Utility	Wind	176	$1,848	$10.50
National Renewable Energy Laboratory	RECs	Western	Wind	43,000	$71,810	$1.67
Oak Ridge National Laboratory	Green Power	Utility	Mix	675	$18,000	$26.67
Pacific Northwest National Laboratory	RECs	DLA Energy	Biomass	48,750	$50,700	$1.04
	RECs	DLA Energy	Biomass	2,500	$2,725	$1.09
	RECs	DLA Energy	Biomass	3,750	$4,088	$1.09
	Green Power	Utility	Wind	2,736	$28,727	$10.50
			Sample Totals	**228,947**	**$665,071**	

[1] Costs reported for Hanford, PNNL and NETL are the premiums paid for green power purchases. These costs were not adjusted for conservation rate credits received from the provider utility that were applied toward those purchases. As of September 2011, these credits are no longer available.

Through discussions with site personnel, we found the disparity in costs was often a result of the lack of awareness about available purchasing options rather than a detailed cost analysis of options that identified the best value. The Department's Federal Energy Management Program

has made guidance available to sites, including the *Guide to Purchasing Green Power* and the *Renewable Energy Requirement Guidance for EPAct 2005 and Executive Order 13423*; however, sites have not always used this guidance effectively in identifying alternatives for purchasing renewable energy. Additionally, while these documents identify the various procurement sources of renewable energy, no direction is contained therein on how to evaluate the different options to ensure that sites procure the best value.

The Department's renewable energy purchases may significantly impact the overall renewable energy market and the environment. By cost-effectively purchasing domestically produced renewable energy, the Department contributes to the Nation's energy security, furthers national goals of reducing greenhouse gas emissions and promotes growth in the renewable energy market.

Renewable Energy Data

During our review of 10 site's Consolidated Energy Data Reports (CEDR), we noted numerous inconsistencies and errors in the reported renewable energy data. Specifically, we found that four of the sites did not have the correct megawatt hours in the CEDR, and four sites did not report a location for purchases. However, these errors in reported megawatt hours did not materially affect the Department's calculation of its percentage of electricity produced from renewable sources. Additionally, we found inconsistencies in the reporting of the cost to purchase RECs and green power that we corrected in our cost analysis. Four sites recorded the cost of purchase, while the other six included the cost of utility power in addition to the cost of renewable energy purchases. For example, one site reported its purchase of RECs at a total of $4.3 million, when it had actually spent only $90,960 on RECs. CEDR, provided to the Sustainability Performance Office for reporting purposes, are a collection of sites' current and proposed sustainability efforts including renewable purchases. We noted that the Department had not provided detailed instructions on data input. Therefore, with 38 Department sites reporting sustainability information, minor errors and different site approaches for data collection and entry could eventually impact the accuracy of Department reports.

RECOMMENDATIONS

Given the importance of clean energy consumption and the Department's leadership role, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy ensure that the Director of the Sustainability Performance Office:

1. Work with the Federal Energy Management Program to resolve issues regarding the implementation of PPAs, including potential legislative changes, if necessary, to make them viable;

2. Develop guidance on the different purchasing options available to the Department sites and the factors for best-value purchases; and,

3. Clarify the guidance for CEDR, including reporting information and cost for purchased renewable energy, to ensure accuracy and consistency.

We appreciated the cooperation of various Department elements that provided information or assistance.

MANAGEMENT REACTION AND AUDITOR COMMENTS

Management concurred with our recommendations and identified actions it has taken or plans to take to address the issues identified. Specifically, management will continue to raise the PPA term limit issue when appropriate, increase efforts to make sites more aware of guidance on purchasing renewable energy, and continue its efforts to improve reporting. Management also stated that it was not clear sites had used guidance ineffectively and noted the decision to purchase green power through a local utility may cost slightly more than to purchase a REC, but provide more value in terms of contributing to local renewable resources. We agree that, in some circumstances, higher cost green power purchases, or location-specific RECs may provide more value to a site. However, based on our discussions with site personnel, we found the disparity in costs was often a result of the lack of awareness of available purchasing options, rather than a best value analysis of options. As it strives to make sites more aware of purchase guidance, we would encourage management to ensure that sites are aware of best value factors to consider, including location, cost, source and reductions in greenhouse gas emissions.

Management's comments and actions are responsive to our recommendations. Management's written comments are included in Attachment 4.

Attachments

cc: Deputy Secretary
Associate Deputy Secretary
Acting Under Secretary of Energy
Acting Under Secretary for Science
Under Secretary for Nuclear Security
Chief of Staff

Attachment 1

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether the Department of Energy (Department) was effectively meeting the renewable energy requirements of the Energy Policy Act of 2005.

SCOPE

The audit was performed from January 2011 through April 2012. We conducted work at Department Headquarters in Washington, DC, and obtained information from Ames Laboratory in Ames, Iowa; Brookhaven National Laboratory in Upton, New York; Hanford Site in Richland, Washington; Kansas City Plant in Kansas City, Missouri; Los Alamos National Laboratory in Los Alamos, New Mexico; National Energy Technology Laboratory in Pittsburgh, Pennsylvania; National Renewable Energy Laboratory in Golden, Colorado; Oak Ridge National Laboratory in Oak Ridge, Tennessee; and, Pacific Northwest National Laboratory in Richland, Washington. The scope of the audit primarily focused on the Department's activities for purchasing renewable energy.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed the Department's renewable energy purchasing strategy;
- Interviewed key personnel at Department Headquarters and each of the sampled sites;
- Analyzed Site Sustainability Plans, Consolidated Energy Data Reports, Renewable Energy Credits and Green Power Purchases; and,
- Reviewed prior reports related to the audit objective.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the Department's implementation of the *GPRA Modernization Act of 2010* and found the Department had not established performance measures related to the renewable energy requirement. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer-processed data to accomplish our audit objective.

We held an exit conference with Department officials on April 17, 2012.

Attachment 2

RELATED REPORTS

Office of Inspector General Reports

- Audit Report on *The Department of Energy's Energy Conservation Efforts* (OAS-L-11-02, February 2011). The audit revealed that the Department of Energy (Department) did not have a sufficient approach to achieve the future 30 percent energy conservation requirement in the Energy Independence and Security Act of 2007. At the time of the review, the Department sites had cumulatively planned enough energy conservation measures to reduce the Department's energy intensity by only 22 percent by Fiscal Year (FY) 2015. It was noted that not all the Department's sites could successfully manage or pursue Energy Savings Performance Contracts to meet the energy conservation requirement and the Department lacked a systematic approach to funding energy conservation measures.

- Audit Report on *The Department of Energy's Opportunity for Energy Savings Through Improved Management of Facility Lighting* (DOE/IG-0835, June 2010). The audit revealed that the Department sites in the review had not always taken advantage of lighting technology opportunities to reduce energy consumption. Specifically, it was noted during the audit that the sites had not always used the most efficient lighting available in the market, fully adopted innovative lighting technologies, and ensured optimal use of automated lighting control systems. In addition, the Department lacked a systematic approach to upgrading lighting systems and an adequately funded energy conservation program to improve lighting efficiency at the sites.

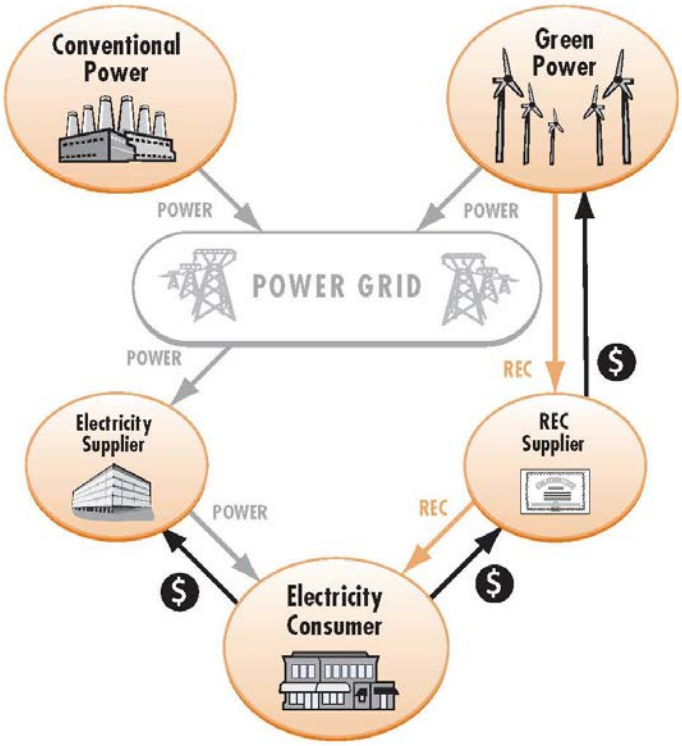
U.S. Government Accountability Office Report

- Report on *Defense Infrastructure: DOD Needs to Take Actions to Address Challenges in Meeting Federal Renewable Energy Goals* (GAO-10-104, December 2009). The Government Accountability Office found that the Department of Defense (DOD) missed meeting the Energy Policy Act of 2005 renewable energy requirement in FY 2008 because the price of renewable energy certificates increased significantly from FY 2007 to FY 2008. In FY 2007, DOD relied on unbundled renewable energy certificates. In FY 2008, the price of the certificates increased causing DOD to purchase fewer certificates. As a result, DOD missed the renewable energy requirement in FY 2008.

Attachment 3

GREEN POWER MARKET

The figure below shows the typical transaction paths in a green power market for green power purchases and renewable energy credits (RECs). This figure does not intend to represent a comprehensive view of all the possible ways to purchase green power and RECs.



(Figure from the *Guide to Purchasing Green Power*)

Attachment 4

MANAGEMENT COMMENTS

Department of Energy
Washington, DC 20585

March 15, 2012

MEMORANDUM FOR: RICKEY R. HASS
DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY
OFFICE OF TECHNOLOGY DEVELOPMENT
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Management response to the Office of Inspector General's Draft Report entitled "The Department of Energy's Renewable Energy Efforts"

The Office of the Inspector General (OIG) makes three recommendations for DOE's oversight of its Renewable Energy efforts. We concur with OIG's recommendations and have the following responses to recommendations made in the draft report:

IG Recommendation 1: Work with the Federal Energy Management Program (FEMP) to resolve issues regarding the implementation of Power Purchase Agreements (PPAs), including potential legislative changes, if necessary, to make them viable.

Response 1: Concur with comments: On-site energy generation offers important possibilities for reducing Scope 2 and 3 Greenhouse Gas (GHG) emissions while contributing toward renewable energy goals. All DOE site plans for new construction or consolidations requiring major renovations require consideration of an on-site energy generation component. As noted in the audit report, current authority limits the ability of a majority of DOE sites from entering into a PPA longer than 10 years. SPO will continue to raise this issue when appropriate.

IG Recommendation 2: Develop guidance on the different purchasing options available to the Department sites and the factors for best-value purchases.

Response 2: Concur with comments: FEMPs "Guide to Purchasing Green Power" and the "Renewable Energy Requirement Guidance for EPAct 2005 and Executive Order 13423" identify the various options available to sites. When providing assistance to sites, the SPO cites these documents when applicable. The SPO will aim to make sites more aware of this guidance by sending it out separately; however, it is not clear that sites are using the guidance ineffectively. Per DOE's line accountability implementation of sustainability goals, the purchase of RECs or green power is at the discretion of the site and its DOE landlord.

FEMP will consider updating general guidance for all agencies on REC purchases to address developments in REC markets, and in using RECs to meet GHG reduction requirements. Once the updated guidance is released, SPO will share with the appropriate DOE program offices and landlords.

As RECs and green power purchases are two different entities, a comparison of the price paid for RECs versus green power may not indicate that sites paid a "premium" for green power. RECs represent the property rights to the environmental, social, and other non-power attributes of renewable electricity generation. RECs can be sold separately from the electrical energy of a renewable power project. However, green power purchases include both the renewable energy attributes and the associated power. In the accounting towards the EPAct 2005 goal, agencies receive equal credit for both these sources of renewable energy. The choice to purchase green power through a local utility may cost slightly more than nationally-sourced RECs, however, it may provide more value to the site to contribute to local renewable resources. Importantly, location-specific RECs or green energy purchases can impact reported GHG emissions.

IG Recommendation 3: Clarify the guidance for the Consolidated Energy Data Report (CEDR), including reporting information and cost for purchased renewable energy, to ensure accuracy and consistency.

Response 3: Concur with comments: SPO assumed responsibilities for the CEDR reporting with the FY 2011 cycle. Each reporting sheet is accompanied by extensive guidance, conference call and webinar reviews, and individual technical assistance as necessary. SPO added standing weekly "CEDR hotline" calls for sites to utilize if questions or issues arose. These calls were held weekly from September through December to assist sites in compiling their CEDR data.

Following site submission of this information, all data is thoroughly reviewed and checked for quality assurance and quality control before being used as input for DOE's annual GHG inventory and Energy Report to Congress. QA/QC includes discussion with individual sites to ensure accuracy. Lessons learned from each reporting cycle are noted and utilized in the development of subsequent reporting guidance.

As a lesson learned, SPO requested sites provide both incremental and total cost for purchased renewable energy in the FY 2011 reporting cycle to account for MWh versus kWh and cost errors experienced in previous reporting cycles.

DOE thanks OIG for its recommendations.

IG Report No. OAS-M-12-04

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