PennFUTURE
Every environmental victory grows the economy.

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November 3, 2011

DELIVERED ELECTRONICALLY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Investigation of Pennsylvania's Retail Electricity Market: Recommended Directives on Upcoming Default Service Plans
Docket No. I-2011-2237952

Dear Secretary Chiavetta:

Enclosed please find PennFuture's Comments in the above-referenced proceeding.

Please do not hesitate to contact me should you have any questions.

Sincerely,

Courtney Lane
Senior Energy Policy Analyst
Citizens for Pennsylvania's Future (PennFuture)
Energy Center for Enterprise and the Environment

Enclosures

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION:

Investigation of Pennsylvania's Retail Electricity Market: Recommended Directives on Upcoming Default Service Plans	:	Docket No. I-2011-2237952

COMMENTS OF

CITIZENS FOR PENNSYLVANIA'S FUTURE (PENNFUTURE)

I Introduction

PennFuture is a statewide public interest membership organization, working to enhance Pennsylvania's environment and economy, with offices in Harrisburg, Philadelphia, Pittsburgh and Wilkes-Barre. We appreciate the opportunity to provide comments on the Investigation of Pennsylvania's Retail Electricity Market: Recommended Directives on Upcoming Default Service Plans, Docket No. I-2011-2237952.

PennFuture appreciates the work of the Commission's Office of Competitive Market Oversight (OCMO) to develop recommendations for how electric distribution companies (EDCs) should develop the format and structure of their upcoming default service plans. PennFuture has been an active participant in the Investigation of Pennsylvania's Retail Electricity Market, participating in all conference calls and submitting comments on June 3, 2011 as part of Phase I of the investigation.

PennFuture believes a thriving competitive retail electricity market can provide a variety of benefits to ratepayers. Electric generation suppliers (EGS) across the state are offering competitive prices on generation, enabling consumers that switch to save money on their electricity bills. Competitive markets also help drive the creation of new and innovative products that can help ratepayers save money and better manage their electricity usage

While PennFuture supports competitive markets, we are concerned with the recommendations put forth in the Tentative Order that discourage long-term contracts for alternative energy credits (AECs) and solar renewable energy credits (SRECs) which are critical to the development of both wind and solar energy projects.

II Comments on Recommended Directives

PennFuture is concerned with the recommendations set forth under Energy Contract Durations on pages 4 and 5 of the Tentative Order and how they will affect compliance with the Alternative Energy Portfolio Standard (AEPS).

Within this section, the Commission recommends that Electric Distribution Companies (EDCs) "file plans that limit the proportion of long term contracts that make up their default service plan energy portfolio" and further recommends that EDCs "consider using already existing long term contracts from previous or presently effective default service plans to satisfy compliance with the long term contract mandate of 66 Pa. C.S. § 2807(e)(3.2)(iii)."[1]

We understand that the Commission would like to limit the use of long-term contracts so that default service rates more closely track the market price offered by energy electric generation suppliers (EGSs). The issue with these recommendations is the fact that § 2807(e)(3.2)(iii) pertains to not just energy but to alternative energy credits (AECs) and solar renewable energy credits (SRECs) purchased for compliance with the AEPS.[2] Alternative energy technologies like wind and solar require access to long-term contracts for these credits in order to obtain financing to build projects.

Like any major energy project, commercial-scale solar and wind are major capital investments and need to recover their costs over a period of 10 years or more. The main source of revenue needed to fund these projects comes from both the sale of power and AECs or SRECs produced. With falling wholesale electricity prices, it is nearly impossible to finance a project on just the sale of power alone. In addition, developers cannot rely on spot market sales of AECs or SRECs. Current over-supply of these credits in the short-term market has lead to spot market prices that are not providing the incremental capital needed to build a new solar or wind project. Due to these market conditions, developers must obtain long-term contracts for the sale of AECs and SRECs to obtain financing and build projects. Recommending that EDCs do not enter into any new

[1] Commission's Tentative Order, October 14, 2011, pp. 5
[2] 66 Pa. C.S. § 2807(e)(3.5)

long-term contracts will discourage the development of new alternative energy projects needed to meet the goals of the AEPS.

While there is ample supply of both AECs and SRECs in the market today, the AEPS will require approximately 2,135 MW of additional Tier I resources and 543 MW of additional solar to be developed over the next 10 years. In addition, there are nine other states in the PJM region that have renewable portfolio standards ramping up which will create more demand and competition for any existing credits in the marketplace. PJM estimates that by 2020 a total of 34,000 MW of wind and 6,000 MW of solar will be needed to meet these requirements.[3] It is critical that EDCs continue to enter into long-term contracts for AECs and SRECs to meet a portion of their AEPS requirements to support the continued development of AEPS technologies. If long-term contracts are not utilized now to incentivize new development, there may be a shortage of AEPS resources in future years that will lead to much higher AEC and SREC prices which will be borne by ratepayers.

If there is a shortage of credits in the market it is unclear whether EDCs and EGSs will be granted force majeure if they have not sought out long-term contracts for AEPS requirements. Act 35 of 2007 requires that before the Commission can grant force majeure, the EDC or EGS must provide a statement that it has made “good faith efforts” that include “seeking to procure alternative energy credits or alternative energy through long-term contracts”.[4] Encouraging EDCs to limit their use of long-term contracts seems to create a contradiction with this statute.

Procuring AEPS requirements through long-term contracts not only helps to incentivize new alternative energy development, it also benefits the ratepayer. Without access to long-term contracts, developers and investors require higher rates of return to compensate for taking on more risk in the current market. As a result, the long-term cost of achieving AEPS targets and the cost borne by the ratepayers would be higher. Subsequently, if long-term contracts are utilized, it reduces risk to solar and wind energy developers, allowing them to borrow money more cheaply or accept lower rates of return if they are self-financing a project. In the long-run, this will result in lower long-term AEC and SAEC prices which will benefit ratepayers.

The Commission previously encouraged long-term contracts by issuing a Policy Statement in Support of Pennsylvania Solar Projects “to provide longer term revenue stability likely needed to support both small scale and large scale solar development” and allow for the long-term

[3] PJM Renewable Integration Study: Coordination Plan Presentation, January 24, 2011
[4] 52 Pa. Code § 75.1

procurement of SRECs from 5 to 20 years in length.[5] Given the fact it is the default service provider's obligation to provide service at the least cost, and the least cost manner to comply with the AEPS is through a portfolio approach that includes entering into to long-term contracts, the Commission should continue to encourage their use as a means to mitigate risk to the ratepayer.

PennFuture urges the Commission to clarify the relationship between the Tentative Order and the recommendations put forth in the Policy Statement in Support of Pennsylvania Solar Projects and the long-term contract provisions of the force majeure clause in Act 35.

By passing the AEPS, Pennsylvania made a commitment to incentivize the growth of alternative energy technologies like wind and solar. In order to ensure we meet the goals of the AEPS, and meet them in the most cost-effective way, **PennFuture asks the Commission to clarify in its Final Order that the recommendations set forth in the Energy Contract Durations section of its Tentative Order do not apply to EDC procurement of AECs and SRECs for AEPS compliance.** This clarification is critical to provide consistency with the recommendations put forth in the Policy Statement in Support of Pennsylvania Solar Projects and the force majeure requirements in Act 35.

[5] *Policy Statement in Support of Pennsylvania Solar Projects*, Docket No. M 2009 214026. Public Meeting held September 16, 2010.