

**BEFORE THE PENNSYLVANIA
PUBLIC UTILITY COMMISSION**

Rulemaking Re Electric Distribution
Companies' Obligation to Serve Retail
Customers at the Conclusion of the
Transition Period Pursuant
To 66 Pa.C.S. § 2807(e)(2)

Advance Notice of Final Rulemaking Order

Docket No. L-00040169

Public Meeting held February 8, 2007

Comments of PV Now in
cooperation with the Mid-Atlantic
Solar Energy Industries Association
(MSEIA).

PV Now

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PV Now, in cooperation with Americans for Solar Power ("ASPV") and the Mid-Atlantic Solar Energy Industries Association ("MSEIA") respectfully offer these comments in response to the Advance Notice of Final Rulemaking Order ("ANOFR") issued at a Public Meeting on February 8, 2007.

PV Now and ASPV are national solar industry advocacy groups whose Board membership includes the vast majority of solar industry manufacturers and solar system integrators. MSEIA is a trade association of solar industry professionals working in Pennsylvania, New Jersey and Delaware. PV Now and MSEIA are affiliated with the national Solar Energy Industry Association (SEIA).

We respectfully offer the following comments on the ANOFR:

§54.185 Default service programs and terms of service: In this section, the Commission explains its rationale for requiring for a two – to three-year term for default service procurement. While this may be the most appropriate choice for energy procurement on a commodity market, we respectfully submit that entirely different design factors apply to the procurement of credits for AEPS compliance, especially in the solar requirements, for some of the following reasons:

Short Term Contracts Inherently Increase SREC Prices Ultimately, revenue from renewable energy credits is used to get solar projects to the required financial "hurdle rate" for a residential or commercial customer. When the credits cannot be demonstrated to be subject to a long-term contract with a regulated entity, a financing entity will discount them to zero or near-zero. If default

providers were restricted to purchasing SRECs only in two to three year contracts, the result would be to place the entire hurdle requirements on the limited SRECs produced in just those two years, vastly and unnecessarily inflating their price.

No Pricing Advantage is Gained by Shorter SREC Contracts. SREC prices are generally determined by the capital equipment pricing of a solar project at any point in time. Firstly, the price history of this solar equipment bears no relation to the energy commodity markets that seem to be engendering these concerns on the part of the Commission.

The factors driving towards consideration of shorter contract horizons as a mechanism of mitigating commodity price risk simply do not apply to the very distinct paradigm of building capital-intensive solar projects; no particular short-term window is likely to produce a marked advantage or disadvantage in pricing as compared to a longer term obligation.

Far from the sometimes volatile behavior that could be expected of regionally – or even globally - -traded energy commodities, solar projects follow a technological “learning curve” model of pricing; more than thirty years of an extremely predictable 5 – 8% annual decline in prices based on cumulative sales volume, with occasional “plateaus” due to materials shortages or spikes in demand.

Further, it is critical to keep in mind just how heavily “back loaded” are the AEPS solar requirements. If an entity were to acquire 100% of its year 2010 solar requirements in the form of a long term, fixed price contract, that contract would represent less than one quarter of one percent of its compliance portfolio for compliance year 2020 – 2021. (Assuming continuous 2% growth in overall demand over that period.)

Put simply, the fact that the solar requirement increases exponentially over time means that the demand for SRECs will *naturally* track any movement in the marketplace, obviating the need for the Commission to make the expensive decision to compel or encourage such tracking by decreasing the length of the permissible procurement window.

In the realm of SRECs, this should also reduce the Commissions’ concerns regarding “potential complications related to suppliers having to commit a large amount of their generation portfolio at a single point in time.” – as demand for SRECs is mandated to increase so substantially over time, no truly significant part of the compliance portfolio will ever be out for bid in any one year. Even if all compliance were to be acquired in the form of long term contracts, any one year’s procurement would be a small fraction of the overall portfolio cost to ratepayers.

The Commission also states in this section that it “recognizes that retail customers may benefit from the economies of scale realized by combining the procurements of more than one service territory into a single auction process.”

We concur, and would submit that the anticipated economies of scale to be expected from electricity supply would be much magnified in the specific case of procurement of SRECs for AEPS solar compliance. In early years of the standard, the anticipated SREC demand of any one provider will be so small as to potentially preclude significant inclusion of the largest, most cost-efficient solar projects; furthermore, the pursuit and coordination of multiple simultaneous or near-simultaneous solicitations in what will be initially a very limited market is likely to overtax the resources of all but a few projects and developers, inhibiting the development of a maximally liquid and robust market for SRECs.

In our previous filings in the AEPS proceeding (December 13, 2006 Before the Pennsylvania Public Utility Commission, Implementation of the Alternative Energy Portfolio Standards Act of 2004, Docket Number L-00060180 Proposed Rulemaking Order of July 20, 2006) we detailed a single statewide auction process for SRECs that we feel would minimize these concerns, and maximize the economies of scale here recognized by the Commission.

§ 54.186. Default service procurement and implementation plans : We concur with the Commission’s finding that direct exposure to market forces is the most effective means of ensuring prevailing market prices. In previous AEPS filings cited above, we elucidated a single statewide auction method that we feel would permit competition between multiple competitive offerings of SRECs and proposed projects, while accommodating the need for long-term contracting to minimize ratepayer costs for these capital-intensive projects, and the need to accommodate very small and comparatively unsophisticated credit generators in the form of residential solar projects.

CONCLUSION: As we have detailed in previous filings, (Rulemaking Re Electric Distribution Docket No. L-00040169, Companies’ Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2) Commissioner William Shane’s Motion,) the extremely significant financial discounting that is applied to out year SRECs for projects having only a two to three year SREC contract raises SREC pricing for ratepayers out of all proportion to any savings that would be theoretically realized.

Further, the volatile underpinnings of the commodity energy market are sufficiently distinct from the steady “learning curve” decline of solar technology development that the volatility concerns apparently driving short-term contract windows do not apply. Finally, the ultimate price effect of any long term SREC contracts is inherently limited by the fact that any one year’s requirements are such a small portion of the total requirement in out years.

Accordingly, we urge the Commission to explicitly encourage longer-term bilateral contracting for SRECS as a distinct matter from short-term energy purchasing for default service.

Respectfully Submitted.

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