

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF DELMARVA POWER AND LIGHT)
COMPANY FOR APPROVAL OF THE 2013) PSC DOCKET NO. 12-526
PROGRAM FOR THE PROCUREMENT OF)
SOLAR RENEWABLE ENERGY CREDITS)

**COMMENTS OF ROBERT UNDERWOOD, ENERGY PROGRAM ADMINISTRATOR
FOR THE DNREC DIVISION OF ENERGY & CLIMATE, ON DELMARVA POWER
AND LIGHT'S APPLICATION FOR THE PROCUREMENT OF SOLAR RENEWABLE
ENERGY CREDITS**

Dated: January 4, 2013

The Department of Natural Resources and Environmental Control (DNREC) strongly supports Delmarva Power and Light's Application for the Procurement of Solar Renewable Energy Credits ("2013 Program"), and recommends its prompt approval. In DNREC's view, the 2013 Program, which is based on the work of the Renewable Energy Taskforce, reflects a broad consensus of stakeholders, responds to the policy concerns and questions raised by DNREC and PSC Staff relating to the design and implementation of the Pilot Program for the Procurement of SRECs, and meets the requirements of the Renewable Energy Portfolio Standards Act. Approval of the 2013 Program will create a fairer and more competitive SREC market that will give all systems owners the opportunity to compete for long-term contracts, take advantage of the current oversupply of SRECs to exert downward pressure on compliance costs, and create a template for a stable, competitive market for the next several years.

BACKGROUND AND HISTORY

The Renewable Energy Taskforce ("Taskforce") was established by the Renewable Energy Portfolio Standards Act ("REPSA"). As Energy Program Administrator for the DNREC

Division of Energy & Climate, I serve as acting chair of the Taskforce. REPSA requires retail electric suppliers operating in Delaware to purchase energy from Eligible Energy Resources to meet a portion of their retail load. REPSA also establishes a minimum requirement for the deployment of solar energy capacity in Delaware, starting at 0.20 percent in compliance year 2011-12 and increasing to 3.5 percent by 2025. The Taskforce conducted 12 public meetings in 2012. Records of Taskforce proceedings can be found at <http://www.dnrec.delaware.gov/energy/information/otherinfo/Pages/RenewableEnergyTaskForce.aspx>.

The Taskforce's responsibilities under Title 26 *Del. C.* § 360 (d) (1) of REPSA include balancing a number of policy considerations:

- a. Establishing balanced markets mechanisms for REC and SREC trading;
- b. Establishing REC and SREC aggregation mechanisms and other devices to encourage the deployment of renewable, distributed renewable, and solar energy technologies in Delaware with the least impact on retail electricity suppliers, municipal electric companies and rural electric cooperatives;
- c. After an analysis by the Taskforce, the annual progress towards achieving the minimum cumulative percentages for all renewable energy resources including, but not limited to, solar and other eligible energy resources and making appropriate recommendations based upon deliberate and factual analysis and study;
- d. Minimizing the cost for complying with any portion of this subchapter based upon deliberate and factual analysis and study;
- e. Establishing revenue certainty for appropriate investment in renewable energy technologies, including, but not limited to, consideration of long-term contracts and auction mechanisms;
- f. Establishing mechanisms to maximize in-state renewable energy generation and local manufacturing; and
- g. Ensuring that residential, commercial, and utility scale photovoltaic and solar thermal systems of various sizes are financially viable and cost-effective investments in Delaware.

In 2011, the Taskforce proposed the Pilot Program for the Procurement of Solar Renewable Energy Credits (“Pilot Program”), which was considered and approved by the Commission in PSC Docket No. 11-339. Delmarva Power and Light (DPL) conducted the Pilot Program auction in April of 2012.

The Taskforce reconvened after the auction to design a new procurement plan using the lessons learned from the Pilot Program and considering policy questions raised by DNREC, PSC Staff and other stakeholders. The 2013 Program proposed in this docket, which is the result of these deliberations, was approved by the Taskforce unanimously at its meeting of August 29, 2012. (It should be noted that the Public Service Commission abstained from voting on the 2013 Program.)

THE 2013 PROCUREMENT PROGRAM

The 2013 Program is based on the Taskforce recommendations for a balanced portfolio approach with three parts:

Part 1: Competitively bid auction for new systems, tiered by size (4,000 SRECs),

Part 2: Competitively bid auction for existing systems, tiered by size (3,000 SRECs), and

Part 3: Spot market purchases (1,000 SRECs).

Part 1: Competitively bid auction for new systems, tiered by size

Eligible new systems are systems with final interconnection approval after the first date of the preceding auction process (April 2, 2012). The auction for new systems will be held in three tiers:

Tier 1: > 0 to 30 kW

Tier 2: > 30 kW to 200 kW

Tier 3: > 200 kW to 2 MW

All tiers will be bid competitively with same single-bid structure. All contracts are for 20 years with the first 7 years at competitively bid price, and the last 13 years at \$50/SREC.

Part 2: Competitively bid auction for existing systems, tiered by size

Eligible existing systems are systems with final interconnection approval before the first date of the preceding auction process (April 2, 2012). The auction for existing systems will be held in two tiers:

- Tier 1: 0 to 30 kW
- Tier 2: > 30 to 2 MW

All tiers will be bid competitively with same single-bid structure. All contracts are for 20 years with the first 7 years at competitively bid price, and the last 13 years at \$50/SREC.

Part 3: Spot market purchases

DPL will procure a portion of its requirement through the spot market, consistent with a portfolio approach of short-term and long-term purchases, in a similar manner to current practices. Spot market purchases will be open to existing and new systems. These spot market purchases will give DPL some needed flexibility in meeting its SREC requirements.

While the 2013 Program is for a single auction, DNREC believes that it can and should provide a template for subsequent auctions, providing predictability and market stability for the next several years. DPL plans to set overall procurement at 8,000 SRECs annually for the next several years, based on anticipated demand, which will fluctuate somewhat from year to year. Because of this projected fluctuation in demand, DPL expects to buy a limited number of SRECs in some years for retirement in the following year, though it is not expected that DPL would bank SRECs for more than one year at a time. Given the current oversupply of SRECs, DNREC believes that this limited banking from one year to the next will be in the ratepayers' interest by, in effect, providing a hedge against future price volatility in the SREC market.

POLICY QUESTIONS AND PROGRAM CHANGES

As a result of the Taskforce's deliberations, the 2013 Program differs significantly from the Pilot Program on several important policy points. First, and most notably, all prices will be competitively set, eliminating the administrative pricing used for smaller tiers in the Pilot Program. Second, the tier structure is simplified to encourage competition while ensuring that a minimum number of SRECs be allocated to smaller projects. Third, existing systems, which were either not eligible for or unsuccessful in the Pilot Program, are allocated 3,000 SRECs per year in the new plan.

These changes to the procurement structure are in response to policy priorities and concerns raised by DNREC, PSC Staff and other stakeholders as part of the consideration, review and analysis of the Pilot Program. DNREC's policy questions were summarized in comments filed in Docket 11-399 by Carolyn Snyder, Ph.D., then Director of the Division of Energy & Climate and Taskforce chair. These comments raised several important policy questions for future SREC procurement programs, including minimizing impact to ratepayers, supporting in-state economic development, treatment of existing systems, review of the relative benefits and weaknesses of administratively-set pricing and competitively-set pricing, and updating the pricing and tier structure. (Comments of Carolyn Snyder, Ph.D., <http://dep.sc.delaware.gov/electric/11399%20Comments%20of%20DNREC.pdf>, pages 7-8.)

In addition to considering the points noted above, the PSC Staff Report, produced by New Energy Opportunities and LaCapra Associates, offered several policy questions for evaluating the Pilot Program and designing future procurement programs, including the extent to which Delmarva should enter into long-term SREC purchase contracts relative to purchases of SRECs on the spot market, the impact of Bloom Energy, and allocating SREC quantities among

tiers and setting prices. (PSC Staff Report,

<http://dep.sc.delaware.gov/electric/11399%20PSC%20Staff%20Report%20SREC.pdf>, page 35.)

PSC Staff also commissioned an analysis, "Evaluation of the Delaware SREC Pilot" ("Evaluation"), which was conducted by Meister Consultants Group and reviewed by the Taskforce. The Evaluation considered several policy questions related to the SREC procurement process, including the comparison of competitive bidding and administratively set prices, minimizing ratepayer costs, the utility of short-term versus long-term contracts, and maximizing the use of in-state labor and materials. (Evaluation of the Delaware SREC Pilot,

<http://dep.sc.delaware.gov/electric/11399%20SREC%20Pilot%20Final%20Rpt.pdf>, pages 62-73.)

DNREC believes that the program presented in this docket represents a positive and forward looking response to the policy questions raised by the DNREC, the PSC Staff and other stakeholders. The 2013 Program is designed to minimize ratepayer impact by creating a fully competitive auction, reducing the number of tiers, allowing smaller projects to compete by price in larger tiers, and by reserving a portion of the auction for the large current oversupply of SRECs from existing systems.

DNREC sees reserving a portion of the auction for SRECs from existing systems as a matter of equity for system owners that were either excluded or unsuccessful in the Pilot Program, as well as a useful measure for hedging future volatility in REPSA compliance costs. If, as DNREC anticipates, the 2013 Program provides a template for future auctions, this feature will over several years give all owners of existing systems the opportunity to compete for long-term SREC contracts. Including these systems (estimated to be 18,500 SRECs) will create downward pressure on auction prices for the next several years.

SUMMARY AND CONCLUSION

The 2013 Program, which is based on the work of the Renewable Energy Taskforce, reflects a broad consensus of stakeholders, responds to policy concerns and questions raised by DNREC and PSC Staff following the implementation of the Pilot Program, and meets the requirements of the Renewable Energy Portfolio Standards Act. Approval of the 2013 Program will create a fairer and more competitive SREC market that will give new and existing systems owners the opportunity to compete for long term contracts, take advantage of the current oversupply of SRECs to exert downward pressure on compliance costs, and create a template for a stable, competitive market for the next several years.

DNREC strongly supports the 2013 Program, and recommends its prompt approval. DNREC looks forward to working with the members of the Taskforce to monitor and evaluate the 2013 Program and continue to work together to build a strong, cost effective, and sustainable solar energy industry in Delaware.

Respectfully submitted,

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