TEC- *RI*

THE ENERGY COUNCIL
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Pawtucket, RI 02861

Luly Massaro
Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

VIA ELECTRONIC MAIL AND REGULAR MAIL

October 26, 2011

Re: Docket # 4288 RI OER Recommendation Regarding Classes and Ceiling Prices for 2011 submitted pursuant to "The Distributed Generation Standard Contracts Act"

Dear Ms. Massaro:

I am writing on behalf of TEC-RI to provide our comments regarding the above filing by the OER. I respectfully request that these comments be made part of the record of that docket.

The DG-SCA was passed in 2011 to put a process in place that will result in the development and installation of 40 MW of cost effective small scale renewable energy by 2014. The result of this process, based on the OER filing, is a program that is cost effective for developers and owners of solar renewable energy projects but not cost effective for rate payers when compared to standard offer service.

An analysis by TEC-RI concludes that the 28 MW of solar (30.3 cents/kWh average) proposed by the OER will result in above market costs of $100 million over the 15 year contract period. The proposed ceiling price for solar is nearly the same as the price per kWh approved for the New Shoreham wind project when you take an average of the per kWh cost over 15 years.[1] Development of 12 MW of wind (13.3

[1] New Shoreham wind averages 31.39 cents per kWh over the first 15 years. The proposed solar ceiling price averages 30.36 cents.

cents/kWh) will be $12.7 million above market over 15 years. (The 15 years is the term of the contracts as required under the state law. The MW allocation is the recommendation of the OER in its filing.)

The OER maintains in its filing that the State's renewable energy policy is separate from its energy policy and therefore renewable energy prices are not to be compared to non-renewable energy prices in order to evaluate cost effectiveness. The OER refers to this as an "apples and oranges" situation on page 32 of its filing. TEC-RI interprets this differently. Paragraph 39-26.2-5(a) (4) of the DG-SCA lists cost effectiveness as a criteria in setting ceiling prices but does not define it. TEC-RI points out that paragraph 39-26.2-4(c) allows for the consideration of price impacts on customers and provides for the delaying of goals in order to help accomplish this. TEC-RI concedes that the goals of the act have to be met but that they can be met by the least cost renewable alternative and also that the goals for higher cost alternatives can be delayed in order to achieve cost effectiveness.

When costs are compared among the renewable energy classes proposed, clearly wind is much more cost effective than solar. It is therefore TEC-RI's recommendation that the wind targets are maximized and the solar targets are minimized and/or delayed under the current ceiling price proposals. What ratepayer would rather pay 30.3 cents a kWh than 13.3 cents? The OER filing mentions that solar panel costs are declining which should be reflected in future ceiling prices. If the State were to provide solar PV tax credits in the future this would also help decrease the solar ceiling price.

Legislative Background

The OER filing does a good job of reviewing the history of renewable energy legislation in the State with one exception. What it does not point out is that renewable energy legislation initially anticipated that renewable energy would help obtain price stability. Energy price stabilization is mentioned under the "purposes" sections of both the RES (39-26-3) and Long-Term Standard for Renewable Energy (39-26.1-1). In addition, this concept of energy price stabilization is further emphasized in 'Legislative findings" under the RES (39-26-1) which finds that: "Increased use of renewable energy may have the potential to lower and stabilize future energy costs". Under the Long-Term Contracting Standard (L-TCS), 39-26.1-5 (f) anticipates savings resulting from Long-Term contracts when it instructs that, "The reconciliation shall be designed so that customers are credited with any net savings resulting from the long-term contracts".

The purpose of using renewables to achieve energy price stability was a founding principal of the State's renewable energy legislation. This principal is beginning to be compromised, to the detriment of ratepayers, by the concept of "commercially reasonable "pricing and now in its current filing, the OER interpretation of the meaning of cost effectiveness. This poses a dilemma for regulators who are charged with protecting ratepayer's interests. Section 39-1-1 which gives the PUC its powers declares under paragraph (d)(1),"That lower retail electricity rates would promote the state's economy and the health and general welfare of the citizens of Rhode Island". Paragraphs e (3) and e (4) also make declarations about procurement of least cost energy supplies.

TEC-RI believes that comparative and competitive pricing should be a primary consideration in making decisions about renewable energy, or any source of energy, in order to further the objectives of Section 39-1-1(d)(1) quoted above.

Energy/Economic Background

Energy circumstances have changed dramatically in New England over the last ten years and even over the last three years since the L-TCS was first introduced and passed in 2009. These circumstances are:

1. New England's electricity generation mix has changed dramatically for the better. In 2000, 22% of our electricity was provided by oil burning plants. In 2010 that is down to 0.4%. In 2000, 17% of our electricity was generated by coal. In 2010 that is down to 11%. Our oil and coal fired production has been replaced by domestically produced natural gas. In 2000, 14.7% of our electricity production was from natural gas fired plants. In 2010 it is 45.6%. (source: ISO-NE)
2. Natural gas is a cheap and plentiful domestically produced resource which has driven standard offer prices down from 12.4 cents in July 2008 to 6.9 cents in Sept. 2011 for residential customers. (Source: RI PUC website).
3. Electricity cost projections have been revised downward due primarily to the availability of inexpensive domestic natural gas. The 2011 avoided cost study (source: "Avoided Energy Supply Costs in New England: 2011 Report" page 1-4) by Synapse Energy Economics indicates that electricity energy costs have decreased by 17% compared to its 2009 study.
4. The US Energy Information Administration reports that we have 100 years of potential domestic gas resources based on 2010 consumption levels including extensive resources in the eastern United States. (Source: www.eia.gov/energy_in_brief/about_shale_gas.cfm)
5. RI has a 10.6% unemployment rate, one of the highest in the country, and lost 6300 jobs in July 2011 according to the State Dept. of Labor (source: Providence Journal, September 16, 2011, page 1). It is not a good time to increase the cost of doing business in RI or the costs of electricity to rate payers struggling to survive in this economy.

The consequence of these developments is that state energy policy developed in the past ten years depended on a totally different set of assumptions and projections than we find in existence today. We have achieved some important goals: we have achieved price stability, we have virtually eliminated our dependence on foreign oil for electricity generation and we have reduced our carbon emissions. We are second only to the Pacific Coast Region in having the lowest emissions from electric power plants. This is good news for energy policy and rate payers but bad news for some forms of renewable energy which depended on electricity price escalation to make them an economically viable option. In view of this, we recommend that the Commission exercise the flexibility provided in the DG-SCA and delay implementation of the solar contracts until such time as solar is cost effective.

Conclusion and Recommendations

TEC-RI recommends that the Commission take the following actions:

1. Minimize and/or defer the solar portion of the OER proposal and maximize the wind portion.
2. Require the OER to provide an analysis of how the proposed ceiling pricing compares to prices of electricity available through standard offer service projected over the term of the contracts. This information is necessary to inform the public and policy makers and to provide accountability for public policies.
3. Require that the standard contracts include an option for an extension beyond the 15 year original term at below market prices along the lines of the provisions in the Orbit Energy PPA under docket # 4265. Under this PPA, pricing beyond the original term is based on O&M costs plus a reasonable rate of return.
4. Hold a public hearing on the terms of the standard contracts. There has been concern in the renewable industry that the terms are overly onerous and will result in higher prices and difficulty obtaining financing. These issues merit a public airing from parties that cannot afford to participate in the docket as formal Interveners.
5. Set a cap on ceiling prices based on alternative projects and market price considerations. This cap can help guide "The Rhode Island Distributed Generation Standard Contract Board" to be created under 39-26.2-10.

If you wish to contact me I can be reached at (401) 585-5396 or bferguson2010@cox.net.

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Sincerely,

William H. Ferguson

William H. Ferguson, CEM, LEED AP
Executive Director, TEC-***RI***