



## **People's Power and Light Comments on Docket 4404, Renewable Energy Standard Adequacy**

*October 24, 2013*

People's Power and Light is an 11 year-old, Providence-based organization with a mission of making energy more affordable and environmentally sustainable. One of our largest programs is our green power program, which aggregates consumer demand for renewable energy. Specifically, we sign long-term REC contracts (generally 5 to 10 years) with renewable facilities, and retire these RECs on behalf of our members. In fact, our sister organization, Mass Energy, signed the first renewable energy credit (REC) contract in New England, with the Hull 1 wind turbine. Our decade of experience actively trading in the REC markets and following changes in statute have helped us develop a keen sense of how the market functions. People's Power and Light strongly recommends that the Commission not delay the scheduled increase in the Renewable Energy Standard (RES).

### *Good Procurement Policies Ensure Regulated Entities Meet their RES Obligations*

National Grid's testimony demonstrates that its legislatively-mandated long-term contracts will ensure that in most years, Grid will have more than sufficient RECs to meet the RES obligations of its Standard Offer Service (SOS) customers. In those years in which RECs from long-term contracts do not satisfy the entire RES New obligation, Grid's procurement plan is likely to yield sufficient RECs. Furthermore, these long-term contracts will help buffer National Grid customers from both energy and REC price volatility. While SOS customers will be charged a market price for RECs from long-term contracts, in years in which this market price is high, these revenues will be credited to distribution customers. That is to say that to the extent that high spot market REC prices increase RES compliance costs for SOS customers, these same customers will see some relief in their distribution rates because of the long-term contracts.

Currently, National Grid provides approximately 60% of Rhode Island's energy commodity, with the remainder being provided by competitive power suppliers. National Grid's testimony focuses on its plan for complying with the RES for its own SOS customers, but this does not address those customers served by competitive power suppliers. While not mandated to do so, these suppliers have the ability to enter into long-term contracts, either for energy, RECS, or both, with renewable facilities. Signing such contracts would help lower and stabilize the cost of RES compliance for these suppliers. Clearly, National Grid's contracts are an example of this. But other parties, including People's Power and Light and load-serving entities in Massachusetts and Connecticut, have had similar success in procuring reasonably-priced RECs far below the ACP through long-term contracts. Ultimately, good procurement strategies help ensure that individual regulated entities can cost-effectively comply with the RES.

### *The Supply of New RECs will be Adequate*

People's Power and Light believes that prudent procurement policies can help ensure that National Grid and competitive suppliers will find adequate supply to meet their RPS compliance needs. We also expect that there will be adequate supply in the near future, including 2015. This projection is based upon our experience with how REC prices affect available new and discretionary supply and the increasing use of long-term contracting in various states.

While ESAI's modeling is a helpful planning tool, we feel that the methodology used may not adequately account for a dynamic, price-responsive supply. In particular, high REC prices tend to attract resources that are very sensitive to price,



such as discretionary biomass and imports.<sup>1</sup> As a result, People's Power and Light would suggest that ESAI's 2015 "High Supply" case may be a more accurate projection than its "Base Case," which we do not believe adequately accounts for the price signal that results from high REC prices. Over the long term, there is an even greater ability for the market to react to high REC prices with new supply. This makes ESAI's approach, which hinges on fixed assumptions about future available supply and an analysis of projects in ISO-NE's interconnection queue, regardless of REC prices, seem conservative to the point of not being a useful projection. While wind is the most obvious candidate to increase development to meet persistent REC deficits, consider, briefly, solar's remarkable decline in costs. Some experts suggest that trends in solar costs could make it possible for solar to compete with wind by the end of the decade. Given solar's short development timeline, it could become another resource that could react to regional imbalances in the REC market. Already, it appears that the tendency among many analysts is to underestimate the contribution of solar and other distributed resources. For example, ISO-NE is only recently attempting to keep track of distribution-connected solar resources in the pipeline. Simply put, it seems unlikely that New England will experience a persistent REC shortage.

Prudent and deliberate legislation can also help ensure that there is supply adequate to meet demand and help reduce the cost of RPS compliance. Long-term contracting is the best example of a policy that can help accomplish these goals. Both the literature and experience in the market have proven the effectiveness of LTCs in both reducing the costs of renewables and increasing the likelihood of contracted projects achieving commercial operation. Responses to recent long-term contracting RFPs in MA and CT have proven to be hugely successful, with Massachusetts contracting for 565 MW of wind at, on average, less than 8 cents/kWh. Given these successes, high REC prices should motivate lawmakers to expand long-term contracting statutes. Existing long-term contracting statutes in states like MA, CT, and RI will help drive substantial additions to New England renewables fleet over the next few years, and expanding these policies will help ensure that the region's REC markets can stay in balance well into the future.

While, in general, the REC market must be considered in terms of the entire region, there are certain resources that may only be used for meeting RI's RES obligations. Specifically, 80% of the output of the Covanta West Enfield biomass facility was approved as a RI New resource in August, 2013. Given that this facility's application to count as a Class 1 resource in Maine was rejected, these RECs are likely to end up being used for compliance in RI. Historical generation suggests that this resource could yield approximately 140,000 New RECs per year. That means that this single project would produce RECs equivalent almost a *quarter of the entire state's* New REC obligation for 2015, assuming the RES increase is not delayed.<sup>2</sup> This could dramatically increase the supply of RI New RECs.

Because the REC market was created by and is governed by statute and regulatory bodies, it requires trust to operate efficiently. When developers sense instability in the rules that will help set REC prices, it greatly increases the risk premium they build into their pro formas. This, in turn has the effect of reducing the number of projects that come online, which pushes up REC prices and compliance costs. Delaying the RES increase by one year will have a larger effect than just causing RI to take an additional year to reach 14% renewables. The delay will also signal to developers that RI is not committed to its RES, and that further changes, which would have an even larger effect on the market, may follow. This fear could persist beyond 2015, reducing the market's willingness to build facilities that must sell any RECs into the spot market. In a sense, delaying the increase because of a perceived lack of adequate supply will be a self-fulfilling prophecy. As we see it, the costs associated with creating this fear in the market greatly outweigh any potential benefits associated with delaying the RES increase by one year.

---

<sup>1</sup> For reference, biomass makes up approximately one third of New England's total installed renewable capacity. Imports, while highly volatile, also make very large contributions in some years.

<sup>2</sup> Assumes total load of 7,200 GWh (based on ENE projections).