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Hearing on House Bill 1580
Pennsylvania House Consumer Affairs Committee
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Thank you, Chairman Godshall, Chairman Preston, and members of the Committee for the opportunity to testify here today. I am Romy Diaz, Vice President of Governmental and External Affairs at PECO. PECO serves 1.6 million electric customers in Philadelphia, Bucks, Chester, Delaware and Montgomery Counties and 485,000 natural gas distribution customers in the four suburban counties.

In 2009, PECO was the first electric distribution company in Pennsylvania to file a plan with the PA Public Utility Commission for a long-term (10-year) contract to purchase solar alternative energy credits, two years in advance of our obligation under the current Alternative Energy Portfolio Standards (AEPS) law. We are fully compliant with our requirements under AEPS and are committed to meeting our future obligations.

Under the provisions of the AEPS law, PECO is entitled to full recovery of all costs associated with procurement of credits to comply with our requirements. Thus, PECO's sole interest in testifying today is based on our concerns regarding the impact on our customers of the AEPS changes proposed in HB 1580.

To that end, PECO opposes the provisions of HB 1580 for three primary reasons:

1) HB 1580 will significantly increase the cost to consumers of compliance with the Solar AEPS mandate without any environmental benefit

2) HB 1580 will have a negative net economic impact on the Commonwealth, including the potential loss of jobs, and

3) Contrary to the fundamental structure of Pennsylvania's competitive electricity market, HB 1580 will revert to a pre-competitive market design where consumers assumed market risk for generation project development.

It is important to note that when electric distribution companies (EDCs) and competitive suppliers purchase alternative energy credits under any of the tiers, we are not purchasing energy, but rather the environmental attributes of the source of production. Thus, the price of alternative energy credits represents the premium of the cost of producing electricity from these resources over market-based wholesale electric generation prices.

Costs to consumers are limited by alternative compliance payments (ACPs) that are permitted under the law to effectively allow EDCs to make these payments to the Commonwealth in lieu of purchasing credits if credits are not available on the market at reasonable prices.

Tier 1 and Tier 2 are set at $45 per credit, and Solar ACPs are set at "200 percent of market," a somewhat challenging concept that raises issues that I will return to later in my testimony.

Based on our analysis of House Bill 1580, we anticipate the following impacts:

1) Cost to consumers in Pennsylvania from the solar mandate will increase significantly. Price increases for our consumers will be substantial, especially if a Pennsylvania-only geographic requirement is added to the law as proposed in HB 1580. Using solar credit costs in other states in the PJM interconnection that have in-state requirements as a proxy, **we anticipate cost increases for consumers in a 600 to 900 percent** range in Year One with increased costs persisting for as long as the solar mandate is in place.[1]

Using a range of $365 to $510 per credit for the new in-state only requirement, we estimate the cumulative increased cost to consumers of HB 1580 would range from **$200 to $350 million** in the PECO Zone alone through 2021.

If the Commonwealth adopts only the increased credit procurement requirements, and we assume that solar AEC prices do not increase, we anticipate that solar compliance costs to PECO's default service customers would **approximately triple in Year One (2012-2013),** due solely to the ramp up in the requirement.

The cost increases would be reduced in years two and three of the increased mandate, but, nevertheless, would result in an approximately 100 percent increase in Year Two and 40 percent in Year Three. If Solar AEC prices were to increase as a result of the accelerated schedule -- which we understand to be one of the objectives of the legislation -- these numbers would increase even more.

The price increases we anticipate under this proposal -- $200-$350 million in the PECO Zone alone through 2021 -- move in the opposite direction of all our efforts to help our customers save energy and money. Through our Act 129 energy efficiency programs, PECO customers have saved $145 million in energy costs and received $60 million in incentives since March 2010. These programs have assisted our customers through these challenging economic times, and we are seriously concerned with any measure that would raise state-mandated costs on our customers.

2) Given these cost increases on consumers, the net economic impacts on the Commonwealth are likely to be negative. While increased solar mandate levels and the Pennsylvania-only requirement will spur additional activity in solar installation, businesses overall will see their costs increase and the disposable income of residential consumers will be reduced. These hidden costs depress economic activity throughout the Commonwealth, as business and consumer spending is diverted to pay for AEPS credits rather than tangible goods or services.

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[1] See Attachment 1, PECO Analysis of Impacts of Changes to Solar AEC Requirement Schedule

Solar energy provides environmental benefits in terms of reduced air emissions, but other Tier 1 resources that would be displaced by the solar expansion also offer the same characteristics at a far lower cost premium.

Energy costs are one of many factors that businesses consider when making decisions on maintaining, expanding or relocating operations in Pennsylvania. These additional costs would likely hinder efforts to attract energy-intensive investment. On the other hand, additional system demand created through business expansion and attraction benefits everyone, including allowing EDCs to spread the costs of operating our systems across a broader number of customers.

We also should not anticipate that the changes included in HB 1580 will attract substantial new investment in solar manufacturing in the state. Solar manufacturing is a global market, and the changes proposed for the AEPS law are unlikely to impact business location decisions. If the Commonwealth seeks to encourage this type of investment, more traditional business attraction incentives are likely to be far better suited to the goal.

3) Changing the requirements for Solar AEC purchases sends the wrong message to the market and effectively shifts risk of project development from developers to consumers. The primary reason for the low price of solar credits is that investment in new solar installations has outpaced the credit requirements schedule in the AEPS law.

Solar development has benefitted from at least four separate streams of subsidy that have driven this level of investment:

- The 30 percent federal investment tax credit
- Pennsylvania's solar energy grant funding
- Solar AEC credit values, and
- Transmission and distribution charges avoided through net metering

Project developers rushed in to take advantage of these subsidies and built far beyond the mandated levels established in the AEPS law. There have been no changes in policy at the federal or state levels that changed the supply-demand equation, just a simple case of overbuilding by developers.

Changing the solar AEPS mandate levels to help absorb this oversupply creates a precedent that project developers will be able to shift project risk to consumers in response to investment decisions that do not go as hoped. Developers were guaranteed a market under the AEPS law, but they were never assured specific levels of profitability or economic return.

We believe making this type of change is contrary to the structure of Pennsylvania's competitive energy market where one of the fundamental goals has been to shift project development risk from consumers to developers.

For these reasons, we have serious concerns about the proposed changes included in HB 1580.

There are, however, two market-based changes to the AEPS law that do not involve changing procurement requirements or schedules that we believe are important and should be helpful to the solar development community.

First, the Alternative Compliance Payment (ACP) for solar AECs should be changed from "200% of market" to a fixed price that is set based on data derived from long-term Solar AEC purchases and solar production costs in our region. After analyzing these data points, PECO recommends establishing a fixed Solar ACP of $250 for 2012-2013 and declining the cap by $10 per year to reflect anticipated solar development efficiencies.

Under this schedule, at the end of 25 years, consumer subsidies would end, and solar would be expected to compete directly with other generation sources.

We understand that Representative Ross is considering amending HB 1580 to include a $300 per credit fixed cap with a 3 percent per year decline. While we believe that such an amendment is helpful, it does not eliminate the substantial amount of increased cost to consumers created by the in-state mandate (approximately $125 million in cumulative costs by 2021).

Secondly, we believe that compensation from EDCs to on-site generators should be changed from a flat all-in rate to a rate that reflects the real-time value of generation supplied to the grid by solar facilities and other on-site generators.

Compensating on-site generators at the real-time rate for the power they provide back to the grid would provide more favorable prices to generators in a manner consistent with the competitive generation marketplace. The deployment of AMI metering under PA Act 129 will also make it less expensive for EDCs to track production on an hourly basis.

In summary, PECO has serious concerns about the likely impacts of HB 1580 on our consumers, the Commonwealth's economic competitiveness and on Pennsylvania's competitive market structure, and we cannot support this bill. I thank the Committee for the opportunity to testify today and would be pleased to answer any questions you may have.