

**Testimony of Charles V. Fullem  
Director, Rates and Regulatory Affairs (PA), FirstEnergy  
Pennsylvania House Consumer Affairs Committee Hearing on H.B. 1580  
November 17, 2011**

Chairman Godshall, Chairman Preston and members of the House Consumers Affairs Committee.

On behalf of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company (collectively “the Companies”), I appreciate the opportunity to offer the Companies’ perspective on the potential cost of implementing H.B. 1580 to our nearly two million customers in Pennsylvania. I also will discuss our ongoing efforts to encourage the development of solar projects in the Commonwealth through our procurement of solar renewable energy credits.

As proposed, H.B. 1580 would amend Pennsylvania’s Alternative Energy Portfolio Standard Act (“AEPS”) by increasing the number of Solar Renewable Energy Credits, or SRECs, that electric utilities must buy to meet AEPS mandates within their service area for years 2013, 2014 and 2015 by 88 percent over the requirements in current law. The proposed legislation also would require that after January 1, 2012, all newly registered SRECs used to fulfill the AEPS requirements must be purchased only from solar energy producers located in Pennsylvania.

Before I discuss the cost impacts of H.B. 1580 to our customers, I would like to comment on the Companies’ efforts to support solar energy projects in the Commonwealth. The Companies have taken concrete actions to comply with the AEPS requirements that support the goals of the current law. For example, by using requests for proposals (“RFP”) to procure SRECs through long-term contracts, developers are able to secure the financing necessary to build solar projects. In addition, the RFP process encourages solar developers to compete for our business, which helps develop only those projects that can produce SRECs at the lowest cost.

To date, our long-term agreements for SRECs in Pennsylvania have resulted in the construction of more than 9 megawatts of solar capacity – enough electricity to power more than 1,000 homes. And 73 percent of the solar capacity supported by the Companies has been built in Pennsylvania, which helps support economic development and creates jobs in the Commonwealth.

In addition, the Companies plan to issue RFPs between January 2013 and May 2016 to procure ten-year contracts to secure approximately 48,000 SRECs each year. These SRECs are needed to meet the existing mandates of the AEPS Act that increase each year, which is more than triple the amount we are currently buying.

Despite our commitment to the development of solar energy projects in Pennsylvania, we remain concerned about the costs SRECs impose on customers even under the existing requirements. Across the Companies' service territories, customers currently pay approximately \$3.3 million a year for SRECs. Based on the state's existing renewable energy mandates, and assuming a price of \$199 per SREC, the cost to customers could increase to an estimated \$61 million a year by 2021.

Pennsylvania's current renewable energy mandates can be met by using a variety of sources, including wind and solar energy. These sources, however, have higher costs and can be economically uncompetitive compared with conventional fuel sources unless they are supported by federal tax credits and grants, state incentives and direct ratepayer subsidies. In fact, these incentives and subsidies for solar energy cost customers between 20 cents and 30 cents per kilowatt-hour, which is more than twice the average delivered cost our residential customers are paying in Pennsylvania.

In addition, although the price of SRECs in Pennsylvania has fallen from approximately \$300 per megawatt-hour in 2010 to about \$200 per megawatt-hour in 2011, SREC prices remain sharply higher than the average wholesale price of electricity, which is currently about \$45 per megawatt-hour in the PJM market.

H.B. 1580 has the potential to dramatically increase the cost of electricity to our utility customers even above the levels customers will be required to pay under existing law.

First, the bill increases the number of SRECs that our four utilities would be required to buy over the next three years by 132 million kilowatt-hours. At a price of \$199 per SREC, that provision alone would cost customers about \$26.3 million.

Second, the existing AEPS Act currently allows SREC requirements to be met through: 1) in-state resources; 2) by utilizing credits from anywhere within PJM – the regional transmission organization (“RTO”) that manages wholesale power markets in the Mid-Atlantic region; or 3) from alternative energy sources located outside of Pennsylvania but within the service territory of an RTO that manages the transmission system in any part of Pennsylvania for an electric distribution company (“EDC”) or electric generation supplier located within the service territory of the same RTO. However, the proposed legislation appears to grandfather certain existing out-of-state projects registered in Pennsylvania, but over time only projects located in Pennsylvania would be available to meet the increasing mandates under the Act.

In fact, our neighboring states are experiencing higher costs as a result of limiting the procurement of credits to in-state sources. For example, in Ohio, which requires a percentage of its solar mandates to come from in-state sources, recent broker quotes for in-state Ohio SRECs for 2011 were over five times the broker quotes of 2011 SRECs available without the Ohio-only limitation. And in New Jersey, where solar power to meet the state’s renewable portfolio standards must be produced in-state, broker quotes for SRECs for 2012 deliveries were trading at over six times the similar Pennsylvania equivalent SREC for 2012. Prices for 2011 deliveries in New Jersey are currently trading at \$645 per SREC.

Like any tradable commodity, the market for SRECs is driven by the fundamentals of supply and demand. Our Companies already buy 73 percent of our SREC requirement

from Pennsylvania providers, even without a mandate requiring us to do so. By artificially limiting the supply of SRECs to in-state sources, the Companies would expect prices for Pennsylvania SRECs to rise sharply. The provision in H.B. 1580 that requires us to purchase all of our SRECs from in-state sources would likely increase the price of SRECs significantly. Assuming an average price of \$645 per SREC (which, as explained above, is the 2011 price of in-state SRECs in New Jersey), the increased cost to customers resulting from H.B. 1580 would be about \$640 million from June 2012 through May 2021. Therefore, under H.B. 1580 the total cost of solar compliance from June 2012 to May 2021 could be over \$1 billion.

And third, the proposed legislation appears to require that all solar production registered after January 1, 2012 – whether industrial-scale installations or smaller residential projects – shall directly deliver the electricity generated to the EDC's distribution system, rather than to either the transmission or distribution lines as allowed under the current law. This provision could increase costs and adversely impact the development of large-scale solar energy projects in Pennsylvania that rely on access to high-voltage transmission lines to move electricity to customers.

In closing, the Companies recognize the public policy tension that exists between those supportive of the use of solar energy to generate electricity versus customers who may be less willing to pay higher electric bills to cover the increased costs of using solar resources in this difficult economy. At a time when customers are looking for every opportunity to stretch their limited resources, it may not be in the public interest to impose additional regulatory mandates that would lead to higher prices for electricity in the future.

I appreciate the opportunity to share with you the potential impact of H.B. 1580 on the Companies' customers. As always, the Companies remain committed to working with this Committee, the General Assembly and the Public Utility Commission on these important issues.