Testimony on HB 1580
Pennsylvania House Consumer Affairs Committee
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Bob Barkanic
Senior Director-Energy Policy, PPL EnergyPlus

Good morning Chairman Godshall, Chairman Preston and members of the committee. My name is Bob Barkanic, senior director of Energy Policy for PPL EnergyPlus.

My testimony today is presented on behalf of all PPL operating companies doing business in Pennsylvania, which include:

PPL EnergyPlus, a competitive wholesale and retail energy company and subsidiary of PPL Energy Supply/Generation Company;

PPL Electric Utilities, an electric distribution company serving 1.4 million customers in 29 counties in the eastern and central part of the Commonwealth; and

PPL Renewable Energy, which has developed more than 40 megawatts of renewable energy projects, including solar projects in Pennsylvania

The PPL companies appreciate the opportunity to share their views with the committee. We have carefully considered both intended and unintended consequences of the proposed legislation.

In my testimony this morning, I will:

- Describe the concept of renewable energy credits;
- Outline the direct cost impact of House Bill 1580 on consumers; and
- Provide a wider view of how the bill would affect the competitive electricity market,

Renewable energy projects produce primarily two products – or commodities – that can be sold: electricity and renewable energy credits.

Renewable energy credits provide an additional revenue stream – a form of financial incentive – to encourage development of renewable projects. The price of these credits is determined — as with most commodities, products and services — by supply and demand.

Pennsylvania solar renewable energy credit – or SREC – prices have dropped from more than $350 when the market was initially developed, to less than $50, which is the current spot market price.

Why? Simple supply and demand.

The current year requirement for solar energy under AEPS is just over 40 megawatts. To date, more than 100 megawatts of solar energy projects have been built in Pennsylvania and more than 140 megawatts are certified for compliance in the Commonwealth.

The significant over supply of solar energy stems from $100 million in subsidies for solar energy development from Pennsylvania's Sunshine Program – as well as other Federal and State subsidies and tax credits.

The incentives produced the expected results. Incentives and subsidies work. Capital moves toward opportunities where risks are reduced and returns are guaranteed, as they have been with solar energy projects in Pennsylvania.

Lower SREC prices have a direct benefit for consumers, taxpayers and constituents: the people who paid for development of the projects in the first place.

SREC prices today are 83 percent lower than they were in 2009, saving consumers and businesses over $100 million based on an SREC price of $300. Obviously, this number could be much more if the SREC price is higher.

While lower SREC price help consumers, they are not good for solar energy *developers.*

For example, BP has announced that it is shutting down its BP Solar subsidiary after 40 years because the solar energy business has become unprofitable because of over-supply and low prices.

That leads to a question central to today's hearing and House Bill 1580: What to do about solar energy development in Pennsylvania?

House Bill 1580, if enacted, would eliminate the savings that consumers and businesses are enjoying, by increasing the costs of solar renewable energy credits in the Commonwealth. The bill would:

> Increase requirements for solar energy generation under AEPS three-fold, from 0.05 percent to 0.15 percent in 2013.
>
> Limit eligible sources of solar energy under AEPS to those within Pennsylvania only.

For the next three years – the period from June 1, 2012 to May 31, 2015 – the impact on consumers could be in excess of $200 million statewide due to higher SREC prices resulting from the requirements of House Bill 1580. Again, this is based on a $300 SREC price

The legislation has broader impacts for the competitive energy market as well.

First, such changes to the market structure come with the risk of investment moving from developers who are willing to take market risk to developers looking for guaranteed returns. If that occurs, the market will not flourish and the legislature will need to constantly tinker with policy to support the industry's development.

In addition, state policies should avoid picking winners and losers in the energy market.

Policy should not force investment in options that are not economical solutions for consumers. PPL companies would rather see the state establish an administrative framework then allow the market to work.

SREC prices are low today because federal and state government policies have over-stimulated the market, guaranteeing returns at a cost to consumers, taxpayers and constituents.

It is the view of PPL companies that changing the administrative framework of the market, putting more costs back on consumers, does not make sense.

Second, closing state borders is neither sound energy policy nor sound business strategy.

Pennsylvania is an exporter of all types of energy commodities: electricity, natural gas and renewable energy.

Pennsylvania should continue its role as a leader in business and keep its borders open to solar energy generating in the region.

Electricity is, fundamentally, a regional commodity and the goal should be to have it remain that way.

Finally, changing compliance standards under AEPS creates uncertainty in the market, which increases risk and therefore cost to consumers. Alternatively, changing the rules of the road could deter investment altogether.

And, we are being naive if we think House Bill 1580 is a "one-time fix" for declining SREC prices. House Bill 1580 would set the precedent for an expectation of administrative fixes whenever returns are no longer guaranteed or "risk free."

Pennsylvania has seen and will continue to see investment in renewable energy; stay the course and let the market play out.

That is what is best for Pennsylvania consumers.

Thank you for the opportunity to testify.