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April 1, 2013

VIA HAND-DELIVERY:

Ms. Alisa C. Bentley, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

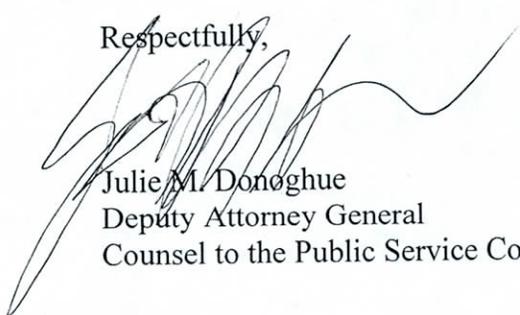
RE: Direct Testimony for Pamela Knotts on behalf of the Commission Staff
PSC Docket No. 13-99

Dear Ms. Bentley:

Attached for filing please find an original and eleven (11) copies of the "Direct Testimony of the Commission Staff by Pamela Knotts" for PSC Docket No. 13-99. In addition, I am attaching a Certificate of Service for these documents as well as a service list updated as of today.

Please time-stamp one of the copies and send it back to me for my records.

Respectfully,


Julie M. Donoghue
Deputy Attorney General
Counsel to the Public Service Commission Staff

Attachments: Staff testimony + 11 copies

Direct Testimony of Pamela Knotts

PSC Docket 13-99

Q. Please state your name, occupation, and business address.

A. My name is Pamela Knotts; I am a Regulatory Policy Administrator for the Delaware Public Service Commission; my business address is 861 Silver Lake Boulevard, Cannon Building, Suite 100, Dover, Delaware, 19904

Q. What are some of your duties and responsibilities as a Regulatory Policy Administrator?

A. I have acted as a case manager or supervised the review of various Commission dockets including this docket. I have reviewed applications, written or revised regulations, helped formulate policy decisions, testified, and made written recommendations to the Commission.

Q. What is the purpose of your testimony?

A. I am providing testimony on Delmarva's application for Commission approval to enter into a SREC Transfer Agreement or contract, under which Delmarva Power will purchase up to a maximum of 2,240 SRECs generated by two (2) solar photovoltaic project sites owned by Washington Gas Energy Services, Inc. (WGES) in Delaware.

Q. Can you give some background on the legislative requirements?

A. Prior to July 2011, the Renewable Energy Portfolio Standards Act (REPSA) required all retail electric suppliers, like Delmarva and WGES, to purchase energy from Eligible Energy Resources to meet a portion of their annual retail load. The minimum percentage of retail energy sales to end-users that must come from Eligible Energy Resources increases over time, reaching a requirement of 25% in 2025. (26 Del. C. §354(a)).

However, with the passage of Senate Bill 124 with Senate Amendment No. 1, in July of 2011, the commission-regulated electric companies, namely Delmarva Power & Light are responsible for procuring all RECs and SRECs necessary for compliance, with respect to all energy delivered to Delmarva's

distribution customers, beginning with compliance year 2012 (June, 2012-May, 2013) (26 Del. C. §§351-364).

Following this 2011 amendment, the Commission revised its regulations. The regulations stated that retail electric suppliers like WGES who had entered into contracts to purchase or produce RECs/SRECs specifically for Delaware RPS compliance may offer to sell those RECs/SRECs to Delmarva. (26 Del. Admin. C. §3008-3.2.3.4)

Q. Was WGES responsible for RPS compliance prior to July 2011?

A. Yes, they were. WGES applied for certification as an Eligible Energy Resource for their Perdue facility in November 2011 and for their Wilmington Friends School site in January 2012. They used the SRECs generated from the Perdue facility to help meet their RPS compliance for the 2011 Compliance Year (June 2011 - May 31, 2012).

Q. How many SRECs will be purchased under the proposed Transfer Agreement?

A. Under the Transfer Agreement, Delmarva is only obligated to purchase SRECs needed to satisfy the solar RPS requirements for WGES's retail electricity load in Delmarva's service territory, and in no event, would they purchase more than 2,440 SRECs per year.

WGES's solar systems currently generate 2,440 SRECs per year, which is less than the number of SRECs that are required to meet the solar RPS requirement for WGES's current retail electricity load.

Q. Is it possible to bank SRECs? What does it mean to bank SRECs?

A. Yes, it is possible to bank SRECs. SRECs are good for three years from the date of generation unless the Sustainable Energy Utility holds them and then there is no expiration date, so the company could not bank the respective SREC for more than 3 years. To bank a SREC means to hold them until they are needed much like a savings account.

Q. Based on your review do you have an opinion whether this contract will cause Delmarva to bank SRECs?

A. Yes.

Q. What data have you reviewed to make this assessment?

A. I have reviewed the data from the 2012 IRP, the data from the SEU concerning the 2012 Pilot Program contract fulfillments, and Delmarva's information concerning transitional retail contracts and the 2012 Pilot Program contract fulfillments.

Q. What is your opinion concerning whether the number of SRECs purchased from this contract will cause Delmarva to bank SRECs?

A. According to my calculations, for the compliance year 2013 assuming:

- 1) The Dover Sun Park contributes 14,126 SRECs
- 2) The Pilot Program produces 75% of the total amount of the auction for the 2013 compliance year or approximately 8600 SRECs
- 3) WGES contributes the 2440 SRECs minus the 750 SRECs for their transitional retail contracts and
- 4) The 2013 auction contributes 70% of the 7000 SRECs or 5000;

For the compliance year 2013 Delmarva would bank approximately 850 SRECs and by compliance year 2014 they would not need to bank any additional SRECs. By compliance year 2015 they would use the banked SRECs and purchase additional SRECs.

Q. Would the SRECs be banked for two years?

A. In my opinion the respective SRECs would only be banked for one year. The company would use the oldest SRECs first.

Q. When do the terms of the Transfer Agreement begin?

A. The terms begin June 1, 2013 which is the start of the 2013 RPS Compliance year

Q. Please explain how the prices that Delmarva will pay for WGES's SRECs were derived.

A. The prices in the proposed Transfer Agreement are based on the weighted average prices of the winning bids in the 2012 SREC Pilot Program.

Under the Pilot Program, WGES's Wilmington Friends School project qualifies as a Tier 2B facility. The highest winning bid in Tier 2B was \$139.48 per SREC, and the lowest winning bid was \$120.00 per SREC. The weighted average of those winning bids is \$131.13 per SREC.

Under the Pilot Program, WGES's Perdue, Inc. Bridgeville project qualifies as a Tier 3 facility. The highest winning bid in Tier 3 was \$175.57 per SREC, and the lowest winning bid was \$148.00 per SREC. The weighted average of those winning bids is \$154.35.

The proposed Transfer Agreement has a term of 20 years, which is the standard term used for Transfer Agreements for the SREC Pilot Program. In the first 10 years of the Agreement, Delmarva will pay WGES the weighted average prices per SREC, in the last 10 years, WGES will receive \$50 per SREC. This contract structure is also consistent with the Pilot Program.

Q. What is the approximate total annual cost for this contract?

A. Assuming the maximum amount of SRECs per year of 2,440; 298 SRECs will come from the Wilmington Friends School at a cost of \$131.13 per SREC and 2,142 will come from the Perdue facility at a cost of \$154.35 per SREC the total cost per year for the first 10 years is approximately \$369,694.

Q. What portion of the total solar RPS compliance cost does this represent?

A. Five percent of the costs and 6% of the total number of SRECs.

Q. How did you reach this conclusion?

A. According to my calculations Delmarva's solar compliance cost for the 2013 compliance year is estimated at approximately \$5.0 million not including Bloom costs, but including the 2013 auction at 70% of the total amount or 5000 SRECs at a weighted

average price of \$100.00 per SREC and the WGES contract minus the 750 SRECs used for WGES's transitional retail contracts.

Q. Are these prices just and reasonable?

A. Yes. The prices are based on the competitively bid prices reflected in the 2012 SREC Pilot Program auction, which is representative of the market price. The highest winning bid in Tier 2B was \$139.48 and as stated the price for the contract with WGES is \$131.13. The highest winning bid for Tier 3 was \$175.57 and as stated the price for the contract with WGES is \$154.35. The 2013 SREC Program auction ends April 5 but the prices may not be available for several weeks.

Q. What is the spot market price?

A. According to PJM-EIS GATS, and ICAP the prices currently range between \$10.00 - \$35.00 per SREC. The ICF model used in the IRP used \$42.00 per SREC for the compliance year 2012.

Q. Is there a forecast of SREC prices?

A. According to the ICF model used in the IRP, 2013 market price forecast is \$120.00 per SREC and for the next several years after that the price hovers around \$100.00 per SREC and in 2018 it reaches \$156.00 per SREC and continues to increase.

Q. Is this contract in the public interest?

A. The General Assembly stated that the benefits of electricity from renewable energy resources accrue to the public at large and that electric suppliers and consumers share an obligation to develop a minimum level of these resources. These benefits include improved regional and local air quality, improved public health, increased electric supply diversity, increased protection against price volatility and supply disruption, improved transmission and distribution performance, and new economic development opportunities. The General Assembly also declared that the purpose and intent in enacting the Renewable Energy Portfolio Standards Act was to establish a market for electricity from these renewable resources in Delaware.... In compliance with then current law, WGES constructed their renewable facilities in Delaware. These facilities were sized so that the output would match part of their solar requirements in

the near-term. While the immediate difference with market prices for SRECs may indicate a greater price in the short term, taking into account the long term projected prices, the proposed agreement presently before the Commission is consistent with the public policy purposes of the Act. The purchase of WGES's retail load SRECs at 2012 competitive prices, with the cap of 2,440 SRECs, is reasonable, just and in the public interest.

Q. Does this conclude your testimony?

A. Yes.