

12-526

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

RECEIVED

2012 NOV 20 PM 4 28

IN THE MATTER OF THE APPLICATION)
OF DELMARVA POWER AND LIGHT) PSC DOCKET NO. DELAWARE P.S.C.
COMPANY FOR APPROVAL OF THE 2013)
PROGRAM FOR THE PROCUREMENT OF)
SOLAR RENEWABLE ENERGY CREDITS)

**DELMARVA POWER AND LIGHT COMPANY'S REPORT IN
SUPPORT OF ITS APPLICATION FOR APPROVAL OF THE 2013
PROGRAM FOR THE PROCUREMENT OF SOLAR
RENEWABLE ENERGY CREDITS**

Pamela J. Scott
Assistant General Counsel
Delmarva Power & Light Company
500 North Wakefield Drive
Newark, DE 19702
(302) 429-3143
(302) 429-3801 (fax)
PJScott@pepcoholdings.com

Kelly E. Farnan
Todd A. Coomes
Richards Layton & Finger, P.A.
One Rodney Square
920 North King Street
Wilmington, DE 19801
Farnan@rlf.com
Coomes@rlf.com
(302) 651-7700
(302) 498-7705 (fax)
Attorneys for Delmarva Power & Light Company

Dated: November 20, 2012

1. Delmarva Power & Light Company ("Delmarva Power" or "Delmarva") has concurrently herewith filed its Application for the Approval of the 2013 Program for the Procurement of Solar Renewable Energy Credits (the "Application").

2. As indicated in the Application, the 2013 Program for the Procurement of Solar Renewable Energy Credits (the "2013 Program") was developed by the Renewable Energy Taskforce (the "Taskforce"). The 2013 Program is based upon the Pilot Program for the Procurement of Solar Renewable Energy Credits (the "Pilot Program") as approved by Order No. 8093 of the Public Service Commission (the "Commission").

3. The Application provided background on the 2013 Program and highlighted the key terms of the 2013 Program. While the Application fairly lays out the 2013 Program and its purpose, the Commission may also wish to consider the following information in connection with the Application: (i) the key inputs to the 2013 Program; (ii) ways in which the 2013 Program differs from the Pilot Program; (iii) rationale for the separate tiers; (iv) rationale for allowing competitive bidding in all tiers; (v) rationale for continuing the SEU's involvement in the 2013 Program; and (vi) rationale for seeking expedited treatment. While the 2013 Program was developed with the full participation of the Taskforce, Delmarva Power submits this report and anticipates that other members of the Taskforce will join in certain of Delmarva Power's positions as appropriate. To the extent necessary, either a representative from Delmarva Power or the Taskforce will be available to testify to any of the issues discussed in this report.

4. Accordingly, in advance of the evidentiary hearing to be scheduled on the Application, Delmarva Power respectfully submits the following additional information to be considered by the Commission in connection with the Application:

A. Key Inputs to the 2013 Program

As required by Commission Order No. 8093, Commission Staff engaged a consultant to review the results of the Pilot Program. Staff selected Meister Consultants Group, which prepared an Evaluation of the Delaware SREC Pilot Program dated August 3, 2012 (the "Meister Report"). The analysis and conclusions contained in the Meister Report was considered by the Taskforce in developing the 2013 Program. In particular, the Meister Report identified four (4) specific options the Taskforce might consider in developing the 2013 Program: (1) Reducing the total number of solicitation tiers; (2) Exploring the use of an auction-based solicitation for the Pilot Program Tier 2A; (3) Setting administratively-set process as a function of the competitive solicitation tiers; and (4) Developing a solicitation specifically for existing systems that are unable to access the SREC market. (Meister Report p. 6). As discussed below, each of these suggestions was implemented in whole or in part in the 2013 Program.

In addition, the Taskforce has continued to meet on a monthly basis to consider issues related to the SREC Auction process and to discuss ideas for the 2013 Program. Each of those meetings was open to the public and the Taskforce had the opportunity to consider a wide variety of viewpoints from within the Taskforce and otherwise.

B. Comparison to Pilot Program

In many respects, the Pilot Program and the 2013 Program are largely similar. The primary changes are: (i) requiring auctions by tier for new systems and existing systems separately; (ii) requiring competitive bidding in all tiers; and (iii) giving Delmarva Power the ability to make spot purchases. Each of these changes is discussed below.

The Taskforce will continue to use long-term (20 year) contracts with all Owners who submit a successful bid in the auction. The key terms of those long-term contracts (attached as Appendix B to the 2013 Program) have not changed. The primary change is that the SREC price for the first 7 years of the contract will be the auction price and then will be a set at \$50 per SREC for the remaining 13 years of the contract.

It is the view of the Taskforce that keeping many of the terms of the auction and the long-term contracts the same allows the ability to better study the market from year to year and also decreases public confusion over the process and the programs. Furthermore, given that 84% of all capacity entering the Pilot Program solicitation claimed the Delaware workforce bonus, and 68% of all capacity entering the Pilot Program solicitation claimed the Delaware manufactured equipment bonus, it was important to maintain those aspects of the Pilot Program as part of the 2013 Program. (Meister Report p. 72). Accordingly, the goal of the Taskforce was to identify ways in which the Pilot Program could be improved without creating an entirely new process and procedure.

C. Rationale for Separate Tiers in the 2013 Program

A tiered system was selected in the Pilot Program as the method of meeting the Renewable Energy Portfolio Standards Act ("REPSA") requirement of "[e]nsuring that residential, commercial, and utility scale photovoltaic systems of various sizes are financially viable and cost effective investments in Delaware." The Taskforce concluded that a tiered system, with certain modifications, should continue to be used. As the Meister Report noted, the competing goals of REPSA (i.e. to both facilitate a broad market for SRECs and minimize customer bill impact) require a balanced approach. (Meister Report at p. 20). The Meister Report confirmed that, as expected, each tier was oversubscribed in the Pilot Program. This

confirms that there was healthy participation in each tier and that a tiered approach ensures a good balance across system sizes. While noting the healthy participation, the Meister Report did recommend that the Taskforce consider reducing the total number of solicitation tiers. (Meister Report p. 6). While the 2013 Program has a total of 5 Tiers, it has only 3 Tiers in the solicitations for New Systems, which is a group comparable to the group in the Pilot Program.

As with the Pilot Program, the 2013 Program again requires a balance of different system sizes. The balanced approach allows a diverse solar market to develop in Delaware while providing some level of cost protection to the ratepayers.

For the 2013 Program, the Tiers are further broken down for New Systems and Existing Systems, with separate auctions for each. This, too, furthers the goal of a balanced solar market in Delaware. Allowing separate bidding for New Systems encourages the continued expansion of solar installations in Delaware. In addition, the 2013 Program continues to provide credits for systems that are built with parts made in Delaware or by using a Delaware-based workforce.

Finally, in addition to the bidding tiers, the 2013 Program allows for Delmarva Power to purchase a small percentage of its required SREC through spot market purchases. This furthers the goal suggested by the Meister Report of developing a solicitation for existing systems that are unable to access the SREC market (Meister Report p. 6) as purchases on the spot market allow Delmarva Power to purchase SRECs from any available source. The purchase of SRECs on the spot market provides a balance to the long-term contracts to be awarded through the auction process. It will help mitigate some of the risk associated with potential volatility in SREC price from year to year, and allows Delmarva Power to take advantage of short-term fluctuations in SREC pricing.

D. Rationale for Competitive Bidding in All Tiers in the 2013 Program

For the Pilot Program, smaller tiers had administratively set pricing for the first 10 years of their long-term contracts primarily to encourage the development of a market for SRECs in Delaware and to provide certainty that Owners would be able to finance the installation costs for smaller projects. In approving the Pilot Program, Staff and the Commission were focused on whether or not administratively set pricing made sense and, in its Order, the Commission specifically directed the Taskforce to consider this issue for the 2013 Program. The Meister Report confirmed that the Pilot Program's use of administratively set pricing produced SREC price results similar to other programs in the Northeast. (Meister Report p. 39). However, it was also noted that the pricing for at least one tier may have been higher than necessary to stimulate market growth. (Meister Report p. 37).¹ Finally, the Meister Report also suggests that competitive bidding be considered for Tier 2A (or equivalent) of the Pilot Program. (Meister Report p. 6).

For 2013, the Taskforce has decided that all tiers (including both new and existing systems) will be competitively bid. This provides significant price protection to ratepayers. The Taskforce believes that the continued existence of long-term contracts will provide the necessary certainty needed for financing of new projects. Again, a balanced approach best ensures that the goals of REPSA are being met while providing minimal rate impact to ratepayers.

E. Rationale for Continuing the SEU's Involvement

Delmarva Power found the SEU and its contracting agent, SRECTrade, to be very efficient and effective in administering the SREC auction for the Pilot Program. The Taskforce has approved the continued involvement of the SEU in the 2013 Program. This allows

¹ Because the 2013 Program will be using competitive bidding in all tiers, this eliminates the need (as suggested in the Meister Report) to calculate administrative prices as a function of the results from the competitively bid tiers.

consistency in the Program and furthers the goal of reducing public confusion. In addition, this continues to allow the SEU to take advantage of their unique banking rights for SRECs. As with the Pilot Program, the issue of whether Delmarva Power will be permitted to recover the costs of using the SEU and SRECTrade to administer the 2013 Program is not being dealt with in this proceeding.

F. Rationale for Seeking Expedited Treatment

The Taskforce has recommended that the next auction for SRECs begin no later than March 31, 2013, for the compliance year starting June 1, 2013. As a result, expedited approval from the Commission is needed to ensure that the procurement of SRECs can stay on track. As with the Pilot Program, the 2013 Program was developed by the Taskforce over almost a year with input from a number of stakeholders. In addition, each of the Taskforce meetings was open to the public.

The Commission Staff and consultant have been thoroughly involved in the design of the 2013 Program. Furthermore, the Pilot Program on which the 2013 Program is based was also developed over a year-long process and was the subject of evidentiary hearings before the Commission. The Commission approved the Pilot Program and directed the parties to consider certain issues in connection with future SREC auctions. The Taskforce has considered those issues and has modified the 2013 Program as appropriate. Accordingly, Delmarva Power believes there is no prejudice to the ratepayers by giving the Application expedited treatment.

Pamela J. Scott
Assistant General Counsel
Delmarva Power & Light Company
500 North Wakefield Drive
Newark, DE 19702
(302) 429-3143
(302) 429-3801 (fax)
PJScott@pepcoholdings.com

Kelly E. Farnan

Kelly E. Farnan
Todd A. Coomes
Richards Layton & Finger, P.A.
One Rodney Square
920 North King Street
Wilmington, DE 19801
Farnan@rlf.com
Coomes@rlf.com
(302) 651-7700
(302) 498-7705 (fax)
Attorneys for Delmarva Power & Light Company

Dated: November 20, 2012