

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF DELMARVA POWER AND LIGHT) PSC DOCKET NO.
COMPANY FOR APPROVAL OF THE 2014)
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 2014
PROGRAM FOR THE PROCUREMENT OF SOLAR
RENEWABLE ENERGY CREDITS**

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1. Delmarva Power & Light Company (“Delmarva Power” or “Delmarva”) has concurrently herewith filed its Application for the Approval of the 2014 Program for the Procurement of Solar Renewable Energy Credits (the “Application”).

2. As indicated in the Application, the 2014 Program for the Procurement of Solar Renewable Energy Credits (the “2014 Program”) was developed by the Renewable Energy Taskforce (the “Taskforce”). The 2014 Program generally mirrors the 2013 Program for the Procurement of Solar Renewable Energy Credits (the “2013 Program”) as approved by Order No. 8450 of the Public Service Commission (the “Commission”).

3. The Application provided background on the 2014 Program and highlighted the key terms of the 2014 Program. While the Application fairly lays out the 2014 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 2014 Program; (ii) the ways in which the 2014 Program differs from the 2013 Program; (iii) the rationale for reducing the SREC price for the last thirteen (13) years of the Agreement to \$35 per SREC; (iv) the rationale for continuing the SEU’s involvement in the 2014 Program; and (v) the rationale for seeking expedited treatment. While the 2014 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 2014 Program

As required by Commission Order No. 8450, Commission Staff engaged a consultant to review the results of the 2013 Program. Commission Staff selected New Energy Opportunities, Inc. and LaCapra Associates, Inc. (the “Consultants”), which prepared an Evaluation of the Delaware SREC 2013 Program dated August 7, 2013, revised September 20, 2013 (the “Consultants’ Report”). Specifically, the Consultants were asked to address the following: (1) the robustness of the response to the solicitation; (2) the structure of the solicitation; (3) the extent to which SREC prices should be determined by competitive bidding; (4) the effect of the involvement of the Sustainable Energy Utility (“SEU”) as it relates to cost administration; and (5) the quality of the conduct of the solicitation.

The Consultants determined that the level of participation in the 2013 Program was robust with bids exceeding target procurement by 3 to 1. (Consultants’ Report p. 2). The 2013 solicitation resulted in prices far lower than in the Pilot Program, with weighted average prices having declined 61% compared to the Pilot Program. (Consultants’ Report p. 7). The conduct of the auction went smoothly with SRECTrade conducting the auction as it did for the Pilot Program. The feedback from those surveyed as to SRECTrade’s and the SEU’s conduct of the auction was positive; criticisms came largely from homeowners and non-industry participants concerning the complexity of the process and lack of sufficient notice as to the timing of the auction. (Consultants’ Report p. 35). As for the cost of the SEU’s administration of the 2013 Program, the costs for the 2013 auction were significantly reduced from the costs to run the auction for the Pilot Program. In addition, the Consultants concluded that the costs to run the auction for the Pilot Program and the 2013 Program were significantly less than the cost to administer the NJ SREC long term contract solicitations conducted by NERA Economic Consulting on behalf of several New Jersey electric distribution companies, including Atlantic

City Electric Company. (Consultants' Report p. 37). As a whole, the Consultants determined that the 2013 SREC Procurement Program was conducted fairly and in a professional manner, and that the redesign of the program for the 2013 Program to include competitive bidding and allow owners of existing projects to bid contributed to the overall lower costs of the auction thus benefitting ratepayers.

The analysis and conclusions contained in the Consultants' Report were considered by the Taskforce in developing the 2014 Program. In particular, the Consultants' Report identified five (5) specific options the Taskforce might consider in developing the 2014 Program: (1) reduce the total number of solicitation tiers for existing and new projects; (2) continue to purchase some SRECs on the spot market; (3) maintain the competitive bidding process for the purchase of SRECs; (4) implement changes to the SREC Transfer Agreement to avoid a large amount of bidding ties and to reduce or eliminate any incentive for bidders to bid \$0 for the first seven (7) years of the contract; and (5) improve outreach to and education of prospective participants, especially homeowners and non-industry participants. As discussed below, each of these suggestions was reviewed and implemented, as necessary, in whole or in part, in the 2014 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 2014 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 the 2013 Program

The 2013 Program and the 2014 Program are largely similar, with a few minor modifications. The primary changes are: (i) combining tiers N-1, E-1 and E-2 for solicitation

purposes only¹; and (ii) reducing the administrative price to be paid for SRECs for the last thirteen (13) years of the Agreement from \$50 per SREC to \$35 per SREC. 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 2014 Program) have not changed significantly.

It is the view of the Taskforce that maintaining many of the processes for the auction and making only minor changes to the terms of the long-term contracts allows the ability to better study the market from year to year and also decreases public confusion over the process and the programs. In addition, the incentives for Delaware workforce and manufacturing will remain the same. As noted by the Consultants, the incentives provide a competitive advantage to those projects which intended to use them without undercutting the benefits of competitive bidding. (Consultants' Report p. 13). Accordingly, the goal of the Taskforce was to identify ways in which the 2013 Program could be improved without creating an entirely new process and procedure.

C. Rationale for Maintaining Tiers in the 2014 Program

A tiered system was selected in the Pilot Program and modified in the 2013 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 Consultants'

¹ The Taskforce did give consideration to and the SEU Board just approved, as of January 27, 2014, a program to increase the market for PV systems 50 kW and below, as an alternative funding option for SRECs from smaller systems. The program would pay \$0.45 per installed kW (DC STC) for the lifetime of SRECs from these systems, through a one time, upfront payment used to buy down the capital cost of the system. The program will be open to all ratepayers statewide; new residential, commercial and non-profits can all participate.

Report noted, the rationale for structuring a solicitation where new projects do not have to compete with existing projects is to encourage the continued development and installation of new projects. In light of the excess of supply over demand, a solicitation design that does not encourage the deployment of new systems runs afoul of one of the legislative objectives of designing the SREC procurement program. Further, it makes sense for Delmarva to continue to make long term purchases of existing projects as there continues to be a surplus and market prices are low. (Consultants' Report p. 43). The Taskforce continues to believe that a tiered approach ensures a good balance across system sizes.

As with the Pilot Program and the 2013 Program, the 2014 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 ratepayers. For the 2014 Program, the Tiers have been maintained, but Tiers N-1, E-1 and E-2 are being combined for solicitation purposes. In addition, the 2014 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 2014 Program allows for Delmarva Power to continue to purchase a small percentage of its required SRECs through spot market purchases. This is supported by the Consultants' Report which notes that providing for spot purchases allows project owners to have another opportunity for obtaining value for their SRECs. (Consultants' Report p. 43). The purchase of SRECs on the spot market helps 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 Continuing Competitive Bidding in All Tiers
in the 2014 Program**

For 2013, the Taskforce decided that all tiers (including both new and existing systems) would be competitively bid. This provided significant price protection to ratepayers and the continued existence of long-term contracts provided the necessary certainty needed for financing of new projects. As noted in the Consultants' Report for the 2013 Program, permitting competitive bidding for all tiers brought about substantially lower prices without the hard work, controversy and difficulties associated with setting prices administratively in a declining cost industry. (Consultants' Report p. 44). For the same reasons, the Taskforce determined to continue competitive bidding for the 2014 Program.

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 and the 2013 Program. The Taskforce has approved the continued involvement of the SEU in the 2014 Program and anticipates that they will contract with InClima, Inc.² to run the auction. This provides for 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 noted in the Consultants' Report, the fees to be paid to the SEU and InClima, Inc. will decline due to economies of scale and learning curve benefits. It continues to be Delmarva's burden to show that it could not have performed the functions of the SEU and InClima, Inc. more cost effectively. In that regard, the Consultants suggest that Delmarva explore ways to reduce

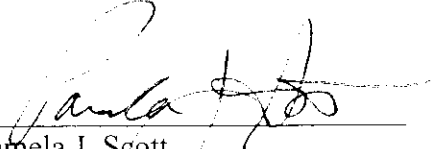
² InClima, Inc. is a Delaware corporation, an affiliate of SRECTrade, established solely to operate utility and public agency renewable procurement programs.

ongoing administrative costs by either seeking further reductions in charges by outside contractors in future solicitations, or taking the functions in-house if Delmarva determines that it is more cost effective to do so. (Consultants' Report p. 41). As with the Pilot Program and 2013 Program, the issue of whether Delmarva Power will be permitted to recover the costs of using the SEU and InClimate, Inc. to administer the 2014 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 May 31, 2014, for the compliance year starting June 1, 2014. 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 and the 2013 Program, the 2014 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 their consultant have been thoroughly involved in the design of the 2014 Program. Furthermore, the 2013 Program on which the 2014 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 2013 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 2014 Program as appropriate. Accordingly, Delmarva Power believes there is no prejudice to the ratepayers by giving the Application expedited treatment.



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