HOUSE BILL 1349 – CLEAN ENERGY ATTRIBUTE CREDIT AND PROCUREMENT

FAVORABLE

HOUSE ECONOMIC MATTERS COMMITTEE
February 28, 2020

NRG Energy, Inc. ("NRG") submits these comments in **support** of **HB 1349 – Clean Energy Attribute Credit and Procurement.**

NRG is a Fortune 500 company, engaged in the business of generating, buying, and selling electric power on behalf of our approximately 4 million customers nationwide—and helping to manage their power usage with innovative products and services. In Maryland, NRG owns four companies that are licensed by the Public Service Commission to serve retail customers. In contrast to regulated utilities, which derive their revenue from decisions made by government regulators, NRG relies on the voluntary choice of customers to use our products. That includes customers who choose to buy 100% renewable products through our oldest brand, Green Mountain Energy.

We support HB 1349 because it would do two crucial things:

- Get Maryland to a 100% carbon-free power sector by 2040.
- Create a marketplace—also known as a Forward Clean Energy Market—using a proven framework to ensure the state reaches that target.

The full design concept of a Forward Clean Energy Market, as this policy is known, is described in detail by a recent report by the Brattle Group, whose representatives are also here to testify today.[1] As contemplated under the bill, a Forward Clean Energy Market operates as follows.

- The market operates 3 years forward (e.g., an auction in 2021 meets a 2024 compliance year) to provide lead time for project development once a successful bid is submitted
- An independent administrator aggregates demand based on the law's requirements, plus any additional demand submitted by corporations or retail electricity suppliers who want to obtain a 100% clean energy supply
- Clean energy generators bid the number of credits they can provide the market and their desired price
- The auction commences on a specific date. Once the demand for credits has been met, the market clears at the value of the last credit block to clear
- Suppliers pay their share for credits under the market clearing price.

[1] https://www.brattle.com/news-and-knowledge/publications/how-states-cities-and-customers-can-harness-competitive-markets-to-meet-ambitious-carbon-goals-through-a-forward-market-for-clean-energy-attributes-expanded-report

- Generators have certainty for what their credits will be worth for a given compliance year
- New clean energy resources, at their option, can lock in the price they receive for their first year of operations for a total of 7 years to promote financing

The proposal embodied in HB 1349 has a headline in common with other ambitious climate policies—namely, a complete decarbonization of the power sector in the coming decades. HB 1349 is not merely a "bumper-sticker" policy, however. Nor is it a giveaway to particular utilities or other businesses involved the power sector. Instead, HB 1349 establishes clear financial incentives to innovators, developers, and buyers of energy to obtain clean energy in a manner that is inexpensive and fast-paced when compared to alternatives.

HB 1349 has numerous features to ensure that Maryland rapidly achieves its climate goals while ensuring costs remain reasonable for customers.

Protect customers by requiring a heads-up competition between clean energy developers
A Forward Clean Energy Market is a competitive auction where anyone who produces clean energy may bid their clean energy attributes into the market at the price they think their project needs to come online or stay online. It does not discriminate between renewables or other technologies that are not presently included in the definitions of Tier 1 and Tier 2 but which provide clean energy all the same, such as nuclear, energy storage, and carbon capture. Instead, this market allows them all to participate—and the price for their clean energy attributes is set competitively at the point at which supply meets the state's demand.

The foundation of the Forward Clean Energy Market borrows from lessons we have learned about competitive auctions over many decades: that developers will sharpen their pencils and make a genuine and honest offer if they risk having their place in the market taken up by another, rival developer. This competition ultimately lowers costs to consumers.

The design of the auction also allows the state to procure more clean energy when the offers are especially low-cost, such that the overall per-MWh cost of clean energy is reduced. This helps the state accomplish its goals more quickly and at a lower cost than it otherwise would.

These attributes of a Forward Clean Energy Market stand in sharp distinction to other clean-energy policy designs, especially those that rely on long-term power purchase agreements oron resource carve-outs—where head-to-head competition is inhibited and instead it is merely hoped that a state bureaucracy or a monopoly utility "gets it right" in its negotiations with a limited set or even a single developer or project owner.

Ensure new projects receive a price signal that allows them to finance and get built—but to do so at times and places that make sense
The Forward Clean Energy Market is designed to award offers for newly constructed resources the same price for a seven-year stretch. This is an important provision that would ensure new resources in a capital-intensive industry could obtain financing and be constructed.

However, by having a separate auction for clean energy attributes, it also incentivizes developers of clean energy projects to face the same incentives for the sale of the power station's other products that all other power generators do:

- To improve the operating efficiency of their projects
- To be online when power is most needed
- To develop additional reliability services, which will become more valuable as the amount of intermittent renewables on the system increases

Other clean-energy policies, such as long-term power purchase agreements, do not include these incentives. In those policies, risk that should be borne by Wall Street investors is instead shouldered by customers by tying them up in long-term contracts that may end up underwater as the price of clean-energy technologies falls. By contrast, the Forward Clean Energy Market avoids this problem, by making it the job of a project owner to be accountable for the value of their project on an ongoing basis.

In this way, a Forward Clean Energy Market is more well-suited to a power sector that is becoming more dynamic and technologically advanced than it already is.

Ensure that the state meets its clean energy goals

A competitive auction will result in more certainty that the state will accomplish its climate goals. That is because those parties that make successful offers into the auction are, following the auction's close, under a contractual, legal obligation either to produce clean energy in the quantity they offered.

This provides a powerful incentive to right-size projects and to offer only those that are reasonably certain to overcome siting hurdles. It likely gives an advantage to smaller-scale developers, which while they would produce clean energy at a higher per-unit price than larger-scale developments, also stand a much better chance of coming online in a location-constrained state like Maryland.

Ultimately, a process that requires winners to take responsibility for their offers—rather than bilateral contracts, which include many "outs"—will allow the state more certainty that its climate policy is a real deal and not just a bumper sticker.

Conclusion

We appreciate that the committee is dealing seriously with the important question of how to further decarbonize the Maryland power sector. Recently, some utilities have suggested that using an obscure provision of the rules of the PJM regional marketplace, known as the Fixed Resource Requirement Alternative (FRR), which would have the state remove itself from the competitive market and re-monopolize the power sector. This would harm customers and it would reduce innovation. FRR is not the only and certainly not the best approach to decarbonizing the Maryland power sector. HB 1349 provides an alternative pathway, and I strongly urge you to consider it.

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