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SENATE BILL 890 – CLEAN ENERGY ATTRIBUTE CREDITS AND PROCUREMENT

FAVORABLE

SENATE FINANCE COMMITTEE
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The Forward Clean Energy Market (FCEM) as embodied within Senate Bill 890 (SB 890) is a competitive clean energy market that will allow Maryland to meet our state's 100% clean energy goal faster and cheaper. This design will harness the power of market competition and innovation to drive down costs, while enabling cities, customers, and Maryland as a whole to accelerate the pace of decarbonization at an affordable price. Through the FCEM, Maryland would be paving the way for the next-generation, best-in-class policy for decarbonizing the electricity grid faster and cheaper than ever before. It would position Maryland as a leader to other states, at the national level, and globally on how to **rapidly decarbonize the electricity grid at the lowest possible cost**.

How would the market work?

Our team at The Brattle Group has decades of experience across the globe in designing markets for electricity, renewables procurement, and clean policy. The design that is reflected in SB 890 is the product of years of work to study what works (and what doesn't work) with electricity and clean energy markets to attract the massive clean energy investments we need at low cost.

The central concept is simple:

- Maryland sets the clean electricity goal, proposed as 100% by 2040 in SB 890.
- A centralized auction procures clean energy attribute credits (CEACs) three years before delivery to allow time to develop new resources.
- All carbon-free electricity producers compete to provide clean electricity at the lowest possible price.

The FCEM within SB 890 builds in design concepts that together make this market financeable, highly competitive, and aligned with wholesale and retail markets. Some of the most important features are:

- A **resource-neutral standard** that is designed to enable all clean technologies, attract innovative solutions, and drive down the costs of renewables and other

technologies.

- The highly **competitive auction format** ensures we get the very best price for consumers.
- Price-stabilizing mechanisms including a 7-year price commitment for new resources **ensure that new resources can gain financing and build** at large scale.
- A price cap at 1.5 times the social cost of carbon for clean electricity supply imposes budget control for the program.
- An innovative **"demand curve" approach can *accelerate* decarbonization** relative to the procurement goal if prices are low. For example, suppose the expected price is $20/MWh per CEAC to hit the 60% by 2025 clean energy target. If innovation and competition in the market lower prices to $10/MWh, the auction will immediately achieve a much larger 80% total clean energy by 2025, and at a lower total program budget.
- An **opportunity for corporate sustainability buyers, retailers, cities, and customers to voluntarily participate** in the market to procure 100% clean energy through easy access to the competitive marketplace with clean energy available at affordable prices.

The FCEM design is further described in the bill, with a more comprehensive discussion of detailed mechanics and the economic rationale for each component of this best-in-class FCEM design provided in our accompanying paper.[1]

Benefits of the FCEM

Implementing this innovative approach can position Maryland as the national and global leader on clean energy policy. Key benefits of the FCEM include that it:

- Provides future commitments and price certainty, making development of new and innovative clean energy resources attractive to providers
- Reduces costs to consumers by harnessing competition across all carbon-free energy resources and technologies
- Drives accelerated decarbonization when costs are low
- Promotes technological advancement by rewarding suppliers that offer innovative, low-cost solutions

Thank you for the opportunity to share our perspective on SB 890 and for the above reasons we urge the Committee give the bill a **favorable** report.

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[1] Kathleen Spees, Sam Newell, Walter Graf, and Emily Shorin, "How States, Cities, and Customers Can Harness Competitive Markets to Meet Ambitious Carbon Goals: Through a Forward Market for Clean Energy Attributes," September 2019.

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