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Before the House ECM Committee

February 24, 2022

House Bill 624 – Electricity - Standard Offer Service - Renewable Energy

POSITION: UNFAVORABLE REPORT

WGL Energy is a retail supplier with customers across multiple jurisdictions and strongly believes in the functionality of competitive electricity and natural gas markets. We are opposed to this bill for four main reasons.

This is not really part of Standard Offer Service
The long-term contracts proposed in HB 624 will not be linked to Standard Offer Service in any way other than setting the size target. The energy and the renewable credits from the contracts are to be sold into the spot market and any net costs (or credits, if any and see comments below) are to be recovered from ALL customers through a charge in the distribution rates. This proposal does not include any of the costs (or the 1% fee collected by the utility) in the Standard Offer Service rates. This proposal is simply a mandate for the utilities to sign contracts for 10 to 20 years with renewable energy projects and socialize the costs to all electric customers while also collecting an additional fee for accepting the obligation that will be covered in base rates.

No Compelling Reason for 10 to 20 year Renewable Contracts to be forced on all electric customers
Long-term PPAs are not necessary to achieve Maryland's renewable energy goals. The current RPS mandate in Maryland drives efficient, market-based growth in renewable generation by requiring suppliers to procure a percentage of their supply through renewable resources.

Because the state can achieve its desired renewable energy outcome most effectively and efficiently through the demonstrated, existing tool of renewable portfolio standards, long-term renewable energy PPAs are unnecessary and should be avoided.

The proposed bill aims to provide a solution to a problem that does not exist. Requiring long term PPAs for renewables will only shift the risk of those investments squarely back to ALL ratepayers and possibly lead to the creation of stranded costs, as discussed further above. The competitive marketplace can and should be relied upon to provide renewable energy offerings

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to consumers, consistent with consumer preferences and budgets.

Lastly, as proposed in the bill, the utilities are being given a 1% remuneration for committing to the long-term contracts along with accounting for the contracts as a regulatory asset that will be included in the distribution rate base. This is unnecessary and only adds costs to the proposal.

Ratepayer Risk

While the legislation states the Maryland Public Service Commission can only approve power purchase agreements (PPAs) if they are cost-effective at the time of approval, we have previously seen the very real risks that long-term PPAs place on customers. As such when wholesale market prices deviate from the contract price, as they are certain to do, leaving ratepayers exposed to above-market prices.[1]

The cost of wind and solar has fallen as technology improvements have increased efficiencies—and this downward trend will continue. Because of this, ten-year contracts signed several years ago are above current market prices and leave ratepayers “holding the bag” on the higher costs. Project risk should fall on private companies instead of burdening ratepayers with the chance of landing on the short end of an out-of-market contract.

Moving Targets Create Confusion

With customers across five states and the District of Columbia, we constantly see changing requirements, percentage carve-outs and resource eligibility in renewable portfolio standards. For example, DC passed a bill at the end of 2018 that moved their RPS from 50% to 100% while also altering the geographic eligibility for qualifying tier 1 generating assets. In 2020, Pennsylvania passed a bill establishing geographical limits on energy resources that qualify as Tier II resources under the Alternative Energy Portfolio Standards Act. These types of changes make compliance and tracking far more difficult. Long term contracts are not a good fit in markets that continue to have requirements that change.

Requiring electric companies to enter into long-term contracts exposes Maryland ratepayers to unnecessary risk and is not required for the development of new renewable generation

[1] Pepco tells the cautionary tale of Atlantic City Electric, which entered into two statutorily-mandated PPAs in the mid-1990s, under which default service customers pay “tens of millions of dollars per year in above-market costs to support these PPAs.” Source: D.C. Public Service Commission. Formal Case No. 1017, Comments of the Potomac Electric Power Company. Pages 7-8. 11/9/18.

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throughout the state.

We respectfully ask the Committee for an unfavorable report of HB 624.

Thank you for your consideration.

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