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112 West Street
Annapolis, MD 21401

Oppose Senate Bill 334
SB 334 - Standard Offer Service - Renewable Energy

Potomac Electric Power Company (Pepco) and Delmarva Power & Light Company (Delmarva Power) oppose **Senate Bill 334 – Electricity- Standard Offer Service- Renewable Energy.** Senate Bill 334 would require an electric company, on behalf of its standard offer service (SOS) customers, to procure at least 25% of its renewable portfolio standards (RPS) requirements through a competitive bidding process for long-term contracts between 10 20 years. SB334 requires long term contracts for the bundled output of renewable energy facilities, including renewable energy credits (RECs) and electricity. Under this proposed arrangement, an electric distribution company would submit contracts to the Maryland Public Service Commission (PSC), and the PSC would review and approve contracts if they are cost-effective as compared to the long-term projection of renewable energy costs.

In 2017, this Committee passed House Bill 1414 – Renewable Energy Portfolio Standard – Study and the Governor signed it into law. That legislation required the Power Plant Research Program (PPRP) to conduct a study on "the net environmental and fiscal impacts that may be associated with long-term contracts tied to clean energy projects."[1] The study conducted by PPRP pursuant to House Bill 1414 found that "under the range of financial and market assumptions considered, reliance on long-term contracts tended to result in higher costs than meeting RPS requirements through sequential short-term contacts over 20 years." Energy suppliers, who compete against other suppliers or the electric company's default service are already fully incentivized to manage the costs of their portfolio of REC obligations in order to provide the most competitive price, which can include hedging with long-term contracts.

Senate Bill 334 will not further Maryland's efforts to meet the RPS because it requires that energy and RECs purchased through the long-term contracts be sold in the spot market. As a result, the RECs procured will not necessarily be used to comply with Maryland RPS (many states in PJM have RPS statutes like Maryland which allow compliance with the RPS from RECs generated throughout PJM (not just in Maryland)). Further, there is extreme uncertainty of long-term contracts as compared to market prices. The price of electricity under the long-term contracts may be higher or lower than market prices over time. If higher, the long-term contracts could cost customers more than if the energy was procured by a competitive supplier or through the SOS process. In addition, the costs of the power provided under a long-term contract often exceed the current market price of electricity, especially as technology advances and the cost of building renewable facilities decreases. In both New Jersey and Delaware, Pepco and Delmarva Power

[1] Interim-RPS-Report.pdf (maryland.gov)

affiliates have been required to enter into long-term contracts with independent power providers that ended up costing customers millions of dollars annually in above-market electricity costs.

Finally, the renumeration payment offered in this legislation is not enough to compensate the utility to take on the financial obligation of these deals. Regardless of the mechanism the utility employs to recover the fixed payments of a long-term contract, the credit rating agencies will assign some level of uncertainty to the recovery of the imputed costs. These costs can affect the financial ratios of a utility which impacts the overall creditworthiness of the utility. This reduces the ability of a utility to issue debt for construction and other activities, restricts access to capital during times of tight credit, and can increase the cost of the debt that the utility does issue – ultimately increasing costs to customers.

For the above reasons, Pepco and Delmarva Power respectfully request an unfavorable vote on Senate Bill 334.

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