

RENEW Comments on the 2010 NESCOE Report to the New England Governors on Coordinated Renewable Procurement

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Renewable Energy New England (RENEW) is pleased to see NESCOE addressing the salient topic of renewable energy procurement in New England and the opportunities presented by coordination throughout the region. Meeting all of the renewable portfolio standards and goals of the New England states will be a formidable challenge in the coming years. Setting up a coordinated procurement plan among the states could prove to be the most efficient and effective way to meet that challenge. We are supportive of this process and would encourage NESCOE and the states to continue these discussions expeditiously. We appreciate the opportunity to provide comments here on the "Report to the New England Governors on Coordinated Renewable Procurement" (the Report).

RENEW is a newly formed non-profit, registered in Massachusetts, which promotes favorable renewable energy policies in New England. RENEW's members include wind developers, wind turbine manufacturers, leading regional and national environmental organizations, and the American Wind Energy Association.

Procurement and Transmission Go Hand in Hand

Though it was not discussed directly in the Report, transmission and renewable energy procurement go hand in hand. There is a limited capability in New England for additional renewable energy development without fairly sizeable transmission system upgrades. To reach the renewable energy goals set by the states, significant new transmission will be needed to open up otherwise bottled or inaccessible regions of New England. We feel that a coordinated renewable energy procurement process should be tied to direction to ISO-NE to begin studying the interconnection, deliverability, and expected economic upgrades that would be needed or prompted by this explicit need by the states for renewable resources.

Reflect Varying State Needs for New Renewables

Table III, Projected RPS for "New" Renewables Beyond 2008, is useful in clarifying the region-wide need for additional renewable energy over the next ten years. However, the needs of each state vary dramatically over this period and will strongly influence their evaluation of potential contracts and potentially even their interest in coordinated procurement. While the table lists the total projected RPS needs for each state, the projected need for new resources (post-2008) is only listed on a region-wide basis. Expanding this table to somehow how the projected state-by-state need for incremental "new" renewables beyond 2008 would be informative to understand the drivers for each state's participation in a coordinated procurement process.

Bundled, All-In Price

The report discusses elements of a model regional RFP including use of an all-in delivered price. If the purpose of coordinated procurement is to encourage additional development of renewable energy in the region in the most cost effective manner, we agree that bundling energy, capacity, and RECs to arrive at an all-in price is the way to achieve this goal. Given current market conditions, long term contracts that guarantee a minimum income stream are necessary for project financing. Energy, capacity, and RECs, the three main products produced by a renewable energy project, do not individually have a marginal cost. Only the all-in price is ultimately important. Contracts for energy and capacity without RECs or vice versa are not sufficient to secure project financing and leave a project with considerable risk in their ability to obtain a long term contract for the remaining products. This increased risk can have the effect of increasing the total cost of the contracts.

Financial vs Physical Arrangement

There are pros and cons of both financial and physical arrangements. This is a topic that we feel is critical to the effectiveness of renewable energy procurement, but one that we would prefer to discuss with you given the complications of this topic. Our hope is that we can coordinate a time for late October to discuss our comments in general and this topic in particular.

Varying State Evaluation Criteria Impacts Collaborative Evaluation

Each state has significantly different goals and methods for evaluating renewable energy contracts. The report suggests that the procurement team could work collaboratively during much of the bid evaluation. Unless states can come to agreement on evaluation criteria, we expect that the ability to collaboratively evaluate bids would be limited. This does not, however, diminish the benefits of using a single set of RFP documents with a common bidding process.

Expertise Needed in REC Price Forecasting

Similar to the Massachusetts RFP that is currently underway, there is much efficiency that could be gained by using a single set of RFP documents and having a common economic forecast that all buyer-entities are able to use in their evaluation process. However, we would caution that care be taken to ensure that the firm providing the economic forecast have a good understanding of not only the energy market projections but also of the renewable energy market and development process. We have come across economic forecasts in the past that have truly misunderstood the economic drivers of additional renewable energy development and have thus arrived at what we feel are unrealistic REC pricing forecasts.

Sharing Contracts Among States Lowers Risk, Allows More Benefit

The potential for one project to be considered by more than one member of the Procurement Team is mentioned in section II.C. In this case, the suggestion is that those members could compare their evaluations and share information. There is no discussion, however, of how these members would determine which member would sign a contract with the project. The members could compete with each other on

pricing to determine which one would win the contract. Alternatively, the members could agree on a mechanism to split the contract. This seems to be a central benefit of coordinated procurement but is not directly mentioned in the report. By aggregating demand and having multiple states elect to enter into long term contracts on identical terms with multiple renewable energy projects both the projects and the states can benefit. The states minimize risk from individual contracts by procuring a fraction of the output from many projects. The projects benefit in the reduced risk and legal expense currently associated with entering into multiple power purchase agreements for the output of a single project.

Resource Eligibility

The Report asks the question of how differences in resource eligibility among the states should be dealt with in a coordinated procurement scenario. RENEW feels that the first of the potential solutions presented, to limit participation in the RFP to those resources that are categorized as renewable in all states, is the superior option.

EDC Positional Conflict

The potential for a conflict or the appearance of a conflict in the scenario described in the Report is one that should be taken seriously. Without additional information it is difficult to determine whether a State Coordinating Liaison Council would be the best way to mitigate a real or perceived conflict. With or without a CLC, maintaining a fair, open, and transparent process will be necessary.

State Preference for In-State Renewable Development

As discussed in the potential solution given in the report, coordinated procurement can be undertaken in parallel with other state programs that encourage renewable development, whether or not those other programs are focused on in-state development. However, if the other programs, especially those limited to in-state development, grow to be large in scale in relation to the coordinated regional procurement it defeats the purpose of a regional effort to some extent. To the extent states are legally able to, we would recommend that in-state preferences be reduced or eliminated in favor of a regional approach.

Connecticut 150

As a comment on the Report, should you plan to release another draft, Appendix 1 Section A.3 describes the Connecticut 150 program. It may be worth mentioning that this program, though it entered into a number of contracts, did not result in a single MW of renewable energy being developed within CT. The contracts were not financeable.

Maine's Ability to Contract for RECs and RFP Status Have Changed

Another comment, should the Report be updated, is that Appendix 1, Section B.2 states that Maine does not have statutory flexibility to procure RECS separately from standard service procurement. Section B.3 describes the long-term contract solicitation for capacity and associated energy. Legislation allowing the purchase of

RECs, LD 1647, was signed by the governor on March 17, 2010 (<http://www.mainelegislature.org/LawMakerWeb/summary.asp?ID=280035088>). If another draft of the Report is released, it should be updated to reflect this change. Section B.3 continues to say that the 2008/2009 RFP process is ongoing with some of the bidders and the MPUC plans to renew the RFP in early 2010. This should be updated as well to reflect the state of the RFP as of the report publishing date in July. The 2008/2009 RFP resulted in a single contract for capacity and associated energy. The 2010 RFP was issued in February 2010 and evaluations/negotiations are ongoing.