

New Hampshire Renewables Portfolio Standard
Work Session #3: Alternative Methods of RPS Compliance
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Written Comments Submitted by Iberdrola Renewables, Inc.

Introduction

Iberdrola Renewables, Inc. (“IRI”) is pleased to offer these written comments pursuant to staff’s questions for Work Session #3: Alternative Methods of RPS Compliance. IRI is the largest global owner and operator of renewable energy projects. In the United States, IRI owns and operates approximately 4,700 megawatts of wind farms in seventeen states, including the 24 megawatt Lempster Wind Farm in New Hampshire. The company has recently received state approvals for the 48 megawatt Groton Wind Farm, which is scheduled to be completed in 2012. The total investment in these two wind farms in New Hampshire will total over \$150 million, and are a significant source of local revenues for the host towns.

I. Multi-year purchase agreements for certificates (along with purchased power)

The topics and questions put forward by staff in this section seek to discuss the pros and cons of short-term and long-term contracting. IRI has maintained, in other proceedings in other states, that the most effective RPS procurement strategies offer a mix of long-term bundled (energy and RECs) long-term RECs, medium-term RECs, and short-term and spot REC purchases. This “portfolio approach” strikes a balance between long-term contracting which sends a price signal to developers for the marginal costs necessary to meet future RPS demand and obtain project finance with shorter-term procurements which reflect short-term RPS supply and demand and protect rate-payers from excessive stranded costs. Our comments on this section will review the pros and cons of each type of procurement strategy presented and make the case for the prudence of the “portfolio approach.”

A. Pros and Cons of short-term arrangements

Pros: Such arrangements do have the potential to lower rate-payer exposure to long-term stranded costs. Additionally, some amount of short-term procurement and contracting is sensible to take advantage of potential falling prices in the RPS’s out-years and to ensure market liquidity.

Cons: Total reliance on short-term arrangements will make it much harder to achieve RPS compliance. Because short-term contracts or procurements only represent current and short-term supply and demand they fail to send a price signal to developers that accurately reflects the long-term marginal costs of meeting future higher RPS demand (because RPS demand is upward sloping). This means that short-term arrangements will tend to either overestimate or underestimate the marginal costs of future RPS demand. In the former case, ratepayers are harmed; in the latter

developers will likely choose to refrain from future investments until they see much higher prices, leading to excessive price volatility or even a failure to achieve RPS compliance as developers choose not to invest as a result of short-term prices which will not cover their current or future marginal costs.

B. Pros and Cons of long-term contracts with or without power

Pros of long-term contracts with power: It is essential for regulators to recall that virtually all investments in the electricity sector, for conventional power plants, transmission, and distribution infrastructure resulted and benefited from long-term cost-recovery. Commercial-scale renewable energy projects, which are highly capital intensive, require the same long-term cost-recovery treatment as the aforementioned sectors of the electricity market.

In the current market, developers prefer, and in some cases require, long-term contracts with power. Such contracts enable developers to offer prices fully reflective of all their long-term marginal costs, and provide price stability for both the utilities and the developers. For some developers reliant on project finance, achieving long-term contracting for both RECs and energy is likely essential to achieve bank financing. There are limited opportunities for developers to acquire long-term power hedges in the current market. As a result, even developers that self-finance may be unwilling or unable to invest in projects that do not include long-term power hedges.

Additionally, because bundled long-term contracts will be considered meaningfully less risky for developers and the entities financing their projects than either long-term REC only contracts and/or certainly a reliance on shorter-term compliance strategy both banks and developers will be willing to accept lower returns (*ceteris paribus*) as a result. These lower returns; and consequently lower long-term prices (*ceteris paribus*) can be passed on to rate-payers.

Including some meaningful amount of bundled long-term renewable energy contracts in a portfolio ensures that rate-payers receive one of renewable energy's most important benefits: long-term fixed prices. Because renewable energy projects, like commercial scale wind (biomass would be an exception to this) have no fuel costs, they are able to offer long-term fixed pricing to rate-payers, providing them with known power costs and hedges for up to twenty-years into the future. A portfolio which does not include some amount of long-term contracting is not taking advantage of this potential benefit and simply rides the market for RECs up and down with no opportunity for rate-payers to ultimately benefit from fixed power and REC prices.

Pros of long-term contracts without power: Long-term REC only contracts are beneficial to renewable energy developers and should be one component of a portfolio approach to RPS compliance, however, they do not provide either a long-term power hedge for rate-payers, nor do they necessarily enable developers to acquire project finance. As such, long-term REC only contracts should not be the sole long-term procurement option.

C. Should NH be more prescriptive in incenting long-term contracting?

Yes. For the reasons stated above we strongly encourage New Hampshire to require some meaningful amount of long-term bundled and long-term REC only contracts as part of a portfolio approach to RPS requirements.

Generally, for purposes of project finance, long-term bundled contracts would need to be a minimum of ten-years. Twenty year contracts would enable rate-payers to take advantage of lower fixed prices (compared to ten year contracts) and to possess a long-term hedge against potentially rising future energy costs. The ability of renewable energy projects, like wind farms, to offer long-term fixed prices of up to twenty years is one of their biggest advantages compared to conventional fossil fuels. In addition, the prospect of New Hampshire long-term bundled contracts raises the opportunities for in-state investments in renewables, and the many economic benefits that flow from those investments in New Hampshire.

To mitigate the potential risk of stranded costs, we encourage some mix of medium-term and short-term REC only contracts for RPS compliance. This will enable rate-payers to take advantage of any downturns in renewable energy pricing and also provide important liquidity for renewable energy markets.

II. Alternative methods for renewable portfolio standard compliance

IRI is not qualified to comment on all of the topics and questions presented in this section. Given our experience in numerous states we will comment on some of the alternative methods noted by staff.

New York; NYSERDA: The NYSERDA approach has some advantages over RPS procurements in other restructured states. Other than Massachusetts (and a one-time long-term procurement in Illinois) it is the only restructured state which is offering any form of mandated long-term REC procurement. However, the process also has a number of deficiencies (which we have commented on via several NYSERDA and New York Public Service Commission proceedings). There is limited to no ability to hedge energy in the New York market and NYSERDA does not engage in any sort of power hedging. NYSERDA is the single RPS compliance buyer in New York and offers only one standard 10-year REC-only contract. This severely limits market liquidity. Additionally, historically, the timing of NYSERDA procurements has been unknown and often key market opportunities (such as taking advantage of favorable federal tax credits) have been missed or not fully exploited. For these reasons we do not recommend the NYSERDA model for New Hampshire.

Rather, New Hampshire should mandate and encourage a portfolio approach to long-term contracts to be implemented by its LSEs on an ongoing basis. This approach will best overcome the deficiencies of the NYSERDA process while providing the benefits of long-term contracting and hedging.

Competitive Procurement: Competitive long-term procurement processes have proven to be quite effective in both Illinois and Massachusetts where they have been employed on a limited basis. In each case, both states received a large number of offers (for example, NStar's Massachusetts procurement received seven times the offers for renewable energy it ultimately needed, resulting in extremely competitive pricing under NStar's long-term market forecast. Similarly Illinois's prices were also extremely competitive). We encourage the inclusion of long-term bundled competitive RFPs as part of the state's LSE's RPS compliance procurement and as part of a portfolio approach to RPS compliance.

Conclusion:

These comments have been prepared by Eric Thumma, Director of Institutional Relations, Iberdrola Renewables, Inc. IRI appreciates the opportunity to provide these comments. We would be pleased to discuss the "portfolio procurement" approach presented further. Please contact me at 484-680-9085 or ethumma@iberdrolaren.com.