



October 27, 2011

The Honorable L. Chris Ross
PA House of Representatives
110 Ryan Office Building
PO Box 202158
Harrisburg, PA 17120-2158

Dear Representative Ross,

This letter responds to the points you raised in our conversation in the Capitol, and in your emails, regarding estimates by the Energy Association of Pennsylvania (EAP) of the cost impact on customers resulting from House Bill 1580. Attachment No. 1 is a copy of the chart containing these estimates.

In a nutshell, our earlier cost estimates are defensible and are within a range of reasonable projections. However, there is always substantial uncertainty inherent in any projections of future energy costs, and this letter sets forth a range of possible costs. While the precise amount of increased costs are uncertain, it is certain that HB 1580 will increase costs to some degree by mandating additional demand for solar energy while simultaneously restricting the geographic scope of solar projects eligible to meet this demand. For these reasons, we respectfully submit that the legislation is not in the best interest of consumers.

HB 1580 would make two major changes to the Alternative Portfolio Standards (AEPS) Act. First, it would accelerate existing AEPS solar requirements for energy years 2013, 2014, and 2015. Second, it would establish an eligibility requirement whereby after January 1, 2012, registration of solar installations will be restricted to those "tied" to Pennsylvania's electric distribution network. While this provision would "grandfather" existing out-of-state projects registered in Pennsylvania, over time, only projects located in Pennsylvania would be available to meet the increasing mandates under the Act.

We have taken another look at the possible impact of the "grandfathering" provisions for existing out-of-state solar projects, because our earlier estimates relied on prices for solar renewable energy credits (SRECS) in states that restrict eligibility to in-state projects. To the extent that allowing some out-of-state projects to remain eligible has any effect upon market prices, that influence would diminish over time as the mandated level of solar purchases increases and only Pennsylvania-based projects would be permitted to meet this demand. This supports the use of data from other states that restrict eligibility to in-state projects in projecting the possible cost impacts of HB 1580.

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We have expanded our review of current SREC prices to include markets in other states. Attachment No. 2 illustrates a likely range of increased costs, based on the experiences of our members and of surrounding states with similar requirements, which by our estimates could total \$2.3 and \$3.4 billion dollars through 2021 – costs which will continue for as long as the mandates remain in place.

The bottom line is that HB 1580 will increase the amount that consumers pay for electricity, and the above analysis represents our best effort to project the amount of the increased costs

To summarize, we do not believe HB 1580 is in the public interest for the following reasons:

- **The legislation is harmful to PA's consumers and businesses.** Accelerating the solar requirements and gradually closing Pennsylvania's borders to out-of-state solar generators will increase SREC prices. Higher SREC prices drive-up electricity costs which are then passed on to customers in higher electric rates.
- **Public policy should not pick winners and losers among generation sources.** Competitive energy markets have benefited consumers by encouraging efficiency in the generation sector. Policies that reserve portions of the market for favored sources raise costs to consumers.
- **Investment risks should remain with investors, not be placed on consumers.** HB 1580 removes investment risk from the solar industry investor and unfairly places it on the consumer, which is the direct opposite of the public policy that applies to other generation sources.
- **The legislation will impose additional costs on consumers beyond the 3-year acceleration period.** By restricting the pool of solar generators that are eligible to meet the mandates in the legislation, HB 1580 will increase the cost imposed on consumers in every future year that these mandates remain in effect.
- **Restricting eligibility to in-state projects is poor public policy, and may be unconstitutional.** This provision favors the interest of in-state solar developers over the interest of consumers. On its face, it appears designed to restrict the flow of interstate commerce, which is regulated by the federal government under the U.S. Constitution.

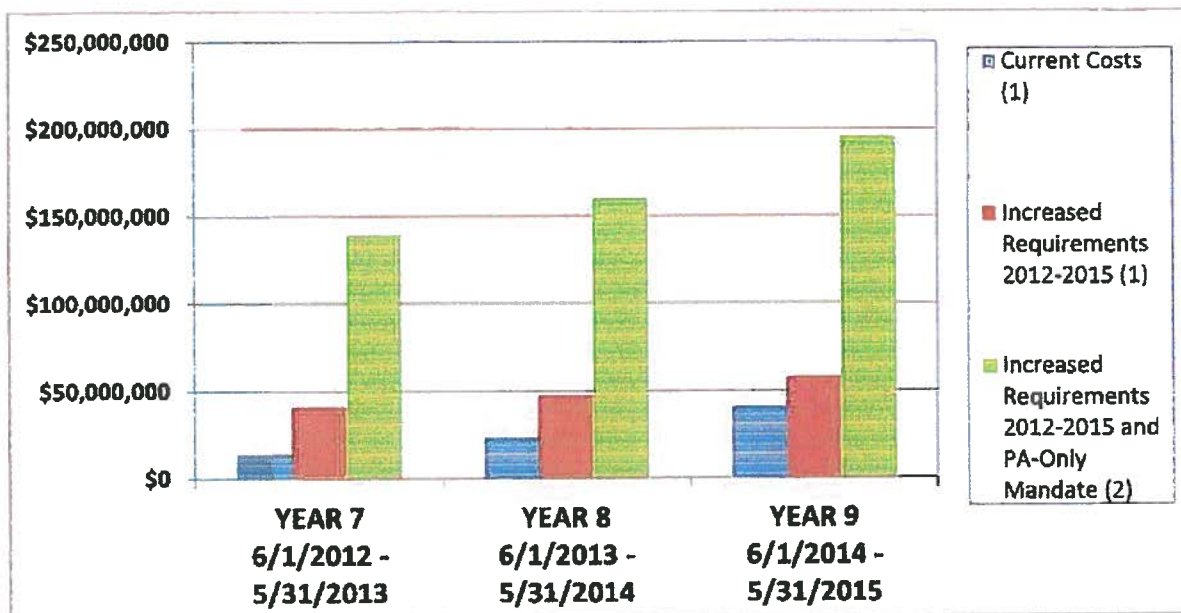
Finally, we have a separate concern with the language in subsection 4(b) on page 4 of House Bill 1580. As written, the language could be construed to render ineligible solar projects involving roof top facilities where all of the electricity produced is consumed on-site and is not delivered to the electric distribution system in Pennsylvania. If this interpretation is correct, the provision would discourage the building of these facilities.

Thank you for the opportunity to comment on this legislation. Please do not hesitate to contact me if you have any questions concerning this letter.

Sincerely,


Terrance J. Fitzpatrick
President & CEO

EAP Estimated Cost Impact of Proposed HB 1580 For Years 7, 8 and 9



The Energy Association of Pennsylvania (EAP) estimates that proposed HB Bill 1580, which proposes to increase the percentage of PA's electric energy derived from solar and, further, proposes in-state facility requirements for reporting years 7, 8, and 9 of PA's Alternative Energy Portfolio Standards Act (AEPS Act) will significantly drive-up the cost of electricity in the Commonwealth.

- The proposed acceleration in solar percentages alone is estimated to increase costs by **more than \$68 million** over the 3 year reporting period.
- The proposed acceleration in solar percentages together with the proposed in-state requirement is estimated to increase costs by more than **\$416 million** over the 3 year accelerated reporting period (Years 7, 8 and 9).
- Following Year 9, costs related to the in-state mandate would continue indefinitely into the future under proposed HB 1580.

Additionally, EAP cites a 2011 report entitled *"All REC's Are Local: How In-State Generation Requirements Adversely Affect Development of a Robust REC Market"*, published by The Electricity Journal, which found that:

"While most U.S. states have now adopted renewable energy portfolio standards, most also require a certain percentage of such generation to be "home grown." These requirements lead to volatile and reduced-value markets for renewable energy credits and ultimately increase the cost of renewable energy."

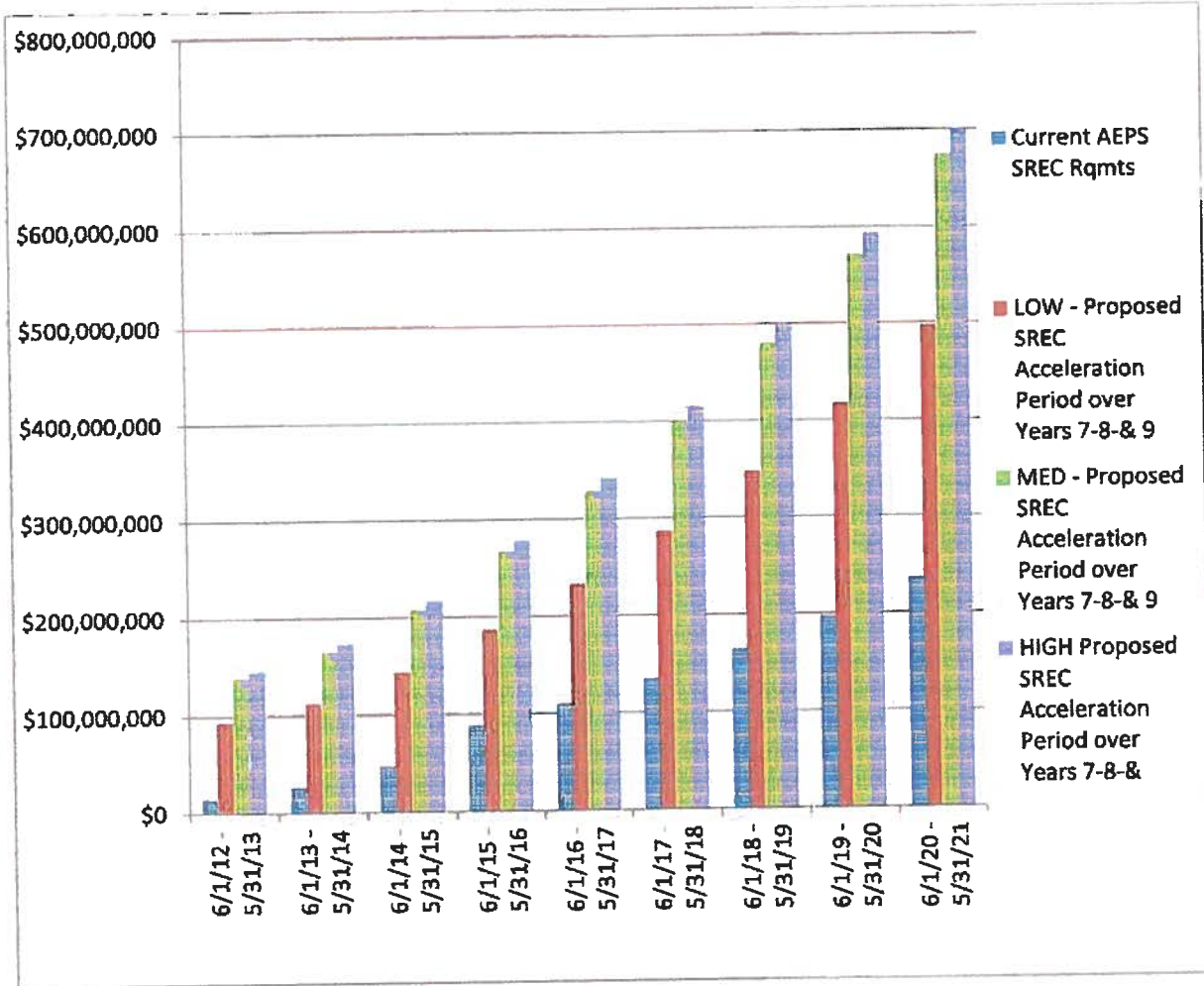
(http://www.lw.com/upload/pubContent/pdf/pub4270_1.pdf)

Notes:

(1) Estimated cost projections for current AEPS requirements and for proposed accelerated solar requirements are calculated using a SREC price of \$190, as estimated/published by ICAP Inc. for PA's Reporting Years (RY) 2011-2013.

(2) Estimated cost projections for combined proposed accelerated solar requirements and PA-mandate are based on SREC price of \$640, as published in latest September 2011 spot market/auction prices in NJ and MA, which have existing in-state requirements. (Sources: Flett-Exchange; Karbone Research & Advisory)

EAP Revised Estimated Cost Impact of Proposed HB 1580 For Years 7, 8 and 9



Notes:

Estimate for Existing SREC Requirements: SREC Price based on starting point of \$190 in 2011-2012 (*ICAP Inc published estimated rate for PA's RY 2011-2013*) PLUS \$10 annual increase as requirements increase demand according to existing AEPS requirements.

Estimates for Combined Accelerated Period and In-PA requirement: SREC pricing ranges based on \$430 (*SREC Trade Sept 2011 Market Price, Average of MD In-State, MA, NJ and OH In-State*) PLUS \$20 annual increases; \$640 (Sept. 2011 market price NJ & MA Flett-Exchange, Karbone Research & Advisory); and \$670 (Oct. 2011 Market price NJ, SREC Trade)