

Committee: Finance

Testimony on: SB0334 “Electricity – Standard Offer Service – Renewable Energy”

Position: Support with Amendment

Hearing Date: February 1, 2022

The undersigned organizations submit this testimony regarding SB334, which requires electric companies to procure a portion of their standard offer service (SOS) through competitively awarded 10- to 20-year contracts for renewable energy credits and electricity from eligible Tier 1 renewable sources.

We support this legislation only on the condition that it be amended to remove the specifications (Sections 7.703.1 (B) and (D)) that the electricity and associated Renewable Energy Credits (RECs) from these long-term contracts will be applied to the electric companies’ requirements under the applicable year’s Renewable Portfolio Standard (RPS). This specification is contrary to the legislation’s proposal that the RECs be sold into the wholesale spot market (Sections 7.703.1(C)(6-8), and would result in double-counting of renewable energy obtained.

We agree that it is appropriate for the amount of a specific year’s requirement for long-term contracts as a portion of SOS to be benchmarked to the year’s RPS requirement; but while the requirement to sell the RECs will benefit ratepayers, those same RECs and the power purchased cannot be counted against the year’s RPS requirement. The two mechanisms must be entirely separate.

With this amendment, the legislation’s requirement for electric companies to obtain a portion of their electricity through long-term contracts for specified clean renewable energy sources offers important benefits to Maryland ratepayers and to the state’s commitment to development of clean renewable energy:

- **Cost savings for electricity ratepayers.** As a competitive market-based approach, long-term contracts with specified prices for electricity allow electric utilities to procure the power they distribute to their customers at the lowest possible price. The length of the contracts provides a dependable revenue source to the electricity producer, reducing risk elements that would otherwise need to be factored into a higher price. These locked-in savings are then passed on to consumers.
- **A cost-effective way to increase clean renewable energy development.** SB334 requires that any long-term contract issued must be found by the Public Service Commission to be cost-effective in regard to the projected price of renewable energy.

The cost advantage of long-term contracts is especially relevant to clean renewable energy generation resources. The cost of electricity from large scale wind and solar projects is now at or below the cost of fossil fuel generated electricity.¹ For wind and solar (and to some extent, small hydroelectric) projects, most of the cost is in their construction, and therefore is knowable from the outset. Once built, there’s no uncertainty about fuel cost, since there is no fuel cost; and maintenance and operation costs are predictable. For these reasons, clean renewable electricity generation sources can enter long-term contracts with price certainty. Because fossil fuel electricity generation faces the future price uncertainties of coal, oil, and fracked gas, it is more difficult for these forms of electricity generation, which are important sources of carbon pollution and methane leakage, to lock in low long-term prices.

Long-term contracts are now commonly the way large private sector energy consumers like Google, Amazon, and Walmart are locking in their power supplies. Public sector entities are also using this approach. New York has created a long-term contracts system which will enable both utilities and third-party electricity suppliers to share in the benefits. Connecticut anticipates reducing ratepayers' electricity costs by meeting RPS requirements through long-term contracts. Local governments here in Maryland, including Montgomery County and the City of Annapolis, have also developed long term contracts to purchase electricity from large solar projects at prices below commercial rates, saving taxpayers tens of thousands of dollars every year.

Buying electricity under long-term contracts from clean renewable sources will give Maryland the opportunity to add securely low-priced renewable electricity to our energy supply, even as demand – and therefore potential cost – for electricity grows through increasing electrification of the transportation and building sectors.

- **Supporting the development of new clean renewable energy sources.** Long-term contracts offer a critical stimulus for building new clean energy: a guaranteed revenue stream that project developers can take to the bank. Long-term contracts actually provide the financial stability that new clean renewable energy projects need to get built – new utility scale projects can cost 10's or even 100's of millions of dollars. A long-term contract provides guaranteed revenue, offering the security that potential investors need to justify financing such projects. In 2018, Massachusetts used long term-contracts to guarantee 1,600 megawatts of new electricity from new offshore wind at an average price (including RECs) of less than 7 cents per kilowatt hour; this contract allowed the project to secure the financing needed to be built, at the same time saving residents a projected \$1.4 billion over the 20-year life of the contracts.^{2,3}

SB334 can offer these benefits to Maryland. This Act will lower electricity costs by directly saving money for ratepayers. It will also promote the development of new renewable energy sources – the change that is needed to reduce carbon pollution and methane from the electricity sector – by purchasing increasing amounts of our electricity from clean renewable sources. For these reasons, we support approval of this bill, if amended as noted.

¹ Lazard *Levelized Cost of Energy – 2021*; Oct 18, 2021

² Commonwealth of Massachusetts Executive Office of Energy and Environmental Affairs, Department of Energy Resources; Petitions for Approval of Proposed Long-Term Contracts for Offshore Wind Energy, August 2018

³ https://www.bloomberg.com/news/articles/2018-08-01/first-big-u-s-offshore-wind-offers-1-4-billion-to-customers?utm_medium=social&utm_content=business&utm_source=twitter&utm_campaign=socialflow-organic&cmpid=socialflow-twitter-business; First Big U.S. Offshore Wind Farm Offers \$1.4 Billion to Customers, August 1, 2018

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