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March 19, 2015

Office of the Public Advocate Testimony in SUPPORT of LD 132 "An Act to Remove the 100-megawatt Limit on Hydropower under the Renewable Resources Laws"

Chairman Dion, Chairman Woodsome and Members of the Energy, Utilities and Technology Committee,

The Office of the Public Advocate testifies in SUPPORT of LD 132 "An Act to Remove the 100-megawatt Limit on Hydropower under the Renewable Resources Laws."

Overview:

- If enacted this bill is virtually certain to lower electricity costs for Maine ratepayers.
- The proposed changes would increase the supply of Maine Class I Renewable Energy Credits by allowing large scale hydro from outside New England to qualify, which would decrease the overall cost of meeting the Class I Renewable Portfolio Standard.
- Maine's existing Class I Renewable Portfolio Standard does not incentivize the construction of renewable generation in Maine or New England.
- Reducing the overall cost of compliance by expanding supply would more closely align the cost of the program with the benefits received by ratepayers.

First, some background. The purpose of a renewable resource portfolio requirement is to promote development of renewable resources by creating a premium over electricity wholesale market prices for resources that might not otherwise be developed or operated. It does this by creating demand for designated resources by mandating that a certain percentage of a retail electricity provider's load comes from these resources. This demand is satisfied through tradable renewable energy credits (RECs), generated for each MWh of renewable energy production. The market for these RECs functions to meet this

legislatively created demand at the lowest cost, so that the price of the REC reflects the premium associated with renewable energy. This cost of purchasing RECs is paid for by electricity customers through the supply portion of their bills. Maine has two renewable portfolio standards, one for renewable resources constructed since September 1, 2005 (Class I), and one for resources constructed prior to that date (Class II).

If enacted this bill is virtually certain to lower electricity costs for Maine ratepayers. The price of Maine renewable energy credits, and thus the overall cost of the renewable portfolio standard is set by supply and demand. Demand, in this case is set by the annual 1% increase in the percentage of Maine's load which must be met by new renewable capacity resources. For the current compliance year, this is 8%. Supply is determined by the number of facilities that meet the eligibility requirements. The bill would increase the supply of renewable energy credits by expanding the eligibility requirements to include hydro facilities greater than 100 MW. We can reasonably expect that the result of this increase in supply will be a decrease in the cost of Maine Class I RECs, and in the overall cost of compliance with the Class I Renewable Portfolio Standard, possibly to near zero.

The example of the Maine Class II renewable standard is instructive here. Supply of Class II renewable resources exceeds the demand (30%) established by statute, so the average price of a Class II REC for the 2011 compliance year was \$0.18 per MWh, for a total cost of \$627,094. Increasing supply by the change in definition proposed in this bill is likely to have a similar impact on the price of Maine Class I RECs.

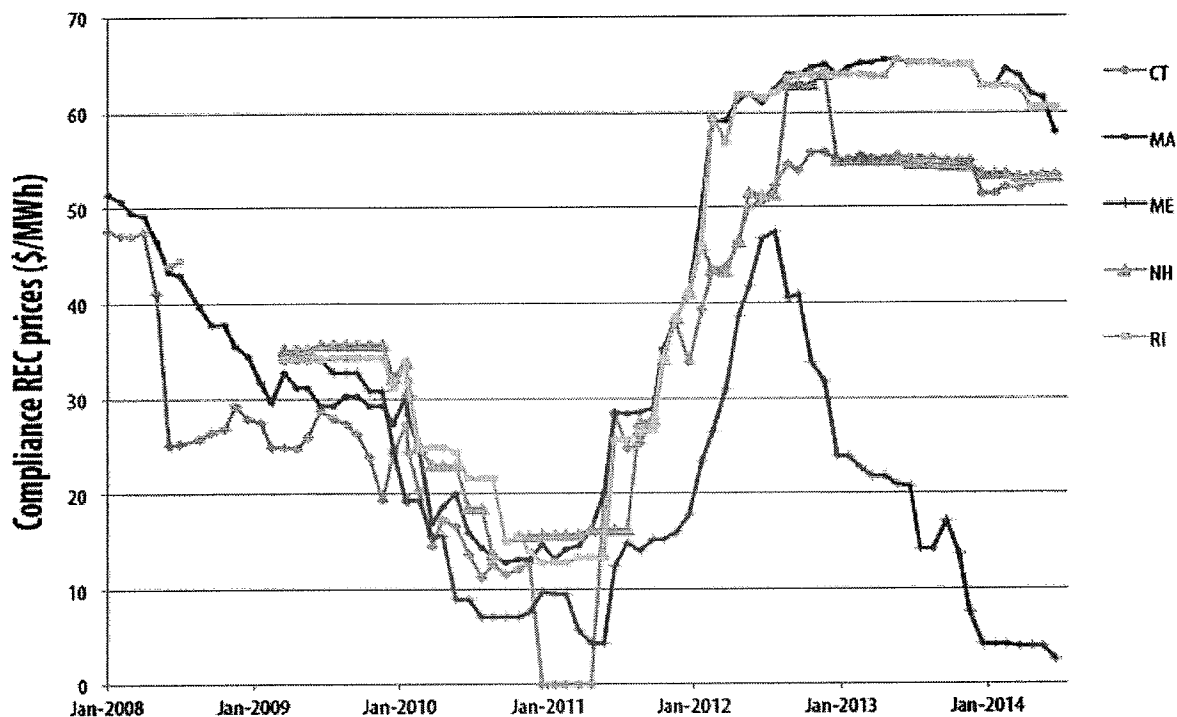
The additional supply of Class I RECs would not come from within Maine, or even New England. There are just two hydro-electric generation facilities in Maine greater than 100 MW, neither of which were built after September 1, 2005. The only entity with hydro resources greater than 100 MW that are deliverable into ISO-NE is Hydro Quebec, which has built almost 2000 MW of new hydro capacity since 2007.¹ Significantly more large-scale hydro that could be delivered to New England is currently in development in Quebec and Newfoundland and Labrador.² These facilities have been and will be built regardless of what Maine elects to do with its Class I RPS Standard.

¹ See Hydro-Quebec, Hydro-electric Generating Stations, *available at* <http://www.hydroquebec.com/generation/centrale-hydroelectrique.html>

² The current statute indicating that the purpose of the Maine RPS is to develop "indigenous resources" so I would encourage the Committee to make a corresponding change here if it adopts the changes proposed in this bill.

But Maine's existing Class I RPS is largely irrelevant to the construction of new renewable energy generation in Maine. As a result of decisions both inside and outside of Maine, the price of Maine's Class I RECs has dropped sharply compared to neighbor states.

Compliance market (primary tier) REC prices, January 2008 to July 2014
 Source: Marex Spectron (2014).



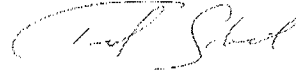
Because of this volatility, they do not provide a predictable revenue stream that can be used to finance the substantial up-front investment associated with new renewable generation. This is true even in states with comparatively high REC prices such as Massachusetts, Connecticut and Rhode Island, which have all concluded that long term contracts are a more cost-effective way to meet their renewables and carbon emission goals.

Reducing the overall cost of compliance by expanding supply would more closely align the cost of the program with the benefits received by ratepayers. The cost of the Maine Class I Renewable Portfolio Standard for the 2012 compliance year was more than \$18 million, and a preliminary cost estimate for the 2013 compliance year is about \$5.5 million. These costs are relatively low, but they are significant, and do not appear to be providing the

benefits that the program was intended to create, *i.e.* the construction of new renewables. Customers are paying, but it's not clear that they are receiving anything in return.

The Office of the Public Advocate looks forward to working with the Committee on LD 132, and will be present at the work session to assist the Committee in its consideration of this bill.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Timothy R. Schneider".

Timothy R. Schneider
Public Advocate