



February 7, 2019

Massachusetts Department of Energy Resources
100 Cambridge St., Suite 1020
Boston, MA 02114

Re: DOER Clean Peak Standard Stakeholder Questions

To Whom it May Concern:

Constellation NewEnergy, Inc. (“Constellation”) appreciates the effort of the Massachusetts Department of Energy Resources (“DOER” or the “Department”) to solicit input from stakeholders as it moves toward implementation of a Clean Peak Standard for the Commonwealth. While Constellation does not have specific input at this time in response to all of the questions posed by the Department, Constellation does offer a few considerations for DOER to incorporate in its development of rules for the Clean Peak Standard.

Competition and Market Efficiency

Harnessing the power of competitive markets can drive both innovation and efficiency. Constellation commends the DOER and the Baker Administration for looking to a market-based construct to promote the use of clean energy resources during periods of stress on the bulk power system. Allowing projects and solutions to emerge through the marketplace will enable resources to succeed based on their actual value rather than the expectations of system planners. Using a certificate-based approach, similar to the Renewable Portfolio Standards and the Clean Energy Standard, allows for resources to compete on a fair and even basis and for the most efficient solution to emerge. Among the questions posed by DOER is the potential use of solicitations for long term or multi-year certificate purchases as a potential means of meeting the Clean Peak need. This approach has considerable appeal for investors who benefit from the price certainty in making capital investment decisions. Against this, however, is the potential to lock consumers in to a set of projects and technologies at a time when the landscape for Clean Peak resources is rapidly changing. As new technologies such as battery storage move toward greater economies of scale and as manufacturers benefit from the results of field trials the products on offer and their relative economic benefits are likely to change rapidly and considerably. For these reasons Constellation suggests that DOER rely on a short term market approach that leaves the risks of a changing market landscape with the investors and entrepreneurs rather than a multi-year approach that will lock consumers into today’s technology and today’s cost structure well into the future.

Clean Peak, Retail Electric Markets and the Need for Certainty

The implementation of a Clean Peak Standard will require DOER to make a challenging policy decision as to the trade-off between the environmental and reliability benefits of an increased supply of clean energy resources to meet system peak needs and the potential increased cost to

consumers of underwriting the development and operation of these new resources. Determining the optimal level of Clean Peak resources is a task that will require DOER to better understand both the needs of the system as well as the relative cost of conventional versus Clean Peak resources in meeting the system need. To bring forth the optimal level of resources DOER has two parameters that can be adjusted to stimulate and to bound the market response. One is the establishment of an Alternative Compliance Payment. An ACP functions as a market price cap to protect consumers and functions also as a safety valve to protect against the use of market power in a supply-constrained market. The other parameter is the Minimum Standard, which sets the demand in the marketplace. DOER has considerable experience with the interplay between these parameters in the administration of the renewable portfolio programs. As the Department has no doubt observed, setting the ACP too low results in an undersupplied market and the collection of considerable ACP revenues rather than the development of new resources. Conversely, setting the ACP too high results in a lack of optimal protection for consumers. Setting the Minimum Standard properly has the potential to keep the market back in balance but adjustments to the ACP in the short term also have the serious potential to cause disruption in the retail electric market if not applied carefully.

The retail electricity market in Massachusetts has been a success for businesses and consumers. One of the cornerstones of that market has been the ability of customers and suppliers to contract for the sale of electricity on a forward basis at prices that are both known and fixed at the time of contract. These fixed price offers enable businesses and consumers to accurately budget their energy expenses going forward and thereby make other economic decisions more effectively. Suppliers are able to offer fixed price forward products at a reasonable cost by backing their retail sales with forward wholesale purchases of energy, capacity and certificates. DOER has recognized in the context of the RPS the need to provide suppliers and customers with certainty by setting ACPs on a 10 year basis and by giving at least one year's advance notice when setting the Minimum Standard. Constellation appreciates this effort to accommodate the needs of retail suppliers and their customers and encourages DOER to make similar efforts in setting the rules for the Clean Peak Standard.

Based on our experience with RPS programs, two potential scenarios are of particular concern and we ask the DOER to consider carefully ways to avoid each.

The first troubling circumstance is a sudden and substantial increase in the Minimum Standard. While other states such as New Hampshire and Rhode Island allow for the suspension of increases or the reduction of renewable portfolio standards Massachusetts is unique within the region in allowing for an increase in the obligation on suppliers that is not known through a known, fixed escalation established by statute. Increasing the Minimum Standard burdens suppliers with an obligation to procure a larger quantity of certificates. For fixed-price customer contracts that were signed before the Minimum Standard increase suppliers are either stuck with an unrecoverable expense or with having to seek recourse from customers who sought to contract for energy at a known and fixed price. Dealing with increases to the Minimum Standard is one of the most challenging aspects of making fixed price offers for retail suppliers doing business in Massachusetts. To the extent DOER can avoid the need to implement increases in the Minimum Standard they should seek to do so in order to maximize efficiency in the retail electric market. If DOER determines that an increase is simply unavoidable DOER should seek to extend the advance notice to suppliers of any such change

as far in advance as possible. This will allow the retail electricity market to function more efficiently and with greater satisfaction for consumers.

The second troubling circumstance is a certificate market in which there is a persistent undersupply, resulting in market prices for a limited pool of certificates and resultant certificate prices that equal or approach the ACP. This situation benefits neither developers nor consumers and prevents suppliers from effectively performing the role of market maker between developers and consumers to promote market efficiency. This circumstance has been observed from time to time in connection with DOER RPS/Solar Carve Out programs. To avoid persistent undersupply DOER should take care not to set the ACP too low, perhaps erring slightly on the high side, and should be prepared to lower the Minimum Standard to allow supply to catch up to demand.

Constellation thanks the Department for the opportunity to submit these comments for consideration and looks forward to continued participation in the Department's implementation of a Clean Peak Standard for the Commonwealth.

Sincerely yours,

/s/ Thomas V. Chimento, III

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