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By E-mail doer.cps@mass.gov

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

Subject: Procurement of Clean Peak Energy Certificates

Commissioner Woodcock:

RENEW Northeast, Inc. ("RENEW")¹ submits these comments in response to the Department of Energy Resources' ("DOER") request for comment on its Straw Proposal for a Clean Peak Energy Certificate (CPEC) procurement system in conjunction with the Electric Distribution Companies (EDCs) that has been developed to meet the requirements in 225 CMR 21.05(8) and pursuant to M.G.L. c. 25A, § 17(c). Thank you for your work to develop the Clean Peak Energy Portfolio Standard ("CPS") that, with the addition of this long-term contracting component, should result in it becoming a successful first-in-the nation program for deployment of the most cost-effective Clean Peak Resources. RENEW strongly supports DOER's stated goals for this program of promoting the development of new, cost-effective clean resources by using procurements to lower risk to developers and targeting resources that have no other source of revenue certainty to lower risk.

RENEW is a non-profit association uniting environmental advocates and the renewable energy industry whose mission involves coordinating the ideas and resources of its members with the goal of increasing environmentally sustainable energy generation in the Northeast from the region's abundant, indigenous renewable resources. RENEW members own and/or are developing large-scale renewable energy projects, energy storage resources and high-voltage transmission facilities across the Northeast. They are supported by members providing engineering, procurement and construction services in the development of these projects and members that supply them with multi-megawatt class wind turbines. Its members are developing stand-alone transmission interconnected Qualified Energy Storage Systems ("QESS") and QESS virtually or physically paired with renewable energy resources. RENEW seeks to promote policies that will increase energy diversity, promote economic development, and achieve the Commonwealth's policy goals including those found in the Renewable Portfolio Standard ("RPS"), G.L. c.25A, §11F, and the Global Warming Solutions Act ("GWSA"), G.L. c. 21N.

¹ The comments expressed herein represent the views of RENEW and not necessarily those of any particular member of RENEW.

A. Procurement Design

1. Auction Format

During the development of the Clean Peak Energy Portfolio Standard Regulation, RENEW favored using EDC contracting for this procurement program. Developers find that a tariff model compared to EDC contracting might pose additional risks to bidders that would be passed on to consumers through higher prices. However, the Straw Proposal's approach, which would place the terms and conditions for the procurements under an EDC tariff like a pre-negotiated contract, is workable. RENEW strongly recommends the tariff use a descending clock auction resulting in a single clearing price as this format will produce the lowest price for the quantity of the attribute. That aligns with DOER's goal of keeping costs low. The ISO New England (ISO) Forward Capacity Auction (FCA) uses this model.

2. Timing and Frequency of Auctions

RENEW supports the Straw Proposal design of two auctions per year. RENEW supports one auction be a larger auction to obtain the price benefits from projects having better economies of scale. That auction should be annually during the summer. A second auction in the following spring would serve as make-up auction if one were needed to fulfill unmet procurement targets from the prior auction. A resource should be able to bid partial amounts of its capacity into two or more auctions.

After the completion earlier this month of ISO's FCA 15, the ISO Forward Capacity Market (FCM) rules for energy storage are changing with the elimination of the FCM seven-year price lock. For future FCAs, the ISO FCM will not provide a certain enough revenue stream to finance merchant storage projects. A developer's revenue commitment from the CPS is what it will use to obtain financing and set its development timeline. Consequently, a developer may not commit to obtaining a Capacity Supply Obligation from the FCM before it participates in the CPEC auction.

By having the CPEC auction in the summer, a developer who clears in it will have the confidence months later to submit a deposit by the ISO's October deadline to participate in the FCA in February of the following year. If a developer who receives a CPEC commitment goes on to clear in the FCA, consumers will benefit. In the competitive environment of the auction, developers will factor in some of amount of risk-adjusted capacity revenue into their CPEC auction bids.

The EDCs should hold auctions concurrently, with EDCs procuring CPECs jointly from projects located anywhere in the Commonwealth (i.e., allow for an EDC to procure CPECs from a resource outside its service territories). One larger statewide auction will allow for larger storage resources, which have the lowest costs, to secure a CPEC commitment.

3. Mitigation of Speculative Bids

RENEW recommends several requirements be placed in the tariff to minimize speculative bids. These rules will further DOER's objectives by ensuring new and incremental clean peak resources are deployed. It does so by ensuring bidders do not suppress the clearing price below a level that will result in high attrition rates after the auction. The tariff should require a bid deposit be in place until a project reaches its Commercial Operation Date (COD) at which time the deposit is refunded.

Bidders should be required to demonstrate having achieved defined thresholds on site control, status of interconnection agreements, and local and state permits. Here, RENEW supports the tariff providing bidders with two options: (1) site control, local permit applications filed, the interconnection application filed, and a deposit of \$7,000/MW capped at \$700,000 per project; or (2) site control, local permit applications filed, system impact study being complete and a deposit of \$3,500 capped at \$350,000. Letters of credit and cash should be acceptable forms of collateral; a letter of credit is equally effective in tying up capital for the developer and creates no additional administrative burden for DOER or the EDCs. If DOER is hesitant to implement bid deposits, RENEW recommends bidders be required to demonstrate site control, filed local permit applications, and completion of the system impact study.

B. Term for Fixed-Price CPECs

One of DOER's objectives is to "provide revenue certainty for clean peak resources to enable financing." The proposal to guarantee the CPEC price for only six years will decrease certainty and increase risk for developers which will translate into higher consumer costs. While RENEW understands DOER's interest in minimizing stranded costs, extending the contract duration beyond six years will permit the amortization of costs over a longer period and thereby realize a lower annual cost for consumers. Again, this meets DOER's stated objective of attaining cost-effective CPEC supply. New York, which initially had a seven-year price lock-in, has moved to a ten-year price lock-in due to developers facing significant uncertainty about realizable merchant revenues after the expiration of the seven-year contract, and thus having to submit bids designed to recover a significant percentage of their costs over that seven-year contract period. For this reason, a modest increase to the contract duration to ten years is appropriate.

The Straw Proposal does not specify how many years in advance the RFP occurs ahead of the first compliance year of delivery by awarded projects (i.e., how much time between the RFP and awarded projects are operational). RENEW recommends that DOER adopt a forward market for CPEC awards. Each auction should operate with a specific forward timeline so that CPECs are minted starting 24 months forward from when project is notified of its award (e.g., procurement awards in Dec 2021 would be for ten years starting in Jan 2024). This requirement, however, should not preclude assets having a Commercial Operation Date before the expiration of the 24 months from being able to sell CPECs generated at a market price until the award period commences.

The Straw Proposal states that at the end of the commitment term the resource will own all future CPECs. RENEW requests that the tariff define the legal status of the CPECs prior to the end of the term.

C. Program Eligibility

The Straw Proposal includes a provision to limit the amount of EDC-owned-resource generated CPECs counted toward their initial 30% target. EDC-owned, SMART STGU and 83C offshore wind CPS resources should not be eligible to count toward the procurement target at all. RENEW submits their inclusion is contrary to DOER's principle that the procurements target resources not being able to benefit from existing policies that provide long term revenue certainty and support additional and incremental resource development.

The tariff should be clear that the program has no restrictions on commercial operation date besides the CPES program requirement of January 1, 2019 or later, provided the resource does not have access to incentives or other long-term contracting programs administered by the Commonwealth. It should also state all otherwise CPES-eligible technologies (RPS, QESS and energy efficiency) are eligible to participate in the proposed long-term procurements.

D. Size of Procurement

RENEW recommends the procurement obligations for the EDCs in years prior to the COD of the first procured CPECs be accrued- no negative consequence to the EDCs for not having procured CPECs- due to the procurement design process having taken many months and the natural delay of a forward auction structure. This accrual of CPECs should be added to the total CPEC target for the procurement. For example, if the procurement is for 100 CPECs per year and the tariff is 10 years, then that year's procurement would be for 1000 CPECs. If two years of procured CPEC obligations were accrued, then that would amount to 300 additional CPECs making the procurement for 1300 CPECs delivered over 10 years. This accrual mechanism could also be used to reallocate any procured CPECs from projects whose allocations are terminated (failed projects).

The requirement for an initial target of 30% of the market obligation gives no sense of the scale of the procurement. DOER should provide a schedule of procurements over the next several years. DOER should provide notice of the final size of the procurement well before each auction as well as an estimate for the next two years of procurements so that developers can plan.

The Straw Proposal is not clear on how and when DOER will determine if it needs to decrease the subsequent procurement target by up to 15%. RENEW recommends the ability to shrink the procurement obligation be used judiciously to avoid uncertainty around development of the large, standalone storage projects that are well suited to meet the procurement goals. If shrinking of the obligation is deemed necessary, RENEW recommends that the level of reduction

be limited to less than the amount of non-procured market supply that exceeds 70%. Shrinking the procurement in an undersupplied market as permitted in 225 CMR 21.05(8)(b) would send a chilling long-term signal to the market.²

E. Performance Penalties

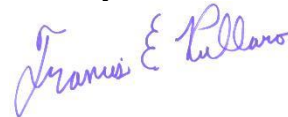
The Straw Proposal includes identification of terms and conditions types including penalties for supplying fewer than the awarded number of CPECs. RENEW supports including a penalty schedule in the tariff that is specific to technology and the stage of development. Underperformance by more than 10% should carry an appropriate penalty, based on the value tied to the tariff contracts awarded in the procurement, that ultimately leads to termination of the commitment to the project. For a project that is underperforming due to unplanned maintenance or other force majeure conditions, the project owner should be permitted to supply CPECs from other resources to meet shortfalls rather than pay the penalty for the duration of the project's underperformance cure period. RENEW recommends a cure period not to exceed six months and that protections be put in place to mitigate arbitrage.

F. Stakeholder Feedback

DOER should also commit to holding a technical conference before issuing a draft of the tariff and providing an opportunity to comment on drafts of the tariff. A conference is necessary to give participants the opportunity to confer with DOER and the EDCs on the details of the design. It will also allow DOER to receive feedback from stakeholders on their experiences with procurements for energy storage resources in other states.

Thank you for the opportunity to offer these comments.

Sincerely,



Francis Pullaro
Executive Director

² Market supply in excess of 70% means that the market is undersupplied since procured CPECs are defined as part of the market supply.