

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 19-203

ELECTRIC RENEWABLE PORTFOLIO STANDARD

Adjustment to Renewable Portfolio Standard Class III Requirements

COMMENTS OF THE BRIDGEWATER POWER COMPANY

NOW COMES the Bridgewater Power Company (“BPC”), by and through its attorneys, Donahue, Tucker, & Ciandella, PLLC, and hereby submits the following comments with regard to the proposal identified in the above-referenced docket.

1. The Commission issued an Order of Notice on December 24, 2019 in this Docket, in which the Commission stated that, pursuant to RSA 362-F:4, VI, it was considering a modification to the Class III Renewable Energy Credit (“REC”) purchase requirements for compliance year 2019 from the 8.0% established under New Hampshire Renewable Portfolio Standard (“NHRPS”). The reason set forth for the Commission’s consideration was the reported lack of availability of Class III RECs in the market due to reported temporary and permanent closures of Class III certified biomass facilities, which, in turn, has reportedly caused Load Serving Entities (“LSEs”) to have to make increased alternative compliance payments (“ACPs”).

2. BPC submits these comments to express that it does not support a proposal that would result in the reduction of purchase requirements for Class III RECs at this point in the compliance year. The reduction of such purchase requirements (1) will undermine the purpose and goals of the NHRPS, (2) fails to address the underlying cause for LSEs reliance on ACPs; (3) will result in qualified Class III biomass facilities to be economically disadvantaged, and (4) will have potential unintended consequences in the regional REC market. BPC’s responses to the specific inquiries posed by the Commission follows:

I. BPC's 2019 Annual Electric Generation Output

3. BPCS is a 15MW biomass facility located in Bridgewater, New Hampshire. BPC's annual generation output for 2019 was 81,644 MW. In 2019, market conditions forced Bridgewater to have market-based downtime during the months of April, May, and June.

II. The Availability of New Hampshire Class III RECs from BPC

4. BPC's expected annual output is approximately 125,000 MW.

III. The Demand for New Hampshire Class III RECs Based on Market Conditions for Compliance Year 2019

5. During 2019, BPC sold RECs at a low of \$14.50 and a high of \$50.00 reflecting a true market with inherent volatility. Further discussion regarding the demand for Class III RECs and the 2019 REC market can be found in Section IV.

6. There has been a suggestion that generators are seeking the ACP rate for New Hampshire Class III RECs. BPC's experience has not been reflective of such conditions. BPC has unsold 2019 NH Class III RECs and has offered them in the market at a rate of more than a 10% discount to the ACP and has been unable to sell them since the DE 19-203 Order of Notice was issued.

IV. It is Not Appropriate or Reasonable for the Commission to Adjust RPS Class III Requirements for Compliance Year 2019

7. It is neither appropriate nor reasonable for the Commission to adjust the RPS Class III requirements for compliance year 2019 because the reduction of Class III REC purchase requirements is contrary to the purpose and objectives of the NHRPS.

8. As reflected in RSA 362-F:1, the purpose of the RPS is, in recognition of the public benefit provided by renewable generation, to "stimulate investment in low emission renewable

energy generation technologies in New England and, in particular, New Hampshire whether at new or existing facilities.”

9. Presently, the unavailability of Class III RECs is due in part to the temporary and permanent closures of biomass facilities. The permanent closures involve the DG Whitefield and Springfield Power Biomass Facilities, which have a nameplate capacity of 18MW and 18.8 MW, respectively.

10. These temporary and permanent closures are largely attributable to two factors: (1) the decreasing price of power due to low natural gas prices and (2) the practices of market participants in the purchase of RECs. With regard to factor (1), biomass facilities such as BPC are “price-takers” meaning they participate in the day-ahead energy market and receive the locational marginal price established by the daily bid process, set most notably by natural gas facilities. The decrease in natural gas prices has resulted in negative pressure on locational marginal pricing, which in turn has significantly reduced the revenues earned from energy sales that can be utilized toward fixed and variable costs.

11. The impact of lower revenues from the sale of energy has resulted in biomass facilities to rely more heavily on sales of Class III RECs. These RECs are now necessary to pay fixed and variable costs to keep biomass facilities in operation. REC payments usually have an associated delay between when the REC is generated and when money is received for the REC, with the delay being upwards of six-months. LSEs who are required to purchase RECs are aware that generators are in need of the certainty of the REC revenue they would have generated in the early quarters and have a need to contract for those RECs in early quarters for the biomass plant to secure the known future revenue needed to operate. With this knowledge and no obligation to purchase RECs for many months forward, the LSEs are not willing to bid/pay an amount sufficient

for Class III RECs that will allow the biomass facility to operate profitably. As a result, Class III generators are forced to temporarily (or in the class of DG Whitefield and Springfield Power, permanently) cease operations until REC prices sufficiently increase to justify operation. As a result, biomass facilities in 2019 have not been in operation sufficient to meet the Class III REC demands, and LSEs are required to make ACPs or, in this case, seek a reduction in the purchase requirements for Class III RECs. The unavailability of sufficient Class III RECs, therefore, is not attributable to insufficient biomass capacity, but is due to the conduct of market participants.

12. Notwithstanding the closure of DG Whitefield and Springfield Power, there remains sufficient capacity to satisfy demand under the NHRPS. Although the anticipated Class III REC production may be below the 8% purchase requirement, with an anticipated demand of 870,800MW, the anticipated shortfall is not the result of unavailable capacity. The total nameplate of the 20 remaining qualified Class III generators under the NHRPS is 147MW (exclusive of DG Whitefield and Springfield Power).¹ Of these generators, 94.1 MW is attributable to biomass facilities and 53.368 MW is attributable to landfill gas generators. Assuming a 90% capacity factor for these facilities, the energy output from these facilities can be 1,158,946MW to satisfy an anticipated 870,800MW of demand. In the last quarter New Hampshire has had higher Class III REC prices than in other states, and it is not unreasonable to expect that, this incentivized plants to operate and those Class III RECs will be sold in the New Hampshire market. In short, the lack of available capacity is not infrastructure based, but market based, and the proposal to lower Class III REC purchase requirements will not resolve the market-based influences on Class III REC unavailability.

¹ It should be noted that many of these facilities have dual qualification in other jurisdictions, i.e. Massachusetts and Connecticut.

13. The lowering of the purchase requirements for Class III RECs in compliance year 2019 will erode market leverage on the part of Class III generators who continue to hold RECs for sale and will create a further market incentive for LSEs to offer below market REC prices to Class III generators in future compliance years anticipating that the commission will lower the purchase requirement if the facilities do not generate. As such, economic pressures associated with further difficulty in contracting Class III RECs in early quarters may result in further closures (which may adversely impact future capacity prices and is contrary to RSA 362-F:1), remove available renewable generation from the market, and result in further scarcity of Class III RECs. It is not unforeseeable, that further closures would have impacts on other regional REC markets due to many New Hampshire biomass generators being qualified REC generators in other states, where the removal of that renewable generation may impact the availability of qualified RECs in those states. As a result, this proposal has implications beyond the State of New Hampshire and compliance year 2019.

14. This docket represents a circumstance different and distinct from other occasions during which this Commission considered adjusting the purchase requirements for Class III RECS. In PUC Dockets DE 13-021, 14-104, 15-035, 15-477, this Commission considered lowering the Class III REC purchase requirement due to the scarcity of Class III RECs available to New Hampshire LSEs caused by Class III generators selling RECs in markets with higher REC prices or higher ACP rates. See Electric Renewable Portfolio Standard, Order 25,484, DE 13-021 at 16 (Decided April 4, 2013); Electric Renewable Portfolio Standard, Order 25,674, DE 14-104 at 9 (Decided June 3, 2014); Electric Renewable Portfolio Standard, Order 25,768, DE 15-035 at 9 (decided March 13, 2015); Electric Renewable Portfolio Standard, Order 25,844 DE 15-477 at 5 (decided December 2, 2015). Unlike those prior dockets, the scarcity of Class III RECs in this

instance is due to market conditions forcing the suspension of operation of biomass facilities. Therefore, unlike in prior dockets – where the reduction of the Class III RECs purchase requirements in past compliance did not stand to cause an adverse effect on biomass generators – a reduction in this compliance year will have an adverse effect on biomass facilities like BPC.

15. For these reasons, the reduction of the Class III RECs purchase requirement is neither appropriate nor reasonable at this time.

V. If the Commission Adjusts RPS Class III Requirements for Compliance Year 2019, the Commission Should Not Adjust the Requirements in Accordance with the Methodologies Used in Prior Dockets

16. BPC is concerned that the Commission, if it decides to make an adjustment, will utilize an adjustment methodology similar to that used in other dockets. In prior dockets, the Commission adjusted the Class III REC purchase requirements by calculating between 85% and 95% of the available output of qualified REC facilities. This methodology would be inappropriate under these circumstances because, by utilizing an adjustment methodology similar to that which was utilized in those prior dockets, the resulting adjustment may result in further reductions in qualified generation, rather than creating an incentive for biomass facilities to operate. Stated differently, establishing a Class III REC purchase requirement based on qualified generation during a period of widespread suspended operations, means that the demand for RECs will be further reduced, which will either keep REC prices stagnant or will reduce prices further, both of which may cause future and/or increased periods of suspended operations.

17. The Commission should also not adjust Class III RECs during the active 2019 compliance year. This docket is taking place toward before the third quarter of compliance year 2019 RECs transfers and is proposed to take effect with regard to compliance year 2019. The potential impacts of a Class III purchase requirement reduction are already manifesting in the

market place. The price of RECs in the market prior to the opening of this docket was \$50/MW. As of January 8, 2019, the price offered in the market has dropped to \$38/MW. This reduction took place during a period of traditionally high REC prices. If there is to be an adjustment, the adjustment should be done in a period where it will not adversely impact biomass generators and should not occur until after June 15, 2020, when the transfer period for compliance year 2019 ends.

18. Notwithstanding, BPC still recognizes that a scarcity of Class III RECs will result in a larger number of ACPs at the \$55 ACP Rate, which may, in turn, adversely impact ratepayers. However, BPC proposes that there are other alternatives to addressing this issue, other than through the adjustment of the Class III REC purchase requirements. BPC proposes that, instead, any increased costs to ratepayers associated with ACP payments should be placed into a rate mitigation fund which can then be utilized to offset any corresponding rate increases or impacts to ratepayers. In that way, the Commission can ensure that an incentive remains for LSEs to bargain fully and fairly with biomass providers, while at the same time ensuring that ratepayers are not adversely impacted. In the alternative, if the Commission proceeds with a negative purchase requirement adjustment, the Commission should first require LSEs to show that LSEs made offers at or around the ACP rates for any available RECs remaining in the market. Alternatively, the ACP's can be put into the renewable energy fund and existing facilities can apply for grants from the fund to make capital investments in their facilities etc. so that the facilities can remain solvent and support the goals of the RPS.

VI. Conclusion

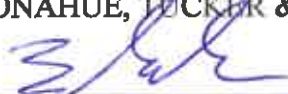
19. In conclusion, the negative purchase requirement adjustment to Class III RECs is contrary to the objectives of the NHRPS. The adjustment does not address current market conditions and may exacerbate the scarcity of Class III RECs by causing further suspensions to

plant operations. Further, the adjustment may have negative consequences beyond the compliance year 2019 and beyond New Hampshire. The adjustment should not be made effective in compliance year 2019, as such an adjustment may (and likely already is) having a negative impact on the market price of Class III RECs. Lastly, the Commission should consider other alternatives to mitigate rate impacts associated with the scarcity of Class III RECs other than the adjustment to the purchase requirement, such as the placement of ACP monies into a rate mitigation fund.

20. BPC reserves the right to supplement these comments following the public comment hearing scheduled for January 13, 2020.

21. BPC appreciates the Commissions thought and consideration.

Respectfully submitted,
BRIDGEWATER POWER COMPANY
Through its Attorneys
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Certificate of Service

I hereby certify that I served a copy of this filing pursuant to Puc 203.11(c) to the current service list in this Docket this 13th day of January, 2020.



Eric A. Maher, Esq.