THE P3 GROUP

April 25, 2019

Governor Larry Hogan
100 State Circle
Annapolis, Maryland 21401-1925

Re: Maryland Senate Bill 516

Dear Governor Hogan:

The PJM Power Providers Group ("P3")[1] respectfully submits this letter to urge you to veto Senate Bill 516. This law passed in the final hours of the 2019 General Assembly session and if not vetoed would drastically change Maryland's energy policies. The law among, other things, mandates that half of the state's electricity come from renewable sources by 2030 and makes dramatic changes in RPS policies. If this law is enacted it will be a very significant change to Maryland's energy policies that could prove very costly to Maryland consumers.

These additional costs are not well understood and could lead to significant additional financial burdens on Maryland's homes and businesses. Maryland's electricity rates are already high compared to neighboring states such as Pennsylvania and Virginia. In fact, average retail electricity rates in Maryland were 30% higher than Virginia and 20% higher than Pennsylvania in 2017.[2] Efforts to limit market opportunities for consumers by expanded RPS policies will only further increase costs to consumers and further separate Maryland's electricity rates from its regional competitors.

For example, Senate Bill 516 would expand Maryland's Off Shore Wind program at a time when the exorbitant cost of the program is about to arrive on consumer bills. In 2017, the Maryland Public Service Commission, pursuant to Maryland Off Shore Wind Act of 2013, approved two off shore wind projects that combined for 366 MW of capacity at a total cost to

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[1] P3 is a non-profit organization whose members are energy providers in the PJM Interconnection LLC ("PJM") region, conduct business in the PJM balancing authority area, and are signatories to various PJM agreements. Altogether, P3 members own approximately 84,000 megawatts ("MWs") of generation assets, produce enough power to supply over 20 million homes, and employ over 40,000 people in the PJM region,representing 13 states and the District of Columbia. These comments do not necessarily reflect the specific views of any particular member of P3 with respect to any argument or issue. For more information on P3 see www.p3powergroup.com.

[2] http://www.neo.ne.gov/statshtml/204.htm

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ratepayers of nearly $2.1 billion.[3] The Commission, at the time, called its approval a "premium investment" – a clear understatement.

Contrast the Maryland Off Shore Wind expenditure to the new CPV St. Charles Energy Center in Charles County that opened in March of 2017. The state-of-the art natural gas-fired power plant was constructed at a cost of $775 million and produces 725 MWs of electricity. At the time, you appropriately observed, ""We have created an exciting economic resurgence in Maryland, and today we are seeing even more proof of that as we celebrate the opening of CPV St. Charles, one of the largest economic development projects in our state in the past 20 years,"[4]

When capacity factors are considered, this new Charles County plant will produce 3 to 4 times the amount of electricity for about a third of the capital cost. Furthermore, this plant was built with 100% at risk merchant capital, whereas Maryland ratepayers will be paying above market rates for this "premium investment" in offshore wind into 2043.

Senate Bill 516, if not vetoed, will require the Public Service Commission to approve 1200 MW of additional offshore wind projects. If current prices hold that would be over $8 billion for similar deliverable capacity to what was just built in Charles County for $775 million. While, in theory, the price for offshore wind should have declined since 2017, offshore wind is still a very expensive proposition when analyzed on a per megawatt basis.[5] Senate Bill 516 could lock Maryland consumers into paying these expensive power prices until 2050 further widening the gap between Maryland energy prices and other mid-Atlantic states.

The Off Shore Wind program set forth in Senate Bill 516 speaks to the broad problem associated with the legislation – Maryland consumers are locked into policies that rob them of choice and force them to pay more for electricity than they otherwise should. As seen above, Marylanders will be buying very expensive electricity for decades if this bill is approved.

Moreover, by dictating the sources for 50% of the electricity consumed in Maryland, Senate Bill 516 effectively closes Maryland's doors to those investors that would otherwise

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[3] https://www.psc.state.md.us/wp-content/uploads/PSC-Awards-ORECs-to-US-Wind-Skipjack.pdf

[4] https://www.cpv.com/news/2017/06/cpv-hosts-governor-of-maryland-ambassador-of-japan-and-local-officials-for-ribboncutting-to-celebrate-new-electric-power-generation-facility-coming-online/

[5] Note that the New Jersey Board of Public Utilities recently rejected an offshore wind application due to its high costs, among other things. https://www.njspotlight.com/stories/18/12/18/state-rejects-atlantic-city-offshore-wind-project-for-third-time-too-pricey/. Also of note, the Virginia State Corporation Commission recently approved an offshore wind project that it did not consider prudent due, in part, to the high cost of offshore wind relative to other resources such as onshore wind, solar, demand response and new natural gas fired generation. The Commission, however, approved the project citing the "public policy declarations of the General Assembly." See, http://www.scc.virginia.gov/docketsearch/DOCS/4c%24z01!.PDF

invest at risk capital in the state in hopes of gaining market share from competitive operations. Maryland would effectively be setting an energy policy that favors those that can muster the political support for a subsidy rather than those market participants who can operate more efficiently than their competitors.

Maryland could effectively achieve its environmental goals through means other than those advanced in Senate Bill 516. If Maryland is interested in carbon reductions, it should approve market-based mechanisms that price carbon without damaging the competitive electricity markets. The state should also look for carbon reductions beyond just the power generation sector. If Maryland consumers want to choose renewable energy, they have that option under existing law and increasingly Maryland consumers are choosing that option. There are better ways than Senate Bill 516 for Maryland to achieve its energy and environmental goals – the state should be focused on those paths rather than the one put forth in this bill.

P3 respectfully urges you to veto this law.

Respectfully submitted,

Glen Thomas

Glen Thomas, President
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