SENATE CONSUMER PROTECTION AND PROFESSIONAL LICENSURE AND SENATE ENVIRONMENTAL RESOURCES AND ENERGY COMMITTEE JOINT HEARING ON THE ALTERNATIVE ENERGY PORTFOLIO STANDARDS (AEPS) ACT
PUBLIC HEARING – MAY 1, 2019

NRG Energy, Inc. appreciates the opportunity to submit these comments in response to the Senate Consumer Protection and Professional Licensure and the Senate Environmental Resources and Energy Committees' request for information about the implications of various proposals to modify Pennsylvania's Alternative Energy Policy.

Who We Are

NRG is a leading integrated power company built on dynamic retail brands and diverse generation assets. A Fortune 500 company, NRG brings the power of energy to consumers by producing, selling and delivering electricity and related products and services – including carbon free energy choices – to consumers in competitive markets across the U.S. and Canada, as well as 23,000 MW of electric power generation including nuclear, coal, gas, oil and solar nationwide. Our retail brands serve more than three million customers across nineteen states and provinces. One million of those customers are in markets outside Texas, including a significant share in Pennsylvania – so significant, in fact, that NRG's northeast retail business is headquartered in Philadelphia. We have several licensed retail electricity suppliers that are actively serving residential, commercial, industrial and institutional customers. Our retail companies offer customers a range of products including demand response and energy efficiency, 100% renewable energy, energy plans bundled with energy efficiency technology, such as Nest thermostats, as well as loyalty rewards and our charitable giving products through our "Choose to Give" plans. NRG is committed to addressing climate change through science-based goals of reducing carbon emissions 50 percent by 2030 and 90 percent by 2050. These are among the industry's most aggressive and substantive targets, placing NRG at the forefront of sustainability efforts across the country.

PA Led the Nation in Recognizing the Value of Competitive Market Forces in Delivering Value to Consumers and It Should Continue To Do So

In 1996 the Commonwealth emerged as a national leader in electricity policy when the Electricity Generation Customer Choice and Competition Act ("Competition Act") was enacted.

As envisioned by the Legislature, the Act was intended to foster a robust and vibrant competitive market in Pennsylvania. Notably, in adopting the Act, the Legislature declared that:

- "Competitive market forces are more effective than economic regulation in controlling the cost of generating electricity," and that
- The "cost of electricity is an important factor in decisions made by businesses concerning locating, expanding and retaining facilities in this Commonwealth."

Before competition, Pennsylvania's electricity rates were 15%-20% above the national average. Now they are consistently *below* the national average. In addition, as many as 2 million residential energy customers have selected alternative suppliers and virtually all industrial customers are currently purchasing power from competitive suppliers. Many of these customers are choosing, on their own, to go green.

Nationwide, corporate efforts to go green more than doubled in 2018 – corporate customers now consume 15 gigawatts of renewable energy. As business and consumer interest in renewables continues to grow, innovation spurred by competition will bring about new products and services to meet their demand for cleaner power in simplified and unexpected ways. Residential consumers are also seeking new ways to engage with their power. Technologies such as smart thermostats, smart appliances, and even electric vehicles are giving individuals more choices and control than ever before. Companies like NRG are helping customers better understand their energy use and giving them the tools to help control it.

We encourage the legislature to continue its commitment to competitive markets as it explores policies to support carbon free resources so that customers may continue to choose the type of energy that aligns with their interests and values – and that increasingly means buying green power.

Competitive Markets Deliver on Carbon Free Policy Promises – At the Lowest Possible Price to Consumers

NRG, like Pennsylvania, knows something about the power of competitive markets to drive the growth of renewable energy.

Green Mountain Energy Company, an NRG retail affiliate, pioneered the voluntary renewable energy market more than 20 years ago. Long before there was an AEPS, long before "green energy" was mainstream, Green Mountain offered residential, business and institutional electricity customers the choice of how their electricity was generated. In fact, customer demand for renewable energy led to the development of The Green Mountain Energy Wind Farm in Garrett, PA in May 2000, the first utility-scale wind power generating facility east of the Mississippi– *less than two years after the PA electric market opened to competition and before enactment of the AEPS Act*. Over the last 21 years, Green Mountain's customers have avoided more than 73 billion pounds of CO_2, the equivalent of planting more than 8.6 million trees or taking 6 million cars off the road for a year.[1]

The enduring legacy of competitive clean energy markets is the foundation upon which cities, states, and companies across the U.S. are making commitments to transition to 50% or 100% carbon free or renewable energy in the coming years. Such a significant transition to achieve a low-carbon future at a price that consumers can afford requires that we re-tool our approach to competitive markets. Doing so will deliver the lowest carbon generation sector at the lowest possible cost.

Any effort to spur this transition must revolve around two fundamental organizing principles:

1. First, Pennsylvania must not restrict the right of electricity customers, large or small, to buy the types of energy that aligns with their interests and values. Pennsylvania should not stand in the way of customers determining what they want or tell them what kind of green power they have to buy, or make them pay twice – once on the competitive supply portion of their bill, and again as a non-bypassable surcharge.

2. Second, a competitive clean energy market, open to all forms of carbon-free power, represents the lowest cost solution to meeting government-set carbon objectives. Indeed, wholesale electricity markets – where the objective is lowest cost reliability – utilize government-set reliability targets, and then use the market to achieve those targets in the most affordable way.

Today's AEPS requirements are entirely consistent with this framework. Pennsylvania sets the portfolio standard. Competitive suppliers arrange for their own clean energy supplies. Retail consumers can choose what kind of green power they want. And suppliers compete to innovate and deliver the lowest cost available clean energy attributes.

Whatever the label supporters have slapped on the current proposal, it is not an improvement to the AEPS program that has served Pennsylvania customers so well for more than a decade.

[1] Green Mountain's *Sun Club* has provided nearly $1.5 million towards the installation of 386 kW of solar at 20 different nonprofit locations across the Commonwealth, in addition to other sustainability initiatives. Sun Club is a nonprofit whose donations come from Green Mountain Energy, its customers and employees.

Instead, it replaces the competitive AEPS program with a government handout program that increases costs and replaces competitive green energy markets with forced purchases from specific "most favored nation" suppliers. Suppliers would be prevented from innovating and exploring lowest cost ways of meeting their green energy obligations. Customers would lose transparency into the cost of green power because it would be hidden on the transmission and distribution portion of the bill, instead of being reflected in the competitive supply portion of their bills. Market based investments will be displaced by mandated support for aging nuclear power plants. Said another way, such subsidies outlined in the SB510 and HB11 defeat the markets, defeat innovation, and defeat job creation and new investment. Any way you look at it, consumers lose.

But there is a better way. Pennsylvania can be a leader in creating a truly competitive zero-carbon energy market that rewards innovation and operational excellence. A competitive clean energy market is consistent with the rich historical tradition in the Commonwealth of using market-based mechanisms to achieve societal goals at the least possible cost to consumers. Pennsylvania led the way when it adopted AEPS in 2004, and again when it fine-tuned it in 2007 and 2017. Pennsylvania can lead the nation again by taking the next step towards an environmentally and economically sustainable future – something that other states (e.g., Illinois, New York, New Jersey) have failed to do for their consumers.

Moving towards an environmentally and economically sustainable future also requires that we avoid fatal pitfalls. Specifically:

- Don't redistribute precious tax revenue or ratepayers' hard-earned dollars via subsidies for commercially mature generating technologies;

- Don't lock consumers into excessively-priced contracts for specific clean energy technologies when lower cost clean energy is available;

- Don't provide corporate welfare to existing power plants that are profitable under the guise of promoting carbon free energy; and

- Certainly don't make customers buy overpriced energy from specific, uncompetitive, 40+ year old technology.

A better approach is to define the attributes that we are looking for in our energy supply – in addition to reliability – and then incentivize private capital to compete to provide those attributes. Every carbon-free megawatt has the same value to fight climate change. When everyone competes, the lowest-cost resources win. Imagine a competitive, technologyinclusive market where renewable energy, nuclear, carbon capture, or battery storage projects win because they provide the most green attributes at the lowest price.

NRG urges the Committees to take their time in developing that new solution and refrain from reversing decades of progress developing a competitive generation market in Pennsylvania that has delivered enormous results for the Commonwealth's consumers.

Current Proposals to Alter Pennsylvania's Alternative Energy Portfolio Standards will Irreparably Harm Competitive Market and Cost Pennsylvania Consumers Billions

NRG supports state policies aimed at decarbonizing the electric generation sector by leveraging competitive, market-based approaches that facilitate private investment and minimize cost to consumers. Unfortunately, the technology-specific subsidies contemplated in SB 510 and HB 11, as well as SB 600 which includes a mandate for long term power purchase agreements, represent an about face to Pennsylvania's twenty year policy of supporting competitive energy markets. Rather than relying on the competitive market to deliver the most cost effective generation to Pennsylvania consumers, these proposals put government in the role of picking winners and losers, and it puts Pennsylvania on a path to fully re-regulating the electricity supply market. More specifically, the proposals undermine the competitive market in several ways. The subsidies envisioned in the proposals, under the guise of an "alternative energy resource" designation:

- Are expensive – estimates range from a conservative $500 million to over $1 billion every year in additional costs to consumers from the proposed revisions to the AEPS Act.

- Transfer investment risk from generation owners and investors to consumers, who already paid more than $8.6 billion in stranded costs attributable to Pennsylvania's nuclear plants when the market transitioned to competition.

- Are at odds with existing wholesale electricity markets, which rely on supply and demand to set prices, send signals for new investment and encourage innovation, ensuring deployment of the most economically efficient resources.

- Inefficiently prop up a stale technology that is no longer viable in a competitive market.

- Reduce any incentive for the owners of that stale technology to become cost competitive.

- Stifle innovation from competitors eager to bring new, lower cost solutions to the market.

- Encourage government dependence (i.e., when do the subsidies end?).

To be clear, NRG supports allowing nuclear generation to compete fairly – in fact we own 1,136 MWs of a nuclear facility in South Texas. That facility is operated on a competitive basis to offer carbon free, safe, reliable service to the Texas energy market. It is an important part of a fuel-diverse generation fleet serving that region. But we cannot support subsidies to any generation resources that are not economically viable. Despite claims to the contrary, nuclear power will continue to be part of Pennsylvania's power generation mix, even if Three Mile Island is decommissioned – a process that will take decades and hundreds of employees to complete. With the exception of TMI, all of the nuclear units are committed to the market for years to come. PJM, the entity responsible for grid reliability, has confirmed that the electricity grid will remain reliable and resilient even with the planned closure of the plants in Pennsylvania's nuclear fleet that are no longer cost efficient.

Moreover, according to Marketing Analytics – the Independent Market Monitor for PJM – the companies that are requesting ratepayers to fund uneconomic facilities made $600 million in 2018 and are projected to make $400 million in 2019. And in a new report released this week, "The Market and Financial Position of Nuclear Resources in Pennsylvania," found that eight of the nine nuclear units are currently profitably, and that, "The bottom line is Pennsylvania nuclear resources are profitable on an operating basis and have no incentives to retire for the foreseeable future, and there is no need for additional out-of-market financial support."

There is no immediate threat that the Legislature should feel pressured to resolve with the proposals currently on the table.

Conclusion

NRG appreciates the opportunity to provide these comments and we look forward to working with the Legislature as it explores its policy options to decarbonize the energy sector by leveraging competitive market based solutions.

For more information, please contact:

Leah Gibbons
Director Regulatory Affairs
NRG Energy, Inc.
3711 Market Street, Suite 1000
Philadelphia, PA 19104
lgibbons@nrg.com
301.509.1508

Sarah Battisti
Director Government Affairs
NRG Energy, Inc.
3711 Market Street, Suite 1000
Philadelphia, PA 19104
Sarah.Battisti@nrg.com
717.418.7290