

**Renewable Energy Taskforce
2012 SREC Auction Proposal
July 25, 2012**

Overview

We recommend three components of the 2012 SREC Auction:

1. Competitively bid auction for new systems, tiered by size
2. Competitively bid auction for existing systems, tiered by size
3. Spot market purchases

The reasoning for the portfolio approach is as follows:

1. A balanced portfolio approach is the best way to achieve the objectives of the RPS statute while providing cost protection to the ratepayer;
2. Retaining a portion of the auction only for new systems, assures that some new construction happens at a minimum each year, creating a balanced solar market;
3. Long-term contracts are important for assuring the financial viability of new construction and reduce vulnerability to future price volatility;
4. Spot market purchases each year help mitigate risk to the ratepayer from price volatility in the market;
5. Long-term contracts that lock in low prices today from all systems (including existing systems) provide a strong benefit to the ratepayer; and
6. Consistency in program design between years and between auction components enables better market analyses and less public confusion on the processes.

Overall Auction Structure

1. Timing of the next auction: The next auction should be held as soon as possible and at the latest before March 31, 2013, for procurement of SRECs starting June 1, 2013 (the next SREC compliance year).
2. Definition of new systems: Eligible new systems are systems with final interconnection approval after the first date of the preceding auction process (April 2, 2012).
3. Owners can bid individually or through an aggregator.
4. The current use of bid deposits and parcel numbers are considered adequate site control to prevent speculation.
5. Auction frequency: Going forward, there will be one auction per compliance year for now due to the small size of overall procurement meaning that the transaction costs would be too high relative to procurement and the amount bid per tier would be too small.
6. For all tiers and components of the auctions, the receipt of any grants will not be considered and will not alter bid awards. All systems are eligible to bid, regardless of grants received.
7. Current production bands, requirements, and penalties will remain the same as previous auction and the requirements will be specified by system size. Parcel rules remain the same.
8. For all competitive auctions, local content and labor would be used as a tiebreaker for bidders and then lotteries. The previous auction showed that currently the existing multipliers for labor and materials are sufficient incentives—this issue may need to be addressed if future auctions do not show a similar result.

9. A given system is only allowed to bid into one auction and one tier per year. Systems may bid into tiers of their size or larger. Systems that bid into larger tiers must meet the requirements of the systems sized in that tier.
10. Partial fill systems would be allowed to bid the rest of the system in future procurements, but the second bid will have to be in a tier size that reflects the cumulative system size. Systems that obtain multiple bids will first transfer SRECs at the lowest price each year.
11. For system additions, the bid must be in a tier size that reflects the cumulative system size. Systems that obtain multiple bids will first transfer SRECs at the lowest price each year.

Part 1: Competitively bid auction for new systems, tiered by size

1. Definition of new systems: Eligible new systems are systems with final interconnection approval after the first date of the preceding auction process (April 2, 2012).
2. The auction will be held in three tiers:
 - a. Tier 1: 0 to 30 kW
 - b. Tier 2: 30 to 200 kW
 - c. Tier 3: 200 kW to 2 MW
3. All tiers will be bid competitively with same single-bid structure.
4. Contract structure: 20 year contract with first 7 years at competitive bid price, last 13 years at \$50/SREC.

Part 2: Competitively bid auction for existing systems, tiered by size

1. Definition of existing systems: Eligible existing systems are systems with final interconnection approval before the first date of the preceding auction process (April 2, 2012).
2. The auction will be held in two tiers:
 - a. Tier 1: 0 to 30 kW
 - b. Tier 2: 30 to 2 MW
3. All tiers will be bid competitively with same single-bid structure.
4. Contract structure: 20 year contract with first 7 years at competitive bid price, last 13 years at \$50/SREC.

Part 3: Spot market purchases

1. DPL is encouraged to procure a portion of its requirement through the spot market. The size of spot market purchase should be consistent with a portfolio approach of short term and long term purchases.
2. Spot market procurement should be open to all systems.
3. DPL will procure short-term contracts in a similar manner to current practices.

Questions to be resolved at next two meetings:

1. Total procurement for 2013-2014 compliance year
2. Split of procurement among new, existing, and spot market components
3. Split of procurement in a given auction among tiers
4. Recommendation on continuing with the SEU as administrator of auction