



February 9, 2005

VIA FEDERAL EXPRESS

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building 3rd FL
400 North Street
Harrisburg, PA 17105-3265

RE: Implementation of the Alternative Energy Portfolio Standards Act of 2004
DOCKET NO. M-00051865

Dear Secretary McNulty:

Enclosed for filing, are an original and six copies of Pepco Energy Services, Inc. Reply Comments regarding Implementation of the Alternative Energy Portfolio Standards Act of 2004. If you have any questions regarding this filing, please contact the undersigned at 703-253-1841. Also included is an extra copy of this letter, please date-stamp and return in the enclosed self-addressed stamped envelope.

Very truly yours,

A handwritten signature in black ink that reads "Wayne Hudders". The signature is written in a cursive style with a large initial "W".

Wayne Hudders

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

IN THE MATTER OF

IMPLEMENTATION OF THE
ALTERNATIVE ENERGY PORTFOLIO
STANDARDS ACT OF 2004

DOCKET No. M-00051865

**COMMENTS
OF
PEPCO ENERGY SERVICES, INC.**

I. INTRODUCTION

On January 19, 2005, the Pennsylvania Public Utility Commission ("PA PUC" or "Commission") and Department of Environmental Protection (DEP) jointly hosted a Technical Conference on the implementation of the Alternative Energy Portfolio Standards Act of 2004 – Docket No. M-00051865. In the notice of the Technical Conference several areas of the Act were singled out for focus during the conference. The list of issues included (1) force majeure, (2) deferrals and cost recovery, (3) creation of alternative energy credits program and trading platform, (4) alternative compliance payments, (5) portfolio requirements of other states and regional coordination, (6) development of technical standards for verification of energy efficiency and demand side management activities, (7) development of technical standards for net metering, and (8) development of technical standards for interconnection. Many parties offered their opinions on these and other topics at the conference and the Pennsylvania Public Utility Commission invited interested parties to offer reply comments on these presentations.

Pepco Energy Services appreciates the opportunity to offer reply comments to the Commission and DEP and looks forward to participating in the ongoing development of the Commission's regulations implementing the Act.

II. COMMENTS

Pepco Energy Services, Inc. ("PES") is one of the largest, if not the largest, supplier of renewable energy to customers in the mid-Atlantic region, as such it has substantial experience in both voluntary and RPS green markets. PES supports the notion that the Alternative Energy Portfolio Standards Act of 2004 needs to be coordinated regionally with other states that have or will enact a renewable portfolio standard and further supports the idea of using the PJM developed Generator Attribute Tracking System (GATS) as a platform for tracking compliance with the Act.

While PES concurred with most of the proposals that furthered the goals of a smooth implementation of the Act, PES does have concerns with Community Energy's presentation made at the Technical Conference. In particular, Community Energy urged the Commission to not count voluntary green energy or renewable energy credits (REC) sales toward the load serving entity's green obligation to comply with the Act. It is Pepco Energy Services' experience and opinion that such a policy would be both short sighted and would saddle voluntary green customers with higher costs. In the long run this proposal could result in a decrease in green energy consumption in the Commonwealth, which runs completely counter to the goals of the Alternative Energy Act.

For example, if the position of Community Energy is adopted, the supplier of a customer who purchases 100% of its load from renewable resources in the voluntary market would still have to purchase and charge the customer for an additional 18% (once the PA program is fully enacted) of the customer's load for renewable resources. In effect the customer would be required to purchase 118% of their load in the form of green energy, resulting in a penalty to customers that practice exceptional environmental stewardship.

Community Energy also claimed that customers in the voluntary market would feel like they were subsidizing non renewable energy purchasers if load serving entities are allowed to count voluntary purchases toward the RPS standard. While this may be true, there is a simple way to solve this problem that does not require any administration on the part of the Commission or DEP nor additional regulations. The customer simply can require a clause in its contract indicating that the renewable energy purchase is above and beyond the RPS and that its supply can not be counted toward a LSE's RPS requirement. This is currently happening in New Jersey.

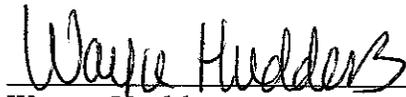
A voluntary renewable energy customer that does not mind its purchases counting toward the supplier's RPS obligation should also be able to benefit from lower prices for renewable energy, since its purchases now provide additional value to the supplier. If the supplier is unwilling to pass some or all of this value to the customer then under the competitive market place in Pennsylvania the customer can easily find an alternative supplier who will pass on this value.

Finally, as a load serving entity ("LSE") who also supplies voluntary green energy, PES sees the RPS legislation as a great incentive to aggressively market renewable energy above and beyond that required by the RPS legislation; due to the added value it provides a LSE. If Community Energy's suggestion is adopted the value of voluntary green energy sales would be greatly reduced, causing LSEs currently offering renewable energy or thinking of offering renewable energy to leave the voluntary renewable energy market. It would also result in encouraging current green customers to reduce their existing commitment to purchase renewable energy and thus, in practice decrease Pennsylvania customers' consumption of renewable energy above the RPS legislation's stated goals.

III. Conclusion

PES recommends that the Commission take under advisement the recommendations set forth in these comments. PES wants to see both the RPS legislation and the voluntary market thrive in Pennsylvania and believes that the recommendations set forth herein will assist in both accomplishing this outcome and providing lower cost renewable energy to customers purchasing voluntary renewable energy.

Respectfully submitted,
PEPCO ENERGY SERVICES, INC.



Wayne Hudders
Senior Analyst

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Dated: February 9, 2005