PennFUTURE
Every environmental victory grows the economy.

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April 4, 2012

VIA ELECTRONIC MAIL

Office of Competitive Market Oversight (ra-RMI@state.pa.us)

Re: Investigation of Pennsylvania's Retail Electricity Market
Docket No. I-2011-2237952

Enclosed please find PennFuture's Comments in the above-referenced proceeding. Please do not hesitate to contact me should you have any questions.

Sincerely,

Courtney Lane
Senior Energy Policy Analyst
Citizens for Pennsylvania's Future (PennFuture)
Energy Center for Enterprise and the Environment

Enclosures

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION:

Investigation of Pennsylvania's : Docket No. I-2011-2237952
Retail Electricity Market:

COMMENTS OF
CITIZENS FOR PENNSYLVANIA'S FUTURE (PENNFUTURE)
Regarding the En Bank Hearing on March 21, 2012

I **Introduction**

PennFuture is a statewide public interest membership organization, working to enhance Pennsylvania's environment and economy, with offices in Harrisburg, Philadelphia, Pittsburgh and Wilkes-Barre. We appreciate the opportunity to submit these comments addressing issues raised during the Pennsylvania Public Utility Commission's Retail Markets Investigation En Banc Hearing held on March 21, 2012.

PennFuture appreciates the work of the Commission in the Retail Markets Investigation and for providing us with the opportunity to present testimony at the hearing. We look forward to continuing to work with the Commission and other stakeholders throughout this proceeding.

II **Comments on testimony**

As stated in our testimony before the Commission, long-term contracts are critical to the successful implementation of the Alternative Energy Portfolio Standard (AEPS). Long-term contracts provide a valuable hedge to ratepayers against volatile alternative energy credit (AEC) markets as the AEPS requirements ramp up in Pennsylvania and the nine other states in PJM with renewable portfolio standards. These contracts also provide the needed certainty for wind and solar developers to obtain financing to build projects needed to meet the AEPS.

PennFuture believes that the electric distribution companies (EDCs) should be the entity that continues to enter into long-term contracts for Tier I AECs and solar alternative energy credits (SAECs) to meet the AEPS in each of the three proposed end-state default service models.

EDCs have been the main entity entering into long-term contracts for Tier I AECs and SAECs to meet their AEPS obligations.[i] To our knowledge, EGSs have not and do not want to enter into long-term contracts because their electric load and associated AEPS requirements are subject to a higher level of annual migration. In addition, some EGSs may not have the long-term balance sheet needed to engage in long-term contracts. Therefore, it is most prudent to have the EDC continue to be the entity entering into new long-term contracts for AEPS requirements.

In his testimony before the Commission at the en banc hearing on March 21, 2012, Charles V. Fullem, Director of Rates and Regulatory Affairs – Pennsylvania, for FirstEnergy Services Company, provided a viable solution to allow for EDCs to continue procuring long-term contracts. Mr. Fullem stated that "Met-Ed, Penelec, and Penn Power currently have mechanisms in place that allow EDCs to continue to purchase long-term solar contracts to meet AEPS obligations, regardless of whether or not they provide default service. These mechanisms ensure cost recovery for the utility, as well as competitive neutrality between the default service provider and competitive EGSs."[1]

The Commission originally approved this mechanism as part of the Joint Petition Of Metropolitan Edison Company And Pennsylvania Electric Company For Approval Of Their Default Service Programs, Docket Nos. P-2009-2093053 & P-2009-2093054 and has since been approved for Penn Power. Under this model, Met-Ed, Penelec and Penn Power procure 40 percent of their AEPS solar requirements through long-term contracts. The EDCs issue a request for proposals for SAECs needed to cover their default service load and the load of any EGSs in its service territory. The SAECs are then distributed on a pro-rata basis to each EGS depending on their retail load, with costs recovered through a nonbypassable rider (Solar Photovoltaic Requirements Charge Rider).[2] The rider is applied to all delivery service customers, ensuring that FirstEnergy recovers its costs regardless of whether a customer is being served by an EGS.

PennFuture supports FirstEnergy's testimony and believes that this mechanism could be applied to all EDCs for the procurement of both SAECs and Tier I AECs in each of the three proposed end-state default service models. We believe it would be appropriate to place 50 percent

[1] Testimony of Charles V. Fullem, Director of Rates and Regulatory Affairs – Pennsylvania, FirstEnergy Services Company, *Pennsylvania Public Utility Commission's Retail Markets Investigation En Banc Hearing*, March 21, 2012.
[2] *Joint Petition Of Metropolitan Edison Company And Pennsylvania Electric Company For Approval Of Their Default Service Programs*, Docket Nos. P-2009-2093053 & P-2009-2093054, Opinion and Order dated November 6, 2009.

of the AEPS requirements on the EDCs to be procured through long-term contacts in accordance with this mechanism.

For these reasons we urge the Commission to adopt the following as part of any new default service model:

1. Provide for 50 percent of the mandated of Tier I and solar AEPS compliance requirements to be placed on EDCs to be procured through long-term contracts through a competitive procurement process, similar to the process by Met-Ed, Penelec and Penn Power described above.
2. Allow for EDCs to distribute Tier I AECs and SAECs on a pro-rata basis to each EGS depending on their retail load.
3. Allow for EDCs recover costs through a nonbypassable rider applied to all delivery service customers.

Applying these principals to the new default service model will help reduce risk to ratepayers and ensure that the AEPS is met in the most cost-effective manner.

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[i] Examples of long-term SREC Procurements:

- Met-Ed and Penelec procurement of 10,000 SREC's annually for a 10-year period. *Joint Petition of Metropolitan Edison Company And Pennsylvania Electric Company For Approval Of Their Default Service Programs,* Docket Nos. P-2009-2093053 & P-2009-2093054.
- PECO procurement of 8,000 solar Tier I credits annually for a 10-year period. *Petition of PECO Energy Company for Approval to Procure Solar Alternative Energy Credits*, Docket No. P-2009-2094494.
- PPL Electric Utilities long-term SAEC procurement of 70,500 SRECs in three solicitations for 7 years, 8 years and 8.5 years. *PPL Electric Utilities Corporation Default Service Program and Procurement Plan for the Period January 1, 2011 through May 31, 2013 for Approval to Modify its Procurement of Solar Alternative Energy Credits*, Docket Nos. P-2008-2060309 and R-2010-2170296.

Examples of long-term Tier I AEC Procurements:

- West Penn procurement of 775,000 Tier I AECs in 10-year contracts. *West Penn Power Company d/b/a Allegheny Power Default Service Program and Competitive Procurement Plan Results of Request for Proposals Process and Rules – AEC Procurement*, Docket No. P-00072342.