

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
**Harrisburg, Pennsylvania 17105-3265**

**Petition of PPL Electric Utilities  
Corporation Re: Voluntary  
Alternative Energy Program**

**Public Meeting – August 6, 2009  
2021398-ALJ\*  
Docket No. P-2008-2021398**

**DISSENTING STATEMENT OF VICE CHAIRMAN TYRONE J. CHRISTY**

I respectfully dissent from the majority's decision to approve PPL Electric Utilities Corporation's (PPL's) proposed voluntary alternative energy program, as amended by the Joint Petition for Settlement (Settlement), without more information about the reasonableness of the cost of the alternative energy credits (AECs) that will be marketed to PPL's residential and small commercial and industrial customers. Our approval of this program is, in effect, the Commission's "Good Housekeeping Seal of Approval <sup>TM</sup>", assuring customers that the Commission has concluded that the commodity that is being marketed to them is fairly and reasonably priced. Unfortunately, I do not believe that the record supports such a conclusion, and I would have preferred that this proceeding be remanded to the Office of Administrative Law Judge (OALJ) with a directive that the reasonableness of the price of the AECs be further examined on the record.

Under PPL's program, Community Energy, Inc. (CEI) will market the AECs to PPL's customers and will supply the AECs to PPL for the program. The AECs will consist of a blend of Tier I AECs from wind facilities located in PJM and Tier II AECs from large hydroelectric facilities in PJM. The number of AECs that will be sold under this program over its four-year life is capped at 3.3 million "blocks" of 100 kwh, which translates into 330,000 AECs.<sup>1</sup>

The percentage blend of Tier I and Tier II AECs is not explicitly stated in the recommended decision, the settlement or the supporting statements. Based on information in the filing, it appears that approximately 58% of the AECs will be derived from Tier II large hydroelectric facilities. PPL's original petition stated that the 100 kwh blocks would consist of "approximately 50% Tier I AECs generated from wind and approximately 50% Tier II AECs generated from large-scale hydropower sources." Petition at 1, fn 2. PPL's original petition also stated that it planned to acquire 360,000 Tier I AECs from CEI over the four-year period, and estimated that 140,000 of the Tier I credits would be used for the program, while the remaining 220,000 AECs would be banked and used for PPL's compliance obligations under the AEPS Act. Petition at 14. PPL subsequently agreed, as part of the settlement, to withdraw its request for Commission approval of its plans to bank AEC credits. However, there is no indication that PPL has changed the number of Tier I AECs that it estimates will be used for the program. Assuming that 140,000 Tier I AECs will be used for this program and that customers fully subscribe to the 3.3 million block cap, approximately 190,000 of the AECs used for the program, or 58%, will come from Tier II large hydroelectric facilities.

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<sup>1</sup> 3,300,000 blocks = 330,000,000 kwh = 330,000 MWh. One MWh = one AEC.

The AECs will be priced at \$25 per MWh, and will be sold in blocks of 100 kwh for \$2.50. Assuming that the market price for Tier I AECs will be about \$25 per MWh, that the market price for Tier II AECs will be about \$5 per MWh, and that 58% of the AECs marketed to customers under this program will come from Tier II large hydroelectric facilities, it appears that customers will be paying prices substantially above market value for the AECs that they purchase. If the above assumptions about market prices for AECs are correct, the market value for a blend of 42% Tier I AECs and 58% Tier II AECs would be about \$13.40 per MWh. The \$25.00 per MWh price at which the AECs will be sold therefore appears to exceed the market value of the AECs by \$11.60 per MWh, a mark-up of 87%.

The mark-up will be higher than 87% if the market prices of AECs are lower than the assumed prices of \$25 per MWh (Tier I) and \$5 per MWh (Tier II). There are several sources of data that indicate that this is in fact the case. One, the price range of the AECs used for Pennsylvania AEPS compliance in 2007-2008 was \$1.00 – \$20.50 per MWh (Tier I) and \$.25 – \$3.00 per MWh (Tier II). Two, a recent RFP in Pennsylvania for Tier I AECs elicited offers at prices substantially below \$25.00 per MWh. Third, publicly available data indicate recent (July) bid and offer prices for Tier I and Tier II AECs that are substantially below the assumed value for 2009 – 2011. The highest of the bid and offer prices for 2009 – 2011 was the 2011 Tier I offer price, which was only \$12 per MWh. Tier II offer prices were in the range of \$0.50 per MWh.<sup>2</sup> None of this information is in the record, however, which highlights the need to remand this proceeding to examine the reasonableness of the price of the AECs that will be marketed to customers under this program.

PPL and CEI will be receiving as much as \$8.25 million from PPL customers for the AEC blocks that customers purchase under this program. The market value of the AEC blocks appears to be less than \$4.5 million, which would represent a mark-up on the sale of these AECs of at least \$3.75 million. The mark-up of the AECs that will be marketed to PPL customers with the blessing of the Commission concerns me greatly. A similar program that we approved for West Penn also was priced at \$25 per Mwh (\$2.50 for 100 kwh block); however, the key distinction is that West Penn's program consists of 100% Tier I wind credits, which have a much higher market value. Even then, West Penn agreed to drop the price to \$23.50 per MWh (\$2.35 for a 100 kwh block) if it obtained a ruling from the PA Department of Revenue that the gross receipts tax would not apply.<sup>3</sup>

The fact that PPL's generation affiliate owns large hydroelectric facilities that may be the source of the Tier II AECs sold to PPL's customers is a concern. Large hydroelectric facilities generally are decades old and fully depreciated. The 102 MW Holtwood hydroelectric dam, for example, was built between 1910 and 1924. The level of the marketing expenses that will be paid to CEI for this program also is a concern. Again, neither of these issues was examined or developed on the record.

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<sup>2</sup> PPL filed confidential information in Appendix B to its Petition indicating the prices that it has agreed to pay to CEI for Tier I and Tier II AECs. Suffice it to say this information does not alleviate concerns about the reasonableness of the prices that will be charged to customers for the blend of Tier I and Tier II AECs.

<sup>3</sup> *Pennsylvania Public Utility Commission v. West Penn Power Company*, Docket Nos. P-00072349, R-00072753, and R-00072754 (Order entered August 14, 2008).

In general terms, I support efforts of electric distribution companies (EDCs), such as PPL, to provide their customers with the option of supporting the development of alternative and renewable resources through voluntary programs. However, this particular program raises too many unanswered questions about the source of the AECs that will be sold to customers, the location and ownership interests in those facilities, the percentage blend between Tier I and Tier II AECs that will comprise the AEC blocks, the market value of those AECs, and the marketing fee that will be paid to CEI. In very simple terms, I do not believe that the Commission should approve a program under which an EDC markets AECs to its customers, with the Commission's seal of approval, at prices that are substantially higher than market value. To ensure that this is not the case in this particular proceeding, I believe that we should have remanded this proceeding to the OALJ with a directive that the parties address the above questions.

8-6-09  
DATE

Tyrone J. Christy  
TYRONE J. CHRISTY, VICE CHAIRMAN