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September 9, 2016

**VIA e-FILING**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17120

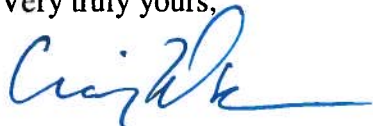
**Re: Proceeding to Evaluate Transition to Corrected Non-Solar Tier I  
Calculation Methodology, Docket No. M-2009-2093383**

Dear Secretary Chiavetta:

Enclosed for filing are the **Reply Comments of PECO Energy Company** in regard to the above-referenced matter.

If you have any questions, please do not hesitate to contact me.

Very truly yours,



W. Craig Williams

Enclosure

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Proceeding to Evaluate Transition to** :  
**Corrected Non-Solar Tier I Calculation** : **Docket No. M- 2009-2093383**  
**Methodology** :

**REPLY COMMENTS OF PECO ENERGY COMPANY**

Pursuant to the August 11, 2016 Tentative Order (“Tentative Order”) entered by the Pennsylvania Public Utility Commission (the “Commission”) in the above-referenced docket, PECO Energy Company (“PECO” or the “Company”) submits these Reply Comments for the Commission’s consideration in addressing the 2016 quarterly increase in non-solar Tier I obligations under Pennsylvania’s Alternative Energy Standards Act, 73 P.S. §§ 1643.1 *et seq.* (the “AEPS Act” or “AEPS”), and provisions of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 2814(c) (the “2016 Adjustment”).

**I. ELECTRIC GENERATION SUPPLIERS SHOULD REMAIN RESPONSIBLE  
FOR 2016 ADJUSTMENT OBLIGATIONS**

Comments submitted by the Retail Energy Supply Association (“RESA”), Direct Energy,<sup>1</sup> National Energy Marketers Association (“NEM”), ConocoPhillips and WGL Energy Services, Inc. (“WGL”) (collectively, the “EGS Commenters”) recommend that the Commission address the 2016 Adjustment by requiring electric distribution companies (“EDCs”) to conduct procurements for additional alternative energy credits (“AECs”) at the expense of EDC customers and transfer those AECs to electric generation suppliers (“EGSs”) operating in each

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<sup>1</sup> “Direct Energy” refers to the following entities identified in the Direct Energy Comments: Direct Energy Services, LLC, Direct Energy Business, LLC, Direct Energy Business Marketing, LLC, Direct Energy Small Business, LLC, Bounce Energy PA, LLC and Gateway Energy Services Corporation.

EDC's respective distribution zone.<sup>2</sup> The EGS Commenters emphasize that the costs attributable to the 2016 Adjustment are unexpected and significant and, if EGSs are not relieved of their responsibility to meet these AEPS obligations, the costs will have to be recovered by EGSs through future contracts and lead to a competitive disadvantage relative to the price-to-compare ("PTC") of EDCs.

PECO does not believe that the concerns raised by the EGS Commenters justify the effective transfer of the 2016 Adjustment obligations from EGSs to EDCs and all electric distribution service customers. EGSs have an opportunity to manage and allocate business risks in their customer contracts, including the risk of such mathematical errors as the 2016 Adjustment. The EGS Commenters cite a shifting customer base, restrictions on fixed price contracts and contracts of varied length as challenges to recovering the costs of the 2016 Adjustment, but these challenges to pricing and cost recovery are not presented only by the 2016 Adjustment; several of the EGS Commenters concede they already plan for "variances" between anticipated AEPS compliance costs and actual costs.<sup>3</sup> If existing EGS contracts did not properly anticipate or manage potential AEPS compliance risks, EGSs can choose to revise their assessment and allocation of risk in the future and price their services accordingly.

PECO also does not agree that requiring both EDCs and EGSs to satisfy the 2016 Adjustment creates a future competitive disadvantage for EGSs. The 2016 Adjustment affects

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<sup>2</sup> RESA and WGL also recommend that EDC procurements be continued into future compliance years, ranging from compliance year 2018 to 2020. RESA Comments, pp. 9-10; WGL Comments, pp. 2-3. The Tentative Order does not address whether the Commission intends to take any actions regarding future AEPS reporting periods. Cf. Secretarial Letter to EDCs and EGSs with AEPS Obligations (Aug. 9, 2016) (extending AEPS true-up period for 2016 and explaining that the extension "provides the Commission additional time to address, with input from all stakeholders, the impact of the unanticipated increase in Tier I requirements and any potential options to mitigate that impact on EGSs and EDCs for the 2016 and/or subsequent compliance years."). Consistent with the Company's Initial Comments and these Reply Comments, PECO believes that any additional EGS AEPS requirements associated with other AEPS reporting periods should remain the responsibility of EGSs.

<sup>3</sup> See Direct Energy Comments, p. 2; RESA Comments, p. 4.

both EDCs and EGSs, and EDCs must also obtain additional non-solar Tier I credits corresponding to default service load and pass any additional costs along to default service customers. The fact that EDC and EGS compliance costs may be recovered at different times or over different periods is not unique to the 2016 Adjustment, as suppliers already offer a variety of pricing options that do not adjust with every change in an EDC's PTC. Moreover, in PECO's case, the cost of default supply paid by PECO default service customers already reflected an allocation of AEPS risks which obligated wholesale default service suppliers to transfer AECs to PECO to satisfy the increase arising from the 2016 Adjustment at no additional expense to customers.

**II. EXTENDING THE TRUE UP PERIOD FOR THE 2016 ADJUSTMENT IS REASONABLE AND WILL ALLOW EGSS AND EDCS ADDITIONAL TIME TO MANAGE COSTS**

PECO recognizes that the 2016 Adjustment creates an additional expense for the EGSs who did not anticipate the possibility of having to procure additional AECs in 2016 in their pricing and contractual arrangements. Extending the AEPS true-up period for the 2016 Adjustment will allow these EGSs to develop and implement an AEC procurement plan that is consistent with their own business arrangements and priorities. The Company notes that while EGSs prefer to shift their compliance cost responsibility to EDCs and customers, they acknowledge that extending the true-up period could provide some relief, and RESA has proposed a true-up extension until the 2018 compliance year to allow for "meaningful relief."<sup>4</sup> PECO does not oppose a reasonable extension of the true-up period for the 2016 Adjustment and continues to believe a true-up extension will provide affected EGSs and EDCs with a reasonable opportunity to manage the associated costs.

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<sup>4</sup> RESA Comments, p. 10.

PECO appreciates the opportunity provide these Reply Comments to the Commission and looks forward to a resolution of the 2016 quarterly adjustment issue.

Respectfully Submitted,



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*For PECO Energy Company*