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E-Filing

September 9, 2016

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

**Re: Reply Comments of PPL Electric Utilities Corporation on the Proceeding to
Evaluate Transition to Corrected Non-Solar Tier 1 Calculation Methodology
Docket No. M-2009-2093383**

Dear Ms. Chiavetta:

Enclosed for filing on behalf of PPL Electric Utilities Corporation ("PPL Electric") is an original of PPL Electric's Reply Comments in the above-captioned proceeding. These Reply Comments are being filed pursuant to the Tentative Order issued on August 11, 2016 in the above captioned proceeding.

Pursuant to 52 Pa. Code § 1.11, the enclosed document is to be deemed filed on September 9, 2016, which is the date it was filed electronically using the Commission's E-filing system.

If you have any questions regarding these comments, please call me at (610) 774-4254 or Bethany Johnson – Manager, Regulatory Operations at (610) 774-7011.

Very truly yours,

A handwritten signature in black ink that reads "Kimberly A. Klock". The signature is fluid and cursive, with the first name being the most prominent part.
Kimberly A. Klock

Enclosures

cc via email: Tanya J. McCloskey, Esquire
Mr. John R. Evans
R. Kanaskie, Esquire
Scott Gebhardt
Kriss Brown

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REPLY COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

I. INTRODUCTION

By Tentative Order entered August 15, 2016, the Pennsylvania Public Utility Commission (“Commission”) requested comments on options for potential remedial actions to address the significant increase in the non-solar Tier I Alternative Energy Credit (“AEC”) obligation for the 2015-2016 compliance year that resulted from a correction of an error in the calculation of the quarterly adjustment of non-solar Tier I AECs. Comments were due within 15 days from the date of the Tentative Order, *i.e.*, on or before August 30, 2016. Thirteen entities filed Comments to the Tentative Order, including PPL Electric Utilities Corporation (“PPL Electric”).¹

In its Comments, PPL Electric explained that it supported the Second Option proposed by the Commission, which is to delay the true up period given to Load Serving Entities (“LSEs”) to provide more time to procure additional non-solar Tier I AECs to comply with the Commission’s

¹ Others who filed Comments included: the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), PECO Energy Company (“PECO”), Metropolitan Edison Company, et al. (the “FirstEnergy Companies”), the Energy Association of Pennsylvania (“EAP”), Duquesne Light Co. (“Duquesne”), Met Ed Industrial Users Group, et al. (the “Industrial Customer Groups”), National Energy Marketers Association (“NEM”), Retail Energy Supply Association (“RESA”), ConocoPhillips Company (“COP”), Direct Energy Services LLC (“Direct Energy”) and WGL Energy Services, Inc. (“WGL”).

correction to the adjustment required under Section 2814(c) of the Public Utility Code (the “Act 129 Adjustment”). 66 Pa.C.S. § 2814(c). Specifically, PPL Electric recommended that the Commission’s correction to the Act 129 Adjustment be applied prospectively only, to determine the total amount of non-solar Tier I AECs required by EDCs and EGSs for the 2016-2017 AEC compliance period. Alternatively, if the Commission declines to make the correction prospectively only, PPL Electric explained that it already has a Commission-approved mechanism in place to allow it to acquire sufficient additional non-solar Tier I AECs to meet the corrected Tier I requirements associated with its default service load for the 2015-2016 compliance period by no later than November 30, 2016. PPL Electric further explained in its Comments that it did not support the First Option proposed by the Commission, which would have EDCs acquire all of the additional AECs for all LSEs in the EDC’s zone.

Pursuant to the Tentative Order, PPL Electric files these Reply Comments in response to certain Comments from other entities. These Reply Comments are principally responsive to the Comments of Electric General Suppliers (“EGS”) COP, Direct Energy and WGL, and the associations RESA and NEM (collectively, the “EGS Commenters”), all of whom support adoption of the Commission’s First Option.

II. REPLY COMMENTS

A. THE COMMISSION SHOULD NOT ADOPT OPTION 1

The primary assertion of the EGS Commenters in support of Option 1 is that EGS prices to their customers in the past year did not factor in the need to acquire additional AECs to satisfy the corrected Act 129 Adjustment. The EGS Commenters claim this will disturb market pricing. (NEM Comments, p. 2; RESA Comments, pp. 7-8; WGL Comments, p. 1). However, based upon the Comments, it appears this is also the case with respect to various EDCs, whose default service rates in the past year did not reflect the cost to acquire additional non-solar Tier I AECs

to satisfy the corrected Act 129 Adjustment. PPL Electric, for example, will need to acquire up to 30,360 additional AECs during the next compliance period to meet its AEPS Act obligation for the 2015-2016 compliance year, the cost of which would be reflected in default service rates over the next year. Therefore, a special acquisition and surcharge mechanism as proposed in Option 1 is not necessary to maintain a pricing balance between shopping and default service rates. The concern that future customers, both shopping and non-shopping, would pay for prior period costs, would be substantially mitigated if the Commission adopts PPL Electric's primary proposal that the Commission institute the correction to the Act 129 Adjustment prospectively. (PPL Electric Comments, pp. 10-12).

Further, as explained in PPL Electric's Comments, EGSs should not be exempt from their duty to acquire AECs. EGSs have the responsibility under the AEPS Act and the Commission's regulations to acquire AECs as part of their obligation to meet customers' energy requirements. (PPL Electric Comments, pp. 6-7). Assertions that EGSs did not anticipate changes to their AEC obligations should not absolve EGSs from compliance with the law and regulations, or shift that compliance responsibility to EDCs. EGSs have made similar contentions in the past that recovery of certain costs should be shifted to EDCs, or that special recovery mechanisms should be adopted, because of unanticipated increases in costs or inability to make accurate projections of certain costs. The Commission has rejected such contentions. *See, e.g., Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan*, Docket No. P-2014-2417907, Order entered January 15, 2015, Order at pp. 63-66; *Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan*, Docket No. P-2012-2302074, Order entered January 24, 2013, Order at p. 85. *See also Pa.P.U.C. Bureau of Investigation and Enforcement v. HIKO Energy, LLC*, Docket No. C-2014-

243140, Order entered December 3, 2015 (HIKO billed rates in excess of disclosure statement, defending its actions on the basis of unforeseen and uncontrollable polar vortex weather effects). AECs are supply related costs, and as such, the cost of AECs should be borne by the LSE providing generation service for the customers.²

WGL and RESA propose that Option 1 be further extended beyond a one-time mechanism to cover future changes in AEC requirements for a period of 2-4 years. (WGL Comments, pp. 2-3; RESA Comments, pp. 9-10). This proposal highlights one of the concerns expressed by PPL Electric in its Comments. (PPL Electric Comments, p. 7). Adoption of Option 1 – shifting recovery of the cost of “unanticipated” changes to AEC requirements from EGSs to EDCs – would absolve EGSs of the risks of providing generation service and will provide precedent for EGSs to seek absolution from other “unanticipated” changes in generation costs in the future. The contention that EGSs be released from compliance with, and thus protected against the cost of, the Act 129 Adjustment will be cited each time a generation cost increases outside “expectations” and will be used to support a claim to shift cost recovery to EDCs.

WGL offers a related alternative that EGSs should only be required to report and provide the original Tier I percentages, pre-adjustment. (WGL Comments, p. 3). This alternative further demonstrates a desire for EGSs to be insulated from the requirements of Act 129. Act 129, and specifically Section 2814(c) of the Public Utility Code, mandates that the non-solar Tier I AEC percentage requirement is to increase on a quarterly basis to reflect any newly-approved low impact hydropower and biomass resources that qualify as Tier I alternative energy resources. Under WGL’s alternative, EGSs would be fully exempted from compliance with Section

² As the Industrial Customer Groups noted, customers’ contracts with EGSs may have specifically recognized that the risk of changes in AEC requirements are built into rates. Creation of a non-bypassable charge therefore may result in double-charging customers. (Industrial Customer Group Comments, pp. 4-5).

2814(c), not only with respect to the Commission's correction to the Act 129 Adjustment, but also with respect to all future adjustments to the non-solar Tier I requirement that are approved by the Commission. This is contrary to law, and should not be adopted.

The EGS Commenters claim that it is appropriate for EDCs to acquire the additional non-solar Tier I AECs because EDCs have greater leverage/purchasing power and have the billing capability to recover the costs. (Direct Energy Comments, p. 4). These claims are inaccurate with respect to PPL Electric. PPL Electric only has in place a mechanism to acquire AECs to meet the requirements of default service customers. The only way that PPL Electric could acquire additional credits for all LSEs in its entire zone prior to November 30, 2016, is through spot market purchases, and PPL Electric would have no leverage to obtain any better prices than EGSs through these competitive market purchases.³ There is also no basis to assert that PPL Electric can obtain better prices than individual EGSs. Many of these EGSs are large corporations that, on an ongoing basis, may acquire far greater numbers of AECs to meet requirements of customers across Pennsylvania than PPL Electric would be required to acquire under the Commission's Option 1. In addition, as explained in its Comments, PPL Electric has no current mechanism to recover the cost of additional AECs from shopping customers. (PPL Electric Comments, pp. 9-10). Thus, shifting the burden of acquiring AECs for shopping load, and setting up a mechanism to recover of the cost of those AECs, will add costs and administrative burdens to EDCs, who would need to recover those costs from customers.

NEM makes the argument that the acquisition of credits to meet the Commission's correction to the Act 129 Adjustment may create an artificial shortage of Tier I AECs available for purchase. (NEM Comments, p. 2). PPL Electric is not aware of any information supporting

³ PPL Electric could not undertake an RFP process in a short time frame. Further, there is no basis to conclude that better prices would be obtained through an RFP, where a well developed spot market for credits exists.

an allegation that there will be a shortage of available non-solar Tier I AECs. However, adoption of Option 1 would not cure this problem, if it is a concern. If there are insufficient credits, shifting responsibility to procure credits to EDCs will not create more available credits. The solution to a concern of creating a temporary shortage in AECs is to make the correction to the Act 129 Adjustment prospective in nature, such that all LSEs can acquire sufficient credits over a reasonable period of time.⁴

Finally, RESA asserts that it would be unfair to require EGSs to provide the AECs to meet the Commission's correction to the Act 129 Adjustment because some current EGSs may not have been providing generation service to customers during the 2015-2016 AEPS compliance period. (RESA Comments, p. 8). This assertion is incorrect. If the Commission applies the correction to the Act 129 Adjustment retroactively, an EGS that did not serve any load during the 2015-2016 AEPS compliance period would have no responsibility to provide credits. The AEC credit percentages are applied to the load served during the compliance period. If an EGS had no load during the applicable period, it has no AEC requirement to meet. If the Commission applies the correction prospectively, as proposed by PPL Electric, all LSEs serving load during the 2016-2017 AEPS compliance period would be required to provide credits in accordance with law.

For all of the reasons explained above, and in PPL Electric's Comments, the Commission should not adopt Option 1.

B. OTHER COMMENTS

PPL Electric offers one observation with respect to the Comments of OSBA. OSBA states that wholesale suppliers with load following contracts generally are required to supply all

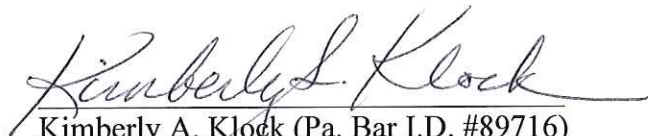
⁴ If there were evidence of a true shortage in available credits, the Commission could call a *force majeure* under Section 1648.2 of Act 129, 73 Pa.C.S. § 1648.2, and could require affected LSEs to provide additional credits later.

AECs, and thus the responsibility to meet the AECs required under the Commission's correction to the Act 129 Adjustment will be the wholesale suppliers' responsibility. As PPL Electric explained in its Comments, PPL Electric's Commission-approved wholesale supply contracts specify the percentage of AECs required to be provided under the contracts. (PPL Electric Comments, pp. 16-17). The percentages change prospectively to reflect changes in requirements. Therefore, PPL Electric cannot demand that suppliers who provided wholesale power during the 2015-2016 AEC compliance period provide additional AECs, to meet the Commission's correction to the Act 129 Adjustment.

III. CONCLUSION

PPL Electric appreciates the opportunity to provide these Reply Comments with respect to the Comments of other parties. PPL Electric opposes the adoption of the Commission's Option 1, and supports adoption of Option 2.

Respectfully submitted,



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