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December 6, 2012

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: **DOCKET NO. I-2011-2237952**

Secretary Chiavetta,

I am pleased to submit the enclosed comments of the COMPETE Coalition in response to the Pennsylvania Public Utility Commission's November 8, 2012 Tentative Order addressing issues related to the proposed model for the end state of default electric service.

Respectfully,

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Joel Malina
Executive Director

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

INVESTIGATION OF :
PENNSYLVANIA’S RETAIL : **DOCKET NO. I-2011-2237952**
ELECTRICITY MARKET :

**COMMENTS OF THE COMPETE COALITION
TO THE NOVEMBER 8, 2012 TENTATIVE ORDER**

I. Introduction

The COMPETE Coalition ("COMPETE") respectfully submits these comments in response to the Pennsylvania Public Utility Commission’s (“Commission”) November 8, 2012 Tentative Order (“Tentative Order”) addressing issues related to the proposed model for the end state of default electric service. COMPETE appreciates the many steps this Commission has taken to support electric competition, at both the wholesale and retail levels, not the least of which are the many enhancements recommended in this proceeding and Tentative Order. COMPETE submits these comments, however, to express our concern about the Tentative Order’s discussion on “Future Long-Term Alternative Energy Credits Contracts.” COMPETE urges the Commission to not alter the current procurement policies for Alternative Energy Credits (“AEC”) and to allow the competitive market to function as intended to send the right signals for new generation when and where needed.

COMPETE is an organization of more than 680 electricity stakeholders, including customers, suppliers, generators, transmission owners, trade associations, environmental organizations and economic development corporations - all of whom support well structured, competitive electricity markets for the economic and environmental benefit of

consumers. 54 COMPETE customer members have facilities in Pennsylvania with over 4100 facilities. Because these customers spend millions of dollars each year on electricity in the Commonwealth, they recognize the importance of controlling energy costs from a business perspective.

The competitive electricity market not only lowers customers' costs but also gives customers the flexibility to choose a supplier that best meets their individual business goals, with service offerings that provide choices on price, generation portfolio mix, risk management, and product and service features. COMPETE's customer members are especially concerned that changes to Pennsylvania's AEC procurement policies would reduce or eliminate the benefits that energy competition and choice have provided, in addition to raising costs and transferring the investment risks associated with new generation from investors to consumers through the use of non-bypassable charges for generation cost recovery.

II. Comments

In Section M of its Tentative Order the Commission seeks comments on, among other things, whether the default service provider ("DSP") should procure AECs: (1) through a mix of short-term, medium-term, and long-term contracts; and (2) for up to 50 percent of the zonal load and allocate those AECs among the electric generator suppliers ("EGSs").¹ While COMPETE appreciates the opportunity to comment on specific proposals, it is most concerned about the definitive conclusion made by the Commission that "an AEC procurement methodology whereby either the EDC or the DSP satisfies a portion of their service territory's AEPS requirements will help facilitate a successful

¹ Tentative Order at p. 37.

capacity build-out of AEPS-qualified generation facilities by mitigating long-term cash flow risks for relevant generation owners or financiers.”² It is clear the Commission has a predisposition to encourage the DSP to procure AECs for default *and* shopping customers, payable through a non-bypassable allocation to EGS customers with the express intent to provide a financing advantage to certain generation developers. COMPETE strongly opposes this construct for many reasons. This proposal is simply unnecessary to achieve the Commonwealth’s AEPS goals, will increase customer costs, and will inflict considerable harm on Pennsylvania’s competitive retail electricity market and the regional competitive wholesale market.

Requiring or recommending that the DSP procure AECs for any portion of shopping customers through long-term subsidized contracts paid through non-bypassable charges would increase costs by forcing customers to pay for generation development before it is needed. Assuring cost recovery for the DSP in order to incent new generation projects - that could be secured through the competitive market - is the same failed approach to generation development that existed in the protected-monopoly regime that led Pennsylvania to restructure its market and provide customer choice in the first place. Additionally, forcing shopping customers to pay the DSP long-term contracts through non-bypassable charges when alternatives exist on the competitive market deprives customers of the flexibility to choose the EGS and product that best suits their individual business needs.

Subsidies for the development of new generation through non-bypassable charges will also distort the market and significantly impact the ability of future generation to be developed without its own additional subsidies. If the Commission picks marketplace

² Tentative Order at p. 37.

winner and losers and certain projects are, in fact, subsidized, non-subsidized power suppliers and generation developers will be reluctant to invest in the market. The absence of those suppliers will eventually lead to shortage and higher prices forcing the Commission to engage in a never-ending cycle of subsidized generation. The result: even more subsidies by customers that would be avoided by allowing the existing market to drive AEC prices that support the addition of generation resources.

COMPETE has consistently opposed attempts by other restructured states to subsidize generation development through non-bypassable surcharges on shopping customers. Like this Commission, we opposed New Jersey's and Maryland's proposals to saddle consumers with the costs of subsidized CCGTs. We opposed the litany of non-bypassable riders that the AEP and Duke Ohio utilities proposed for the recovery of generation-related costs. And we oppose this Commission's implication that non-bypassable charges should be used to fund the development of new generation. Regardless of the state, subsidized generation – of any technology – has adverse long-term consequences for competitive markets and the states' businesses and consumers.

III. Conclusion

For all the foregoing reasons, COMPETE and its members of Pennsylvania's business community urge you not to modify the AEC procurement policies, thereby allowing customers to continue to choose for themselves how best to meet their own individual electricity needs.

Respectfully submitted,

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