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Pennsylvania Public Utility Commission
Retail Markets Investigation

Discussion Document on Default Service End-State Model

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I. Preferable End-State Default Market Model

PennFuture believes it is best for default service to remain with the electric distribution company (EDC) due to the fact that removing default service from the EDC will create unintended consequences with the Alternative Energy Portfolio Standard (AEPS) including both the use of long-term contracts and net metering.

If the Commission moves ahead with the removal of default service from the EDCs, it must carefully examine how this will affect AEPS implementation and net metering.

II. Alternative Energy Portfolio Standard (AEPS) Requirements

a. Net Metering

i. Issue

- The AEPS does not require electric generation suppliers (EGSs) to offer net metering to their customers.
- If an EGS does not offer net metering, a customer-generator will no longer receive monthly credits for power produced at the full retail rate (distribution, generation and transmission). The customer-generator will only be credited by the EDC at the distribution rate and will no longer receive payment for any excess generation at the end of the year, greatly reducing the customer's ability to repay debt on the system.
- Customer-generators that are aware of this issue are choosing not to shop in order to maintain access to credits at the full retail rate. However, if default service is removed from the EDCs, these customers would no longer have the choice to keep their full net metering benefits and would automatically have their credits reduced to just the distribution rate.

ii. Possible solution

- If default service is taken away from the EDC, the EGS or any new default service provider must be required to offer full net metering benefits to customer-generators. This includes: ensuring the customer-generator receives credit at the full retail rate (distribution, generation and transmission) for each kilowatt-hour produced, up to the amount consumed; allowing for carry-over credits from one month to the next; and paying the customer-generator for any accumulated excess generation at the end of the year at the price-to-compare.

b. Long-Term Contracts

i. Issue

- Long-term contracts are critical to the successful implementation of the AEPS. If Pennsylvania wants to ensure it meets its AEPS goals, new renewable energy projects must be built. In order for new renewable projects to be built, developers must have access to long-term contracts.

- The Commission has previously stated it understands the importance of long-term contracts for AEPS technologies within the following:
    - Recommendations Regarding Upcoming Default Service Plans. Docket No. I-2011-2237952. Final Order. December 15, 2011.
    - Policy Statement in Support of Pennsylvania Solar Projects.
    - Force majeure provisions of Act 35 of 2007.
- EDCs have been the main entity entering into long-term contracts for Tier I alternative energy credits (AECs) and solar alternative energy credits (SAECs) to comply with their AEPS requirements. However, as more customers switch to EGSs, EDCs are becoming more hesitant to take on long-term contracting risk.
- EGSs have not been proactive in entering into long-term contracts for AEPS requirements and previous Commission rulings like the Solar Policy Statement and Final Order on Upcoming Default Service Plans to not pertain to EGSs.
- If default service (generation and transmission) is removed from the EDC, the full responsibility of meeting the AEPS would fall on the new default service provider(s) or EGSs since they would be responsible for all generation service in the state. This in turn would harm AEPS compliance due to a lack of long-term contracts.

ii. Possible Solutions

1. If default service remains with EDC, direct them to procure AECs and SAECs to meet a certain percentage of the AEPS requirements for both their default service load and the load of any EGSs in its service territory through long-term contracts of 10 years in length.

2. If default service removed from EDC, direct any future default service provider to meet a certain percentage of the AEPS requirements for its load and the load of any EGSs through long-term contracts of 10 years in length.

3. Change AEPS law to place the full AEPS compliance on the EDC through distribution rates, rather than generation rates, which are not subject to customer migration and would not be affected by any future regulatory changes to default service. In turn, the cost of AEPS compliance would no longer be included in the price-to-compare, allowing for more accurate price signals in the market.

III. Act 129 Obligations – Energy Efficiency/Load Management Programs

As written in the law, the Commission is “To require electric distribution companies to adopt and implement cost-effective energy efficiency and conservation plans to reduce energy demand and consumption within the service territory of each electric distribution company in the

Commonwealth." (66 Pa. C.S. § 2806.1.) Therefore it is clear that the Act 129 energy efficiency and load management programs must remain with the EDC.

All of the EDCs except for West Penn met their first Act 129 requirements and are on track for meeting their 2013 requirements. The EDCs have built up customer recognition and branding over the past two years and it would create both customer and marketplace confusion if programs were removed from the EDC at this point in time. The EDCs have built up staff and expertise on program development and it would cost ratepayers more money to have to have a new entity begin this process again.

It would seem reasonable that EGSs can and should offer some Act 129 programs within the EDC plans going forward such as time-of-use rates.