

PPL EnergyPlus submits the following feedback on the April 28, 2014 Brattle presentation of their Triennial Review. Our comments are narrowly focused on the Brattle's proposal to develop a forward looking E&AS offset.

We understand Brattle found at least 2 disadvantages with the historical 3-year average, 1) a 4 to 6 year delay between the historical years and the future delivery year increasing the possibility of dramatically different market conditions, and 2) volatility due to scarcity pricing/extreme weather. Brattle states that a forward offset would better reflect the data points developers use to make investment decisions, and would normalize the shortage pricing/extreme weather years.

Based on our understanding of Brattle's proposal, we offer the following comments:

1. Transitioning from historical to forward will have to be gradual, if it is not to result in a step change. To the extent that prices feeding the historical average were depressed, and the market is rebounding, an abrupt switch to a forward E&AS will result in a step change downward in net CONE, which would be unacceptable. A change from historical to forward would have to be managed carefully, perhaps by using blending or some other mechanism to smooth the transition.
2. IF going to a forward E&AS offset WILL result in a more stable, more easily predictable E&AS offset, THEN it is worth considering.
3. A forward E&AS will NOT be more stable than historical, if political pressure mandates that it be explicitly adjusted for scarcity pricing. Scarcity pricing/extreme weather events should only be factored into the E&AS offset to the extent they are factored in to the forward prices that are used to establish the E&AS offset. However, there will be those who (wrongly) object to generators keeping scarcity rents they earn because they performed in any given year because they are already getting an RPM payment. Attempts to claw this money back in addition to a forward offset that reflects forward market conditions which already account for scarcity will make it worse than the existing historical E&AS.
4. An historic E&AS offset can be made more stable by taking the historical average over a longer period of time than 3 years. To the extent that the period for the average includes a full cycle of extreme weather (if we get 1 really hot summer every 5 years so take a 5 year average) then over time it should smooth out nicely.
5. Perhaps an historic average over a longer time period would have advantages over a forward looking E&AS offset because it could be made to be just as stable, but it would not rely on predicting forward prices? This would be particularly true if the political will insists that the forward E&AS offset must be adjusted for scarcity dollar for dollar – the historical E&AS offset already does that, and it's likely less offensive than any direct adjustment to a forward E&AS offset to account for scarcity.

In summary, we are open to consideration of replacing the historical E&AS offset with a forward E&AS offset IF the what is ultimately proposed for the forward offset is 1) more stable and predictable, 2) does NOT contain any explicit adjustment for scarcity/extreme weather (scarcity/extreme weather is assumed to be contained in forward prices, and 3) the transition from historical to forward is carefully managed so that it will not result in an abrupt step change in Net CONE when we move from historical to forward.