COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

Policies To Mitigate Potential Electricity Price Increases
Docket Number M-00061957

Comments of Hess Corporation

Jay L. Kooper
Director of Regulatory Affairs
Amerada Hess Corporation
One Hess Plaza
Woodbridge, NJ 07095
Phone: (732) 750-7048
Fax: (732) 750-6670
jkooper@hess.com

David W. Francis, Esq.
Pa. I.D. 53718
Rhoads & Sinon, LLP
One South Market Square
P.O. Box 1146
Harrisburg, PA 17108-1146
Phone: (717) 237-6738
Fax: (717) 231-6600
dfrancis@rhoads-sinon.com

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INTRODUCTION

Hess Corporation ("Hess") hereby submits comments for consideration in this proceeding to examine the development of policies for mitigating anticipated higher electricity prices following the expiration of capped generation charges. Hess appreciates the opportunity to address the concerns expressed in the Commission's Investigation Order and the motion and statement of the individual Commissioners issued in Docket No. M-00061957.[1]

As the Commission is aware from Hess' participation in the Commission's two most recent Provider of Last Resort ("POLR") dockets (Docket Nos. M-00041792 and L-00040169), Hess is a major supplier of natural gas and electricity to large commercial and industrial ("C&I") end-use customers in the Mid-Atlantic and Northeast regions and is a licensed electric generation supplier ("EGS") in Pennsylvania. Hess began providing retail electric supply services in 1999 and is currently providing retail electric supply in New York, New Jersey, Maryland, Delaware, Massachusetts and the District of Columbia. With its recent acquisition of the Select Energy, Inc. retail book of business, Hess will, following the completion all necessary transition procedures associated with the transaction, provide retail electric supply in Connecticut, Rhode Island, New Hampshire, and Maine. In addition, following completion of this transaction, Hess anticipates serving retail electric customers in Pennsylvania primarily in the Pennsylvania Electric Company ("PennElec"), PECO Energy Company ("PECO"), Pennsylvania Power and Light

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[1] *See Policies To Mitigate Potential Electricity Price Increases*, Docket No. M-00061957, Investigation Order (entered May 24, 2006); Motion of Commissioner Terrance J. Fitzpatrick (May 19, 2006); Statement of Commissioner Bill Shane (entered May 19, 2006).

Company ("PP&L") and Duquesne Power and Light Company ("Duquesne") service territories.

COMMENTS

I. THE COMMISSION SHOULD ENSURE THAT NO PRICE MITIGATION POLICY OVERRIDES OR INTERFERES WITH THE DEVELOPMENT OF ROBUST AND SUSTAINABLE COMPETITIVE RETAIL MARKETS

As an active retail electric supplier throughout the Mid-Atlantic region, Hess is cognizant of the "price shocks" that have occurred in other states, most notably as they affect residential customers in parts of Maryland and Delaware. The Commission is right to be concerned about the potential for rate shock for Pennsylvania's consumers in 2009 and 2010, the time the Pennsylvania electric distribution companies' ("EDCs") long-time capped generation charges expire. Planning for anticipated post-rate-cap electricity price increases is an endeavor the Commission no doubt views as necessary especially in light of recent events in neighboring states.

The Commission, however, must take great care to ensure that no price mitigation policy overrides or interferes with the development of a robust and sustainable competitive retail electric market as envisioned by the Pennsylvania Electricity Choice and Competition Act ("Act"). Any mitigation policy that disrupts the development of robust and sustainable retail competition will remove from the equation a long-term benefit for customers following the end of the era of generation rate caps, a situation that the Commission is no doubt striving to avoid.

Likewise, a mitigation plan that provides the Pennsylvania EDCs unfettered discretion to begin increasing their capped prices simply because they anticipate that

– based on current rate levels and wholesale prices – customers will see large price increases at the end of the rate cap period is ill advised. As Commissioner Fitzpatrick correctly stated in his motion, "we cannot predict with certainty the future course of energy prices."[2] Indeed, the events giving rise to the Commission's concerns in this proceeding are the product of trying to guess the future price of a commodity -- freezing electricity prices in amber in the form of long-term rate caps that did not reasonably anticipate the explosion in gas commodity prices during the terms of those caps.

Accordingly, if the Commission decides to adopt an electricity price mitigation plan for the end of the transition in 2009 and 2010 then it should do so with the utmost caution. In addition, it is essential that the method selected to mitigate anticipated increases is designed as a non-bypassable wires charge to maintain competitive neutrality and sustain the fundamental tenets of the Act. Such a plan, if adopted by the Commission, will ensure that: (1) the plan is applicable to all electric distribution customers, whether or not they take electric supply service from an EGS, and (2) does not impede the development of a robust, sustainable and transparent retail electric market or serve as a barrier to entry for market participants.

II. THE FOCUS OF THE COMMISSION SHOULD BE ON DEVELOPING POST-RATE-CAP-PERIOD DEFAULT SERVICE THAT WILL FOSTER A COMPETITIVE MARKET

As a long-term solution to the concerns expressed by the Commission in the Investigation Order, it is essential for the Commission to use the time between now and 2009/2010 to establishing a default service consistent with the fundamental

[2] Motion of Commissioner Fitzpatrick at 2.

tenets of the Act. Specifically, the Commission should establish a default service that enables customers to choose their electric supplier and to respond swiftly to changing market conditions through the provision of timely and accurate price signals.

Hess has continually advocated for an hourly-priced default service design for medium-sized and large C&I customers to provide competitive alternatives for customers. Such alternatives can enable customers to avoid large, immediate price swings that can last for longer periods of time than necessary, or, if the customers desire, remain on a market or index price product to enable them to adjust their demand during peak periods.[3] Suffice it to say, the Act envisioned the development of a robust and transparent retail market that would allow customers to avail themselves of these competitive alternatives. This would include whether the customer's desires focused on price (fixed, variable or a hybrid) or non-price (quality of customer service, ability to have a single supplier for oil, gas and electric service, environmental-friendly product) attributes of the electric supplier's products and services. It is therefore critical for the Commission to focus once again on establishing a post-transition default service that is not designed to be the only choice of electric service for Pennsylvania's consumers, but rather a backstop service to a vibrant competitive market that will benefit them.

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[3] *See, e.g., Rulemaking Re Electric Distribution Companies' Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. §2807(e)(2),* Docket No. L-00040169, Comments of Amerada Hess Corporation (dated April 26, 2005); Reply Comments of Amerada Hess Corporation (dated June 27, 2005).

CONCLUSION

Hess believes that the Commission must be cautious when addressing the implementation of electric price mitigation policies. The Commission is correct to be concerned about the potential level of increase in electricity prices once the generation rate caps expire in 2009 and 2010. However, it is essential to design any method to mitigate the anticipated increases as a non-bypassable wires charge to maintain competitive neutrality and sustain the fundamental tenets of the Pennsylvania Electricity Generation and Customer Choice Act. In addition, the Commission should again focus its efforts on establishing default service that is designed to be a backstop service and empowers customers to choose an electric supplier and product that best fits the customer's specific needs and empowers customers to swiftly respond to timely and accurate price signals. Hess looks forward to working with the Commission and other stakeholders in the design of robust, sustainable and transparent competitive markets in Pennsylvania.

Respectfully submitted,

RHOADS & SINON LLP

By: ________________________

David W. Francis
One South Market Square
P. O. Box 1146
Harrisburg, PA 17108-1146
(717) 233-5731

Attorneys for
Hess Corporation