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November 2, 2011

VIA ELECTRONIC MAIL

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

Re: Investigation of Pennsylvania's Retail Electricity Market
Docket No. I-2011-2237952

Dear Secretary Chiavetta:

On behalf of Pike County Light and Power Company ("PCL&P) please find enclosed for filing an original and five (5) copies of PCL&P's Comments in the above-captioned matter.

Should you have any questions concerning this filing please contact me at your convenience.

Sincerely,

John J. Gallagher

Counsel for Pike County Light & Power Company

Enclosure

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PA PUC
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation of Pennsylvania's Retail Electricity Market: Recommended Directives on Upcoming Default Service Plans	: : : :	Docket No. I-2011-2237952

COMMENTS OF
PIKE COUNTY LIGHT & POWER COMPANY

In its Tentative Order entered October 14, 2011 ("Order"), the Pennsylvania Public Utility Commission ("Commission") seeks comments on the Recommended Directives on Upcoming Default Service Plans set forth in the Order. These recommendations were developed by the Commission's Office of Competitive Market Oversight ("OCMO") to assist electric distribution companies ("EDCs") in developing the format and structure of their upcoming default service plans. The Order's recommendations have the following three goals: (1) ensure that upcoming default service plans do not hinder the ability of the Commission to implement changes that will be addressed in the Commission's ongoing investigation in this proceeding; (2) advise EDCs and other parties that they will be expected to amend proposed default service plans when possible to incorporate changes which arise out of this proceeding; and (3) provide guidance on default service plan components that the Commission believes can better facilitate the competitive marketplace. In response to this request, Pike County Light & Power Company ("PCL&P") sets forth below its general comments, as well as specifically addresses some of the recommendations made in the Order.

General Comments

PCL&P has demonstrated that, due to its unique characteristics and circumstances, the default service rules that apply to EDCs generally should not apply to PCL&P. The Commission has recognized PCL&P's distinctive features, as evidenced by the Commission's order in PCL&P's current default service plan granting waivers of certain default service regulations **(See Attachment A).**[1] These differences include a robust retail electricity market, small size, location and participation in a different regional transmission organization than all other Pennsylvania EDCs.

A significant portion of PCL&P's customers are already participating in the retail electricity market. Currently, approximately 71% of the customers in PCL&P's service territory take generation services from an Electric Generation Supplier ("EGS"). This is by far the highest penetration rate in the state. The majority of customers who take EGS service are served by Direct Energy Services, LLC ("Direct Energy"). Most of these customers took service from Direct Energy pursuant to an aggregation program ("Aggregation Program") initially approved by the Commission at Docket No. P00062205[2] and remained customers of Direct Energy upon the Aggregation Program's expiration on May 31, 2011.[3] The high penetration rate by EGSs in PCL&P's service territory testifies to the existence of a robust competitive market. Thus, the Order's fundamental goal of ensuring that default service plans do not impede the development

[1] *Petition of Pike County Light & Power Company for Approval of Its Default Service Implementation Plan*, Docket No. P-2010-2194652 (Order entered February 25, 2011).

[2] *Petition of Direct Energy Services, LLC for Emergency Order Approving a Retail Aggregation Bidding Program for Customers in Pike County Light & Power Company's Service Territory*, Docket No. P-00062205 (Order entered April 20, 2006).

[3] *Petition of Pike County Light & Power Company for Expedited Approval of its Default Service Implementation Plan*, Docket No. P-2008-2044561. The Commission determined that customers in Direct Energy's Aggregation Program at the conclusion of the second renewal term should remain customers of Direct Energy unless they affirmatively choose either another supplier or PCL&P's default service program.

of the competitive marketplace in Pennsylvania has to a great extent already been achieved in the PCL&P service territory.[4]

PCL&P is an EDC serving approximately 4,700 residential and commercial customers in Pike County, Pennsylvania. For calendar year 2010, the electric requirements of PCL&P's customers were 79,000 MWH, with a peak demand of approximately 18 MW.

PCL&P is a wholly-owned subsidiary of Orange and Rockland Utilities, Inc. ("O&R"). O&R provides electric service to approximately 225,000 customers in Orange, Rockland and Sullivan counties in the State of New York. Another subsidiary of O&R, Rockland Electric Company ("RECO"), serves approximately 72,000 customers in the State of New Jersey. PCL&P, O&R, and RECO operate a fully integrated electric system serving parts of Pennsylvania, New York and New Jersey (collectively referred to as the "System"). PCL&P receives all of its electricity through two 34.5 kV radial circuits that cross the Delaware River from Port Jervis, New York. Unlike the other utilities in the Commonwealth, PCL&P, by virtue of being a part of the System, operates in the New York Control Area that is administered by the New York Independent System Operator ("NYISO"). In contrast, the other Pennsylvania electric utilities are members of the PJM Interconnection, LLC ("PJM").

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[4] Apparently, at least one EGS agrees with this conclusion, as Direct Energy witness Mr. Ronald M Cerniglia recently testified as follows:
"Q. Do you have any thought about the Commission's recently entered tentative Order in the Retail Markets Investigation docket?
A. Yes, on October 14, 2011, the Commission issued a Tentative Order at docket number I-2011-2237952 to provide guidance as to how EDCs should develop the format and structure of their upcoming default service plans. While this is a tentative order subject to a comment period, I wish to note that many of the recommendations identified in that order would not be necessary for PCL&P given the fact that the majority of PCL&P's customers are <u>already</u> receiving service in the competitive market...." Petition of Pike County Light & Power for approval of a Default Service Implementation Plan for period commence June 1, 2012, Docket No. P-2011-2252042, Rebuttal Testimony of Ronald M. Cerniglia on Behalf of Direct Energy Services LLC, October 19, 2011, pp. 8-9 (emphasis in original).

Given its high penetration rate by EGSs, size and affiliation with the System and NYISO (rather than PJM), PCL&P is plainly a one-of-a-kind electric provider among Pennsylvania utilities. Because of these fundamental differences, PCL&P should not be viewed in the same light as other Pennsylvania utilities on issues regarding default service protocols, procedures and requirements. Consequently, any recommendations in the Order that the Commission adopts on a permanent basis should not affect any currently existing waivers for PCL&P relating to default service. Additionally, the Commission should exempt small EDCs such as PCL&P and/or EDCs with significant levels of EGS penetration from having to make any of the changes recommended in the Order, even in the absence of waivers.

Default Service Rate Adjustment Structure

PCL&P strongly opposes the recommendation to EDCs to consider incorporating semi-annual default service rate adjustments within their next default service plans. PCL&P believes that such an approach could have serious negative impacts on customers.

PCL&P believes that semi-annual default service rate adjustments create a significant potential for rate shock. Lengthening the period of time EDCs are required to forecast future energy costs will result in less accurate forecasts. This, in turn, could lead to larger adjustments and more pronounced swings in the energy costs default service customers experience.

Additionally, as the period of time EDCs are required to forecast future energy cost increases, the potential for impacts of load migration on customer costs increases, possibly compounding the size of the adjustment. Any significant migration of customers from the EDC to an EGS to avoid the large adjustment charge will not only have the impact of decreasing the amount of usage across which the adjustment would be charged, but – because recovery occurs in a later period – it could also result in recovery of those costs from customers other than those for whom the EDC incurred the costs. At minimum, it would change the size of the adjustment for those customers remaining on default service. By keeping the time between estimates and true-up relatively short, this disparity and its impacts are minimized. For smaller EDCs, even a small amount of customer migration could have a measurable impact. PCL&P does not believe that any incremental improvements in competitive markets would outweigh the risks posed by this recommendation.

Retail Opt-In Auction

It is important to note that the current status of retail choice penetration in PCL&P's service territory is reflective of the Aggregation Program, which resembles the Retail Opt-In Auction proposal, except that it was undertaken as an opt-out program. The Aggregation Program was initiated in June, 2006, and ended May 31, 2011. In this Program, EGSs bid to provide energy service to PCL&P's customers, an EGS was selected by the Commission, and customers were required to opt-out if they did not choose to switch to the selected EGS. As a result of this Program, and as described above, a significant portion of PCL&P's customers today purchase their electric commodity from EGSs. The status of the retail market in PCL&P's service territory today is such that there is no need for the Company to develop or incorporate an opt-in auction program within its default service plan in order to encourage or facilitate customers moving to retail choice. Indeed, under the current stakeholder proposal for a Retail Opt-In Auction, smaller EDCs, including PCL&P, would be exempt.[5] Should the Commission adopt this recommendation on a permanent basis, the Commission should also adopt the proposal to exempt smaller EDCs such as PCL&P.

[5] http://www.puc.state.pa.us/electric/PDF/RetailMI/DD-Subgroup-Opt-In_Auction_093011.pdf

Referral Program

In PCL&P's currently pending petition before the Commission regarding its default service plan to commence on June 1, 2012 (Docket No. P-2011-2252042), Direct Energy's witness testified that PCL&P should consider measures being discussed in a stakeholder process whereby new customers are given the opportunity to select an EGS at the time of service initiation.[6] PCL&P has not been involved in this stakeholder process. However, for the reasons discussed in the General Comments section above, PCL&P believes that this recommendation should not be applied at this time or in the manner described by Direct Energy.

PCL&P does not generically oppose the concept of an EGS Referral Program. The Company's parent, O&R, developed and initiated the highly successful Referral Program in New York which is currently called PowerSwitch. PowerSwitch is an introductory program for customers to test the waters of retail choice without economic risk. It was instrumental in O&R's achievement of the highest retail choice levels in New York in the early years of market restructuring. However, at its essence, the Program is intended to "introduce" customers to retail choice. Because PCL&P's service territory already has a 71% market penetration rate in retail choice, it no longer is necessary to introduce customer to the concept of competition.

Additionally, an EDC needs a material number of interested EGSs in the market in order to operate a successful Referral Program. Currently, PCL&P has only three EGSs that are accepting customer enrollments in its service territory. One of those EGSs is an affiliate and one is already serving a majority of customers in the service territory. Under these circumstances, there is a lack of options available to warrant making customer referrals.

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[6] *Petition of Pike County Light & Power for approval of a Default Service Implementation Plan for period commence June 1, 2012*, Docket No. P-2011-2252042, Rebuttal Testimony of Ronald M. Cerniglia on Behalf of Direct Energy Services LLC, October 19, 2011, p. 9.

Finally, Direct Energy's proposal that ***new*** customers be referred to EGSs is not operationally or economically feasible and PCL&P would incur significant costs to implement such a program. PCL&P's enrollment system is currently structured, so that both a customer account number and a billing record in its billing system are necessary in order to effectuate a switch to an EGS. Under the Company's billing system, account numbers are not created until service actually commences. Due to the structure of the enrollment processes as designed and implemented by the Company, when customers initiate service with PCL&P, an account number is created, the customer receives utility service, and a billing record is established. The account number, in conjunction with the billing record, is required for the enrollment system to accept an EGS enrollment. The earliest this can occur is during the customer's second billing cycle. This was the enrollment process throughout the Direct Energy Aggregation Program, where new customers would initiate service with PCL&P and then, assuming they did not elect to opt out of the Aggregation Program, would be switched to Direct Energy during the second billing cycle. In order to accommodate enrollment with the EGS at the initiation of service, PCL&P would be required to significantly modify the billing system that currently serves O&R, RECO, and PCL&P at considerable expense. Should the Commission decide that all EDCs are required to adopt this recommendation, PCL&P proposes: (1) referrals result in switches during the second billing cycle; or (2) all costs associated with modifying the Company's billing system be borne by the EGSs operating in its service territory; and (3) EGSs pay all of the costs associated with EDC customer service representatives referring customers to an EGS.

Conclusion

For the reasons provided above, PCL&P respectfully requests that the Commission affirmatively endorse the continuing need for PCL&P's existing waivers related to default service and exempt EDCs such as PCL&P from having to adopt any of the proposed changes set forth in the Order.

Respectfully submitted,

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Counsel for Pike County Light & Power Company

Date: November 3, 2011

ATTACHMENT A

The following is a list of provisions relating to default service that have been waived for PCL&P under its current default service plan:

- Sections 54.185(d)(2) and 54.185(d)(6), relating to schedules and technical requirements of competitive bid solicitations and spot market energy purchases and relating to copies of agreements or forms used in the procurement of electric generation supply; and
- Sections 69.1805, 69.1805(1), 69.1805(2) and 69.1805(3), relating to procurement plans developed for particular rate classes and Section 69.1807(3), relating to bid solicitations along customer class lines.