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VIA ELECTRONIC FILING AND HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Filing Room
Harrisburg, PA 17120

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RE: Investigation of Pennsylvania's Retail Electricity Market Recommended Directives On
Upcoming Default Service Plans, Docket No. I-2011-2237952; **COMMENTS OF
DOMINION RETAIL, INC AND INTERSTATE GAS SUPPLY TO TENTATIVE
ORDER**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission are the Comments of Dominion Retail, Inc. and
Interstate Gas Supply to the Tentative Order of the Commission in the above-captioned matter.

If you have any questions, please do not hesitate to contact me.

Very truly yours,



Todd S. Stewart
*Counsel for Dominion Retail, Inc. and
Interstate Gas Supply,*

TSS/alh
Enclosure

cc: Office of Competitive Market Oversight (via electronic mail to: ra-RMI@state.pa.us)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**COMMENTS OF DOMINION RETAIL, INC. AND
INTERSTATE GAS SUPPLY, INC., TO TENTATIVE ORDER**

Now come Dominion Retail, Inc., ("Dominion Retail"), and Interstate Gas Supply, Inc. ("IGS") collectively known as "EGS Parties" for purposes of this filing, and hereby offer the following Comments to the Pennsylvania Public Utility Commission ("Commission") in response to the Commission's Tentative Order issued in the above captioned docket, dated October 14, 2011, ("Tentative Order"). The Tentative Order required that Comments are due within twenty (20) days, or November 3, 2011.

Introduction

The EGS Parties have participated in the *Investigation of Pennsylvania's Retail Electricity Market*; Docket No. I-2011-2237952 ("RMI") since it began, and commends the Commission for an Order that should help to move this process along, and which considered issues of significant importance in a balanced manner. The EGS Parties generally support the Commission's Tentative Order with a few qualifications as discussed more thoroughly below. Moreover, the EGS Parties believe that the goals expressed in the Commission's Tentative Order: 1) to ensure that upcoming Default Service Plans do not hinder the ability of the Commission to implement changes that will be addressed as part of the RMI process; 2) to advise EDCs and others of what they will be expected to include in their Default Service Plans,

i.e., to incorporate changes that may arise out of the Investigation; and 3) to provide guidance on Default Service Plan components that will better facilitate the competitive marketplace, are appropriate under the circumstances.

While the EGS Parties are supportive of the Tentative Order and appreciative of the Commission's efforts to date, we also suggest that the Commission's Final Order provide stakeholders and interested parties with a more definitive view of what the Commission expects to happen after the transition plans. It appears obvious that the Commission's intention is to implement transitional Default Service Plans as discussed in the Tentative Order, including the various competitive enhancements to stimulate organic switching. It also appears that the next logical step would be to move the market to a fully competitive end state. In particular, does the Commission expect a different "end state" with regard to default service after June 1, 2015, and if so, does the Commission have a preferred date on when that "end state" would become effective?

While the EGS Parties recognize that many policy choices remain, they merely wish to suggest that a blueprint for a fully competitive market on or after June 1, 2015, would be helpful for all parties, as soon as is practical.

By making this suggestion, it is not the EGS Parties' intention to ask the Commission to "jump the gun" and immediately lay out in detail any contemplated plans for transitioning the market to a new Default Service model. However, it is critically important for all stakeholders to know that such an end state will in fact be on the agenda and that it is the goal of the Commission to achieve such an end state. The reasons are simple. If transition plans are to last two years, it will reassure EGSs that they will be able to manage their businesses and market to consumers knowing that there is an end state that will be different from the status quo, and it will

provide them with the incentive to stay in the market, to acquire new customers organically; and ultimately, to provide consistent messages to customers about the direction of the marketplace. More importantly, however, is likely the impact it will have on the engagement of consumers in the market. As already noted by the Commission during the first en banc hearing, there is a certain apathy or status quo bias that is likely only going to be overcome through a clear direction to consumers that it is time to engage in the market and find a supplier. Accordingly, the EGS Parties urge the Commission to provide as much information as possible now for what the “end state” may look like after June 1, 2015.

Default Service Plan Time Period

The Commission tentatively has recommended that EDC Default Service Plans run for an additional two (2) year period beyond 5/31/2013. EGS Parties believe that this additional two year period is reasonable, but also emphasize that Choice Programs work best when customers are allowed to choose an offer from a competitive supplier and any default service for customers that is in place does not have characteristics that elevate its position beyond what it should be, which is at best a “catch-all” type service for customers that are between suppliers, or otherwise temporarily without a generation supplier. To that end, we believe that the sooner the market can be constructed to operate as a fully competitive market, the better that marketplace will become for all consumers.

We agree that incentives are often necessary to assist some customers “off the sidelines” and get engaged in selecting a competitive supplier, but as long as the default service contains many of the strongest attributes of a competitive market or has an elevated status, it is unlikely those customers that have a status quo bias will engage in the market. Guiding customers towards a competitive state that can best serve their interests is in the best interest of consumers,

and the inclusion of the competitive enhancements within those two (2) year plans appear to be necessary to stimulate organic or natural switching. It is the EGS Parties' goal that with sufficient organic switching, the need to continue default service as it is provided today will be largely reduced or even eliminated.

Conversely, the EGS' believe that short-term extension of the Default Service Plans could be problematic for a number of reasons including the fact that one (1) year or less simply does not provide enough time for customers to voluntarily transition through the proposed modalities such as opt-in auctions and referral programs. Moreover, customers transferred during those programs must be allowed sufficient time to transition after the first year, because keeping customers in the competitive market past the initial offering is critical to ensuring that the shopping is sustainable. Finally, it is important to provide sufficient time to educate customers about the "end state" and provide EGS's with an opportunity to incorporate that education into their promotional efforts. Without providing sufficient time for these programs to occur and for the message with regard to the "end state" to be disseminated, widespread customer confusion may likely result. For those customers who do remain on default service, for whatever reason, it is imperative that they continue to receive the statutorily mandated default service product. Transition plans of a year or less may be difficult to squeeze into the current definition, and for that reason, and the delay in implementation that may result, it is best to consider the two (2) year transition period as proposed in the Tentative Order.

Energy Contract Durations

With regard to the mix of contracts and contract durations of the EDC plans that would be filed for the period after May 31, 2013 -- the EGS Parties believe that the intention to limit the change to that which is "necessary" will tend to limit litigation over the procurement aspects of

those plans. Conversely, if procurement plans are significantly altered from their current mix, litigation becomes a more likely result. The EGS Parties agree with the Commission's estimation that simply because EDCs' presently effective Default Service Plans contain a certain mix of contracts, does not suggest that such mix is cast in stone, or is the only mix of contracts which could pass the prudence requirements of Act 129. To the contrary, the EGSs believe that Act 129 provides for a host of possible mixes of assets and products that could satisfy the prudence standards of that Act.¹ That being said, the EGS Parties believe that there is a significant amount of logic in allowing longer term contracts that may expire during the extension period to be replaced with shorter term procurements that do not "over hang" the end of the plan. It also makes sense to eliminate longer term procurements from proposed plans if they will extend beyond the duration of the plan. These changes are practical because they will eliminate any issues with resolving cost responsibility for overhanging contracts, if and when the end state is implemented. Otherwise, the Commission and stakeholders will be left to deal with ongoing contract issues at the end of the proposed plans. Moreover, two (2) years clearly provides a sufficient window to provide the resource diversity that will protect default service customers. In those cases where longer term procurement contracts may extend beyond May 31, 2015, the Commission must ensure that such contracts can be assigned to EGSs, so EDCs can manage their portfolios without assuming any risk exposure and EGSs are allowed to step into the market. If it is the Commission's intention that there be a new and different "end state" after 6/1/2015, there are two paths that can be followed. The first is to prepare now by trying to minimize the overhang issues as the Commission has done in its Tentative Order and which appears to be the prudent approach; the second would be to follow the status quo approach and

¹ 66 Pa SC § 2807 (e)(3.2)(iii).

perpetuate the existing plans with the potential for creating cost recovery issues. The EGS Parties' advice is to take the practical approach and to provide for as much duplication as possible, but to change what needs to be changed so that the Commission's vision of the ultimate "end state" can be implemented.

Retail Opt-In Auction.

The EGS' support the inclusion of a Retail Opt-In Auctions as one way to promoting organic switching. An Opt-In Auction allows the customers to volunteer to be part of an aggregation for purposes of receiving offers from EGS' in what would be expected to be mass switching events. The "buzz" that these types of events/offers can provide will help to invigorate otherwise stagnating choice markets. However, the EGS Parties caution that these types of programs are not an end to themselves and should only be viewed as one method for stimulating or accelerating what should otherwise be the natural progression of Choice programs. That is, the goal of these types of programs should be to engage customers in the market so that customers actively take control of their energy purchases. Accordingly, the EGS' recommend the use of these programs during the two (2) year term as a means of stimulating competition so that when the time comes to move to an "end state", the least number of customers possible will be required to engage in some new form of default service.

Referral Program.

Similar to their views on default auctions, the EGS Parties also believe that referral programs can be another means of engaging customers in the process of choosing their source of supply. These programs can range in sophistication from simply having utility customer service representatives include a "Choice" dialogue during specified communications events with customers. The dialogue could include information about shopping, including current offers.

The dialogue also could allow for “hot” transfers of customers to EGS’ or to an independent third party service. The means by which customers are provided information and urged to execute on that information are diverse, but the goal is the same—when the customer is in contact with the utility representative, the relationship is used to provide education about choice, an opportunity to choose and most importantly, to provide the customer with “permission” from the utility to engage in Choice. It is often this last element that is most difficult to express in other forms of communication and it is often the most significant barrier to choice.

All of these options should be considered. It may not be necessary to implement the most complex of these types of programs; rather, it may be sufficient to allow for customer service representatives simply to provide information and the ability to switch a customer to a supplier of that customer’s choice. Again, however, the EGS’ caution that such programs should not be viewed as an end to themselves, but merely one of many tools that are available to promote organic switching in the interim so the customers can voluntarily engage in the competitive market.

Time of Use Rates.

The EGS Parties believe that Time of Use (“TOU”) Rates as presently formulated have been extremely harmful to the competitive marketplace and support the Commission’s initiative to change the program. One need only point to the example of PPL’s ill-fated first quarter 2011 TOU Rates to illustrate the point. Those rates – both off-peak and on-peak rates -- were significantly below market at the time they were offered, and enticed a significant number of customers to leave what otherwise would have been attractive EGS offers to take advantage of the TOU Rates. However, after accumulating a substantial multi-million dollar under-recovery, most of those customers switched back to competitive offers later on, when the rates were set to

rise substantially, in part, to recover the significant under collection. This example illustrates the harm that improperly designed TOU Rates can cause: offers not based in market reality, under or over collections, and reconciliation which exacerbates and prolongs the problem in the marketplace.

Understanding that TOU rates in some form are statutorily mandated, the EGS Parties believe that it would serve the Commission well to reexamine the programs in which these rates are offered, and ultimately to propose a uniform program that is competitively neutral. The most obvious means of accomplishing such a goal would be to bid the service out to the competitive market and to allow the market to supply the TOU product based upon actual real-time pricing, rather than artificial or predetermined pricing standards which ultimately lead to reconciliation and price distortion.

It is ironic that TOU rates were intended to provide such real time prices and ended up suffering the fate they were intended to eliminate. The existing programs run counter to the express intent that customers have access to actual TOU or Real Time pricing offers. By providing fixed price offers that are later reconciled, the customer is separated from the actual market price signal and provided little incentive to curb their usage at the appropriate times. Accordingly, the EGS Parties whole-heartedly support the Commission's suggestions that EDCs' contemplate contracting with EGS' to satisfy their statutory requirements.

Default Service Rate Adjustment Structure For Residential and Small Commercial Customers.

The EGS' believe that it would be prudent for the Commission, at least for the proposed interim period, to continue the requirement that EDCs reconcile their default service rates on a quarterly basis. While the EGS' recognize the burden it can be for EDC's to change rates quarterly -- even some EGSs may experience difficulty keeping up with quarterly rate changes --

it is vital that default service rates be as market relevant as possible. In order for customers to continue to receive the appropriate price signals for purposes of controlling consumption and, so they are able to understand the economics of competitive offers in the marketplace, it is important that default service rates be market based. To change to annual or semi-annual reconciliation will in many cases allow for default service rates that are not market relevant which distorts any attempt at comparison. Accordingly, the EGS' do not recommend modifying the regulations that currently provide for quarterly adjustments.

Hourly Priced Default Service for Medium Commercial and Industrial Customers.

The EGS Parties believe that expanding hourly service to the 100kw and Medium Commercial and Industrial Customers will provide those customers with the most market relevant price alternative to taking service from competitive suppliers. Accordingly, the EGS Parties support the recommendation to let EDCs contemplate extending such hourly price default service to those customers.

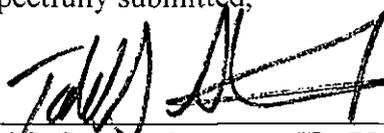
Conclusion.

The EGS Parties have made recommendations in their earlier comments regarding their vision of an appropriate “end state” for electricity markets in Pennsylvania. While they will continue to advocate for that eventuality as part of this deliberative process, they hope that the Commission will take to heart their suggestion that the Commission provide some insight to what the Commission believes an appropriate “end state” may be, when that end state should be implemented, and the degree of change that this type of end state will ultimately cause for customers who remain on Default Service. This type of information will greatly assist the

continuation of this process and will allow for EGSs to plan for that future. The EGS parties stand ready to recommend to the Commission specifics on an end state market.

Otherwise, as discussed herein, the EGS Parties support the Commission's Tentative Order except where noted and believe that the Commission should proceed with this investigation with all due deliberation.

Respectfully submitted,



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