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November 3, 2011

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17120

**VIA HAND DELIVERY**

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

Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission are the original and five (5) copies of the Comments of Citizens' Electric Company of Lewisburg, PA, and Wellsboro Electric Company in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to these proceedings are being duly served. Please date stamp an extra copy of this transmittal letter and Comments, and kindly return them for our filing purposes. Thank you.

Very truly yours,

McNEES WALLACE & NURICK LLC

By 

Pamela C. Polacek

Counsel to Citizens' Electric Company of Lewisburg, PA,  
and Wellsboro Electric Company

PCP/sar

Enclosures

c: Office of Competitive Market Oversight Retail Markets Investigations  
(via E-mail: ra-RMI@state.pa.us)  
Certificate of Service

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## **I. INTRODUCTION AND BACKGROUND**

On April 29, 2011, the Pennsylvania Public Utility Commission ("PUC" or "Commission") entered an Order commencing its investigation of Pennsylvania's Retail Electricity Market. After the receipt of initial comments and convening an initial En Banc hearing, the Commission commenced a working group process to develop potential intermediate and long-term modifications to default service and to the interaction between Electric Distribution Companies ("EDCs") and Electric Generation Suppliers ("EGSs"). Based on the initial results of the working group process, the Commission's Office of Competitive Market Oversight ("OCMO") submitted recommendations to the Commission for "intermediate" modifications to default service and EGS interaction. On October 14, 2011, the Commission issued a Tentative Order requesting public comment on the OCMO recommendations.

Citizens' Electric Company of Lewisburg, PA ("Citizens"), and Wellsboro Electric Company ("Wellsboro") (collectively, "Companies") submit these Comments to respond to the Commission's Tentative Order.

## **II. COMMENTS**

Citizens' and Wellsboro have been monitoring the working group process to understand the proposals and issues that are being discussed, and to provide input on how those proposals impact smaller EDCs and the customers in their service territories. The issue of how to accommodate competition in the small EDC territories is included on the agenda for the working group, but is one of the final issues to be addressed. The Companies believe that it is appropriate to reserve this topic for the end of the investigation because it will allow the Commission to review various proposals that may be appropriate in larger territories separate from what may be more appropriate and feasible in smaller territories. Rather than Citizens' and Wellsboro acting

as the proverbial "tail wagging the dog", the Commission should adopt individual default service plans that best fit the needs of the default service consumers within each EDC's service territory, as the Commission contemplated in its Policy Statement and Regulations.

Despite the reservation of the small EDC topic for future discussion by the working group, several of the proposals in the Tentative Order raise issues and concerns specific to smaller EDCs, which the Companies will address below. For ease of reference, the Companies' Comments will track the sequence in which the relevant issues are addressed in the Tentative Order.

**A. Default Service Time Period.**

As noted in the Tentative Order, many EDCs soon will be filing default service plans to replace or extend their current plans that expire as of May 31, 2013. The Companies' current joint default service plan expires as of May 31, 2013. Pending further activities in this investigation or guidance from the Commission regarding how it prefers to address default service in small EDC territories it is the Companies' intention to seek a two year extension of the current joint default service plan without modifications to the purchasing strategy, other than extending the procurement schedule for an additional two years. The Companies hope that this can be done with minimal controversy so all parties can focus their resources and efforts on the Investigation rather than re-litigating whether the current joint default service plan purchasing strategy complies with the relevant statutory and regulatory requirements.

**B. Energy Contract Durations.**

The Tentative Order suggests that EDCs should limit or eliminate the existence of short-term energy contracts extending past the end date of the default service plan time period. Tentative Order, p. 5. In addition, the Tentative Order recommends that EDCs refrain from entering into additional long-term contracts pending the outcome of the investigation. Id. The

Companies' intention to extend the current joint default service plan for an additional two years would satisfy both of these recommendations.

In ruling on the Companies' current joint default service plan, Commissioner Cawley issued a statement urging Citizens' and Wellsboro to add mid-term products (i.e., longer than one year) to the portfolio to provide additional price stability for default service customers. See Joint Default Service Plan for Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013, Docket Nos. P-2009-2110798 and P-2009-2117080, Statement of Chairman Cawley (Feb. 25, 2010). Similarly, then-Commissioner Christy questioned whether the Companies should consider adding a long-term product as defined by Section 2807(e)(3.2)(iii) to the purchasing plan in order to comply with Act 129. See id. Statement of Vice Chairman Tyrone J. Christy (Feb. 25, 2010). In the smaller territories, the Companies believe that continuation of the portfolio approach with the addition of products with delivery periods that are longer than one year may result in the least cost to customers over time, as required by Act 129. If the small EDC topic ultimately is resolved by a determination that Citizens' and Wellsboro should continue acting as default service providers in the territories using the portfolio approach, then the Companies may seek to amend their joint plan to add physical or financial products beyond one year. The Companies urge the Commission to remain open to the possibility that this approach may be better to meet the needs of consumers in smaller territories.

**C. Retail Opt-in Auction.**

During the working group discussions, a subgroup of participants has been developing an opt-in auction applicable to residential and/or small commercial customers. The Tentative Order recommends for EDCs to incorporate these proposals into their default service plans. Tentative Order, p. 5. Based on the documents circulated to the working group members, the retail opt-in

auction proposal would not apply in the Citizens' and Wellsboro territories. The Companies believe that it is appropriate to exclude their territories from the proposal due to the small size of the total load, the use of the portfolio procurement approach and the potential administrative burden on the Companies from accommodating this type of proposal. Citizens' and Wellsboro do not have comments on the substance of these proposals, but want to confirm to the Commission that the working group participants developing this proposal appear to agree that smaller territories should be excluded.

**D. Referral Program.**

The Tentative Order suggests that each EDC should develop a referral program to educate customers about the retail electric market and the potential savings through shopping. Tentative Order, p. 6. Unlike larger EDCs that have substantial call centers, calls to Citizens' and Wellsboro's offices are answered by local Customer Service Representatives ("CSRs") during the day, and are answered by a small call center that serves all of the C&T Enterprises, Inc. ("C&T") affiliates after normal business hours. At this time, neither Citizens' nor Wellsboro have any EGSs that have entered into Individual Coordination Agreements to serve in their territories. As a result, referring customers to the statewide website or discussing the "benefits" of shopping seems to be unnecessary, and may not be well-received by the customers when there are no available alternative suppliers. Once EGSs begin serving in the territories, Citizens' and Wellsboro will ensure that their CSRs and call center have the directive to inform the customer of their right to seek a competitive supplier, and will to refer customers to the statewide website for additional information regarding shopping opportunities. The Companies will address this issue further in their next joint default service plan.

**E. Time of Use Rates.**

Section 2807(f)(5) of the Public Utility Code requires default service providers with smart meter plans to establish and provide time-of-use ("TOU") rates to customers. See 66 Pa. C.S. § 2807(f)(5). The Tentative Order suggests that EDCs consider contracting with a retail EGS to fulfill this requirement. Tentative Order, p. 7. Although Citizens' has installed a full AMI system, and Wellsboro is in the midst of a meter upgrade that will provide advanced meters to all of its customers over the next 3-5 years, neither of the Companies meets the 100,000 customer threshold to require a smart meter plan and TOU rates under Section 2807(f) of the Public Utility Code. See 66 Pa. C.S. § 2807(f)(6). As a result, and for the reasons discussed in subsection G below, the Companies do not anticipate the introduction of this option in the near future.

**F. Default Service Rate Adjustment Structure — Residential and Small Commercial.**

The Commission's default service regulations established a requirement that default service rates for residential and small commercial customers should be adjusted quarterly. See 52 Pa. Code §§ 54.187(h)-(i). The Tentative Order suggests that a semi-annual adjustment for these customers may be more appropriate. Tentative Order, p. 7.

Citizens' and Wellsboro currently adjust default service rates for all customers quarterly. Because the Companies use a portfolio procurement approach that relies on locking in small blocks of power through physical and financial transactions over time, and not more than one year in advance of delivery, moving to a semi-annual rate calculation would mean that a larger portion of the future default service costs for each rate filing would be based on energy cost projections rather than actual forward transactions that have been executed as of the filing date. Citizens' and Wellsboro are concerned that making semi-annual adjustments would lead to

greater deviations between projected power costs and actual power costs, thus potentially increasing the magnitude of the E-factor for future periods. Large swings in the E-factor could result in default service rates are not consistent with market conditions and provide customers with a false price signal regarding competitive offers from EGSs.

Based on the experience to date, the Companies believe that there is merit in conducting the reconciliation for certain generation-related cost categories on an annual basis. The Companies' Generation Supply Service Rates ("GSSRs") are kWh charges that do not contain a demand component. Because transmission and capacity costs are fixed on an annual basis, as are portfolio management costs, the Companies have seen significant quarterly variations in the GSSR due seasonal variations in quarterly kWh sales to customers. In addition, variations in the GSSR can occur when the actual sales for the quarter deviate from the projected sales that were used to develop the rates. Citizens' and Wellsboro believe that moving to an annual reconciliation of these cost categories would be more accurate and stable. The Companies anticipate filing a proposal with the Commission to change the reconciliation for these types of costs in the near future.

**G. Hourly-Priced Default Service for Medium Commercial and Industrial Customers.**

The Tentative Order suggests that hourly-priced default service should be the sole default service option for Commercial and Industrial customers with demands greater than 100 kW. Tentative Order, p. 8. Pursuant to the approved joint default service plan, the Companies' currently do not offer hourly-priced service to any customers, and all customers are in a single procurement group and charged the same territory-specific default service rate. This was done due to the small size of the territories and the potential impact on the portfolio approach of engaging in class-specific procurements. Requiring hourly-priced default service for all

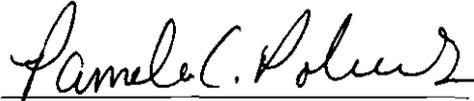
customers above 100 kW would result in approximately 25% or more of the Companies' loads being on hourly-priced service, including some customers on the Companies' smallest commercial rate schedules. The Companies urge the Commission to extend the waivers that have been granted in prior proceedings with respect to hourly-priced service so supplies can be purchased for all customer classes as a single procurement group.

### III. CONCLUSION

**WHEREFORE**, the Citizens' Electric Company of Lewisburg, PA, and the Wellsboro Electric Company respectfully request that the Pennsylvania Public Utility Commission consider and adopt, as appropriate, the foregoing Comments regarding the Tentative Order.

Respectfully submitted,

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Dated: November 3, 2011

## CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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