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February 3, 2015

VIA E-FILING AND FIRST CLASS MAIL

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

Re: Commonwealth of Pennsylvania, et al. v. Blue Pilot Energy, LLC
Docket No. C-2014-2427655

Dear Secretary Chiavetta:

On behalf of Blue Pilot Energy, LLC, I have enclosed for electronic filing Blue Pilot Energy, LLC's Second Prehearing Conference Memorandum in the above-captioned matter.

Copies have been served on all parties as indicated in the attached certificate of service.

Very truly yours,



Karen O. Moury

KOM/bb

Enclosure

cc: Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

COMMONWEALTH OF	:	
PENNSYLVANIA, ET AL.,	:	
	:	
Complainants,	:	
	:	
v.	:	Docket No. C-2014-2427655
	:	
BLUE PILOT ENERGY, LLC,	:	
	:	
Respondent.	:	

**BLUE PILOT ENERGY, LLC'S SECOND
PREHEARING CONFERENCE MEMORANDUM**

TO ADMINISTRATIVE LAW JUDGES BARNES AND CHESKIS:

Blue Pilot Energy, LLC (“BPE”) hereby submits this Second Prehearing Conference Memorandum in accordance with 52 PA. CODE § 5.222 in anticipation of the Prehearing Conference scheduled for February 4, 2015.¹

NAME AND ADDRESS OF BPE'S LEGAL REPRESENTATION

The attorney representing BPE in this proceeding authorized to accept service is:

Karen O. Moury
BUCHANAN INGERSOLL & ROONEY PC
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Harrisburg, PA 17101
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BPE agrees to receive service of documents electronically in this proceeding. Further, to the extent that materials are available and distributed electronically, BPE requests that copies be served upon Karen O. Moury at karen.moury@bipc.com, and her co-counsel Mark R. Robeck

¹ BPE hereby incorporates by reference its August 19, 2014 Prehearing Conference Memorandum.

(admitted *pro hac vice*) at mrobeck@kelleydrye.com, and Geoffrey W. Castello (*pro hac vice* pending) at gcastello@kelleydrye.com.

INTRODUCTION AND BACKGROUND

BPE is an electric generation supplier (“EGS”), licensed by the Commission since June 10, 2011 to supply electricity or electric generation services to residential, small commercial, large commercial, and industrial customers in electric distribution company service territories throughout Pennsylvania. As part of the licensure application process, BPE submitted, among other things, a copy of its Disclosure Statement and Agreement for Electric Service (“Disclosure Statement”) to the Commission for review. The Commission’s Bureau of Consumer Services approved BPE’s Disclosure Statement on May 26, 2011.

BPE generally has offered only variable rate contracts to Pennsylvania residential consumers.² Under those contracts, customers receive an initial rate, which is guaranteed for a specific period (typically 30, 60, or 90 days). After the rate-guarantee period expires, pursuant to the terms of their variable rate contracts (and as expressly stated in BPE’s Disclosure Statement), customers’ rates may increase or decrease based on a number of factors.

All material terms of a customer’s contract are clearly and conspicuously disclosed to the customer prior to and during enrollment. These terms also are contained in BPE’s Commission-approved Disclosure Statement, a copy of which is mailed to each customer following his or her enrollment. The Disclosure Statement contains no cap on the amount by which a customer’s rate may increase or decrease. The Disclosure Statement also advises customers of their rescission

²In 2013, BPE implemented a trial program pursuant to which it sold 19 Pennsylvania business customers a two-year term plan with a fixed rate of \$0.069 per kWh; 10 of those customers remain on service with BPE. Pursuant to the terms of those customers’ contracts, that guaranteed rate has not changed and remains in effect until 2015. *Id.*

rights and that they may cancel their service at any time and for any reason, without incurring a termination fee.

When BPE began selling energy in Pennsylvania in or about December 2011, its retail rate was based upon BPE's projections of cost per kilowatt hour (kWh). Hoping to minimize customer attrition and prior to the unexpected wholesale price increases in 2014 described below, BPE held its customer rates near constant, sometimes achieving this by lowering its customers' rates after their rate-guarantee periods ended.

Severe and unanticipated weather events, such as winter storms and polar vortices, plagued Pennsylvania and many other Eastern states during December 2013 and the first quarter of 2014. Recognizing such unprecedented weather, the PUC explained to consumers that "[t]he extreme cold has significantly increased the demand for electricity" and "remind[ed] consumers [that] the frosty temperatures and increased use of heating systems will translate into higher energy bills in the coming months." PUC Chairman Robert Powelson specifically warned that consumers likely would be receiving "higher bills that will be associated with heating their homes during the winters' extended cold."

In late January 2014, the PUC advised Pennsylvania consumers using a competitive supplier (such as BPE):

[T]o review their contract[s] as cold temperatures and high demand have driven the wholesale price of electricity higher. ***Customers with variable contracts or those with fixed contracts that have expired and were moved to a variable rate may see their prices increase.*** Consumers are urged to check their contracts . . . The PUC is seeing higher prices in the wholesale electric markets, which could translate into higher prices for some customers who have contracts with competitive suppliers that allow for prices to change. Consumers should check the terms and conditions they received when they enrolled with the competitive supplier or call the supplier to check the status of their prices. Some prices for those on variable rates may have already increased.

The Commission again informed consumers that “cold temperatures and increased use of heating systems will translate into higher energy bills.”

The Federal Energy Regulatory Commission has noted that, during one of the polar vortices that hit Pennsylvania in January 2014 in particular, electricity prices surged with the location marginal prices being near or above \$2,000/Mwh for a number of hours in PJM. Similarly, the PUC identified the “historic demand” for electricity in the Commonwealth, and confirmed that “PJM reached an all-time winter peak” in early January. As a result of these extreme weather events, BPE was forced to increase its rates to recover its costs for wholesale power that, in certain markets, increased 400% or more over the course of a month.

In January 2014, BPE submitted to the Commission a slightly revised version of its previously approved May 2011 Disclosure Statement, which, in relevant part, added verbiage to the “Price per Kilowatt Hour” section to address extreme weather events specifically. The Commission’s Bureau of Consumer Services reviewed and approved the revised Disclosure Statement on January 22, 2014.

In late March 2014, BPE suspended bringing on new customers in Pennsylvania until it could be sure that the cost per kWh to consumers would be stable. BPE has not lifted that self-imposed suspension.

On June 20, 2014, Complainants Pennsylvania Attorney General Kathleen G. Kane and Tanya J. McCloskey, Acting Consumer Advocate for the Office of Consumer Advocate (“OCA”), filed their Joint Complaint in this case. Complainants assert five causes of action against BPE: (1) Count I – Failing to Provide Accurate Pricing Information; (2) Count II – Prices Nonconforming to Disclosure Statement; (3) Misleading and Deceptive Promises of Savings; (4) Count IV – Lack of Good Faith Handling of Complaints; and (5) Count V – Failure to Comply

With the Telemarketer Registration Act. BPE vigorously disputes the claims alleged in the Joint Complaint. On July 10, 2014, BPE filed Preliminary Objections seeking dismissal of Counts I, II, and V. By Order dated August 20, 2014, Administrative Law Judge Joel H. Cheskis and Administrative Law Judge Elizabeth Barnes granted in part and denied in part BPE's Preliminary Objections. Complainants filed a Petition for Interlocutory Review and Answer to Material Questions with the Pennsylvania Public Utility Commission. The Commission issued an Order on December 11, 2014 in response to that Petition. The Bureau of Consumer Protection filed a Petition for Review of the Commission's December 11, 2014 Order and on January 21, 2015, the Commonwealth Court issued an Order quashing the Petition.

Evidentiary hearings are currently scheduled for March 30, 2015 through April 3, 2015.

A Further Prehearing Conference has been scheduled for February 4, 2015, at 11:00 a.m. in Hearing Room 4 of the Commonwealth Keystone Building, 400 North Street, Harrisburg, Pennsylvania.

SETTLEMENT

BPE received a settlement proposal from Complainants on December 15, 2014. BPE is considering a response to that proposal and continues to remain open and available for settlement discussions with Complainants and Intervenors.

DISCOVERY MODIFICATIONS

BPE does not propose any modification to the discovery rules at this time.

PROPOSED SCHEDULE

One of the agenda items for the Second Prehearing Conference requested that Complainants and BPE be prepared to discuss the most efficient means for admitting pre-served consumer testimony in the record in an effort to expedite the evidentiary hearing scheduled to

commence on March 30, 2015. Complainants served BPE with the direct testimony of 97 consumers without identifying which consumer would be used by Complainants to support the allegations contained in any particular count in the Joint Complaint. BPE respectfully proposes that Complainants be ordered to identify by February 9, 2015, which specific consumer they intend to rely upon to support the allegations contained in each count of the Joint Complaint. BPE then respectfully proposes that it will conduct limited depositions of those consumers. BPE believes that such a process would streamline the evidentiary hearing scheduled to commence on March 30, 2015.

BPE agrees with the proposed schedule for the second half of the litigation schedule contained in Complainants' Second Prehearing Conference Memorandum dated January 30, 2015.

WITNESSES

BPE may call the following witnesses: Raymond Perea and Joseph Kopyy. Raymond Perea is expected to give testimony regarding BPE's advertising and marketing practices, the PUC's approval of BPE's Disclosure Statement(s), training for BPE's employees, and BPE's customer service department, and investigations into and responses to customer complaints. Joseph Kopyy is expected to give testimony regarding the calculation of the rates BPE charges to its customers pursuant to their variable rate contracts (assuming such information is determined to be relevant following disposition of BPE's Preliminary Objections). These two potential witnesses' business addresses and telephone numbers are as follows:

Ray Perea, General Counsel & Manager
250 Pilot Road, Suite 300
Las Vegas, NV 89119
Phone: (800) 451-6956

Joseph Koppy, Chief Executive Officer & Manager
250 Pilot Road, Suite 300
Las Vegas, NV 89119
Phone: (800) 451-6956

BPE also intends to call expert witnesses in response to any expert witness called by Complainants pending receipt of any such direct testimony of Complainants' expert witness(es).

BPE intends to file a motion to strike direct testimony of the 97 consumers served by Complainants on October 17, 2014, in their entirety. In addition, BPE reserves the right to file a motion to strike all or portions of the direct testimony of Complainants' expert witness(es).

ISSUES

Complainants claim that BPE's Disclosure Statement fails to provide consumers with "accurate pricing information in plain language and using common terms that consumers understand," in particular "the price that they would or could be charged . . . or how the price would be calculated . . ." Complainants also claim that BPE's Disclosure Statement "fail[s] to provide information to [BPE's] customers in a manner that would allow them to compare offers." BPE contends that the Commission's approval of its Disclosure Statements validates the sufficiency of the Disclosure Statements, and that, in any event, the Disclosure Statements also comply with applicable Commission regulations and orders.

BPE also contends that the Pennsylvania regulations governing provision of information to customers are unconstitutionally vague, and do not sufficiently guide BPE as to what information must be supplied and what terms are to be used; thus, those regulations – and their enforcement against BPE in the manner asserted by Complainants – violates the Due Process Clause of the U.S. Constitution. Similarly, the law does not give BPE fair notice that the failure to provide information above and beyond that which BPE already discloses in its

Disclosure Statements (which were reviewed and approved by the Commission) violates those Commission regulations.

Complainants allege that the prices BPE charged its customers during the extreme weather events of early 2014 were too high, and assert that “the cost to serve the average residential heating customer in January 2014 should not have exceeded approximately \$0.23 per kWh.” However, Respondents contend that the Commission does not have the jurisdiction to regulate the rate charged by EGSs, has no statutory authority to limit the prices charged by EGSs, and that the rates, instead, are governed by the terms of each customer’s contract with the supplier. BPE vigorously denies all of the allegations contained in Complainants’ Joint Complaint and denies that Complainants are entitled to any of the requested relief.

MISCELLANEOUS

Complainants proposed that they file any memorandum of law regarding any so-called pattern and practice evidence on February 9, 2015 and that BPE file its response to that memorandum of law by February 19, 2015. BPE proposes that BPE’s response to that memorandum be due on March 6, 2015.

Respectfully submitted,



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February 3, 2015

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Attorneys for Blue Pilot Energy, LLC

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**COMMONWEALTH OF
PENNSYLVANIA, ET AL.**

v.

BLUE PILOT ENERGY, LLC

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Docket Nos. C-2014-2427655

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of § 1.54 (relating to service by a party).

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Dated this 3rd day of February, 2015.



Karen O. Moury, Esq.