

June 17, 2004

VIA EXPRESS MAIL

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Provider of Last Resort (POLR) Roundtable, Docket No. M-00041792

Dear Secretary McNulty:

Enclosed for filing in the above-captioned matter, please find an original and three copies of the Reply Comments of UGI Utilities, Inc. – Electric Division. Copies of this document have been served upon the Commission’s Law Bureau and Office of Communications at rfyoung@state.pa.us and cypage@state.pa.us.

Should you have any questions concerning this filing, please feel free to contact me.

Very truly yours,

Mark C. Morrow

Counsel for UGI Utilities, Inc. –
Electric Division

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION PROVIDER OF LAST :
RESORT (POLR) ROUNDTABLE : Docket No. M-00041792

**REPLY COMMENTS
OF
UGI UTILITIES, INC. – ELECTRIC DIVISION**

UGI Utilities, Inc. – Electric Division (“UGI”) appreciates this opportunity to submit reply comments in the Commission’s Provider of Last Resort (“POLR”) Roundtable proceeding.

To recap, UGI is a small electric distribution company (“EDC”) serving approximately 62,000 customers in northeastern Pennsylvania. A relatively small portion of UGI’s load is industrial, and fixed-income senior citizens constitute a relatively high portion of UGI’s residential customer base.

UGI was among the first EDCs to provide customer choice to all of its customers, and since 2002 has provided post-transition period POLR service pursuant to a Commission-approved POLR tariff. Since 2002, UGI has procured all of its POLR electric power supplies from non-affiliated wholesale suppliers. Accordingly, UGI customers already experience the benefits of the competitive wholesale market.

Reflecting the circumstances and the characteristics of UGI and its customers, UGI’s POLR tariff provides for an annual open shopping season to minimize customer migration costs. UGI also offers fixed price POLR service offerings for periods of up to three years, and these

offers have been accepted by approximately one third of the customers, and customer load, of each customer class, reflecting the strong desire of many UGI customers for price certainty and stability.

UGI does not offer hourly pricing to larger commercial and industrial customers, although such service offerings are presumably available in the retail marketplace from EGSs. UGI does not serve many customers, if any, that might be interested in such a service offering, and would have to incur significant costs to provide complicated hourly or other real time pricing options. As a small EDC, UGI has a small customer base over which to spread the costs of regulatory mandates, including mandates requiring modifications to customer information and billing systems.

In its testimony at this docket, UGI has strongly urged the Commission to provide sufficient flexibility in its approach to POLR regulation to accommodate differences among EDCs, and in particular the practical realities that set small EDCs apart from others. Given the undisputed testimony in this proceeding that small EDC POLR programs are currently operating successfully, and the fact that the administrative costs associated with changes in policy have a disproportionate impact on small EDCs given their limited customer base, UGI believes such flexibility should take the form of an explicit exemption for smaller EDCs¹ from some or all of the requirements of any POLR regulations and/or the grandfathering of existing small EDC POLR programs. UGI would note that the Commission has in the past recognized the need to establish differing rules for small EDCs by, for example, establishing separate reliability

¹ An exemption for EDCs serving fewer than 70,000 customers would be sufficient to cover UGI as well as Citizens' Electric Company, Wellsboro Electric Company and Pike County Light & Power Company.

benchmarks for small EDCs with fewer than 100,000 customers², and should do so once again in establishing POLR rules.

Alternatively, to the extent that the Commission is not willing to exempt or grandfather existing small EDC POLR programs at this time, the Commission should defer the adoption or effective date of POLR regulations until at least 2009 given the small number of Pennsylvania customers that will be out from under rate caps before the end of this decade. The Commission should also revisit the issue of whether existing small EDC programs should be grandfathered or exempted in whole or in part at that time.

UGI has been gratified by the comments and presentations submitted by the many stakeholders, representing diverse interests, in this proceeding, advocating flexibility in POLR policy to permit consideration of the unique and diverse circumstances of EDCs in Pennsylvania.

For example, the OCA noted in its presentation: "Different portfolio procurement methods may be appropriate for different EDCs - - As long as they are competitively based and are designed to produce the lowest priced, reliable service for POLR customers over a reasonable period". In its written comments the OCA further stated:

At this point the OCA is reluctant to prescribe a specific acquisition method for POLR supply, or to conclude that the same method must be used by every POLR supplier. The acquisition method of a company the size of Citizens or Wellsboro, might not be the preferred method for a company the size of PECO or PPL. The approach used by MISO member Penn Power may have to differ from that used by its fellow First Energy Companies MetEd and Penelec that are part of PJM. In essence, the POLR provider

² Amended Reliability Benchmarks and Standards for the Electric Distribution Companies, Docket No. M-00991220 (Order entered May 11, 2004).

should be provided some flexibility to acquire competitive supply in a manner that best reflects its service territory, its size, and its customers.

The Industrial Energy Consumers of Pennsylvania stated in its presentation: “EDC size differs significantly in Pennsylvania ... Any regulations developed by the PUC must be flexible to account for these issues.”

Exelon Generation Company, LLC opined:

Exelon’s view is that the Commission should focus on establishing a robust process for the submission, evaluation and approval of EDC-specific POLR plans that would include some minimum required criteria for the procurement model or models applied. The Commission should not, however, dictate in its forthcoming rulemaking a specific procurement model that must be used by all EDCs to manage their POLR supply obligation.

The Pennsylvania AFL-CIO Utility Caucus stated:

The Caucus believes the EDC should be given maximum flexibility in procuring energy to serve POLR customers, subject to the same “rules of the road” that would be established by the Commission. That is rather than directing exactly how an EDC should procure POLR energy, the Commission instead should establish basic rules ... This would avoid the problem of attempting to “carve in stone” any particular procedure several years before most EDCs would need to use that procedure.

Citizens’ Electric Company and Wellsboro Electric Company offered the following POLR policy suggestions:

- Differentiate small EDCs from large EDCs

* * *

- Allow flexibility to continue successful plans working for our territories
- Reference in regulations that small EDCs will have to comply with specific requirements only to the extent cost-effective and in the public interest
- Grandfather existing practices at least for the duration of current wholesale supply contracts

Pike County Power & Light Company, noting its circumstances and characteristics, including its small customer base, asked the “Commission [to] give serious consideration to providing exemptions to smaller utilities, like Pike, in the POLR regulations ultimately adopted.”

The Energy Association of Pennsylvania and PECO Energy Company also supported a flexible approach that could consider the unique circumstances of each EDC.

UGI believes that the goal of POLR policy should be to provide customers with the benefits of increased wholesale competition, as UGI is already doing through its existing POLR tariff. In crafting POLR regulations, the Commission should be careful not to impose POLR rules on small EDCs, such as UGI, that unintentionally defeat this purpose by requiring the adoption of new approaches to POLR service that are not cost-effective or practical to implement. The Commission should also be mindful, as the Office of Small Business Advocate and OCA have noted in their comments, of the desire and/or need of many customers for longer-term rate stability.

UGI accordingly urges the Commission to:

- Not mandate a single POLR supply strategy for all EDCs, but permit sufficient flexibility to consider the unique circumstances of each EDC, and in particular small EDCs.
- Exempt or grandfather existing small EDC POLR programs, or at the very least defer the adoption of or the effective date of any POLR regulations until at least 2009, and revisit

the question of whether existing small EDC POLR programs should be grandfathered or exempted in whole or in part at that time.

- Not mandate hourly or other complicated real time pricing for all larger customers, at least on the systems of small EDCs. The costs of customer information and billing system changes would likely outweigh the benefits of such mandates, particularly since such pricing options should already be available to larger customers in the retail marketplace. Optional POLR service offerings providing hourly pricing might be acceptable since billing could be performed manually for the small number of customers, if any, that might select such an option.
- Permit longer-term non-reconcilable POLR pricing offers since such arrangements accommodate the strong desire by many customers for price certainty.

Respectfully submitted,

David W. Trego
Vice President – Electric Distribution