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April 25, 2005

Honorable James J. McNulty
Secretary
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pennsylvania 17105-3265

Re: Rulemaking Re: Electric Distribution Companies' Obligation to
Serve Retail Customers at the Conclusion of the Transition Period
Pursuant to 66 Pa.C.S. §2807(e)(2)
Docket No. L-00040169

Dear Secretary McNulty:

In Volume 35, Number 9 of the Pennsylvania Bulletin, the Pennsylvania Public Utility Commission ("Commission") issued for public comment proposed regulations ("Regulations") that define the obligation of electric distribution companies ("EDC") to serve retail customers at the conclusion of their respective transition periods. I enclose an original and 15 copies of Pike County Light & Power Company's ("Pike" or the "Company") comments regarding the Regulations. For the sake of convenience, Pike's comments will address specific provisions of the Regulations in the order in which they are set forth in the Regulations.

Section 54.123 (2)

Section 54.123 (2) provides that an electric generation supplier ("EGS") may initiate transfers through standard electronic data interchange ("EDI") protocols. Pike is a small utility with approximately 4,000 electric customers. Given its size, location in the far northeast corner of Pennsylvania, and affiliation with the New York Independent System Operator ("NYISO") as discussed below, to date EGSs have had little interest in serving Pike's customers. For these reasons, Pike has not invested in the systems required to facilitate electronic data exchange. We do not read the proposed Regulations as requiring utilities to establish EDI protocols. If Pike is required to implement EDI protocols, however, Pike requests that it be allowed to implement the EDI protocols currently utilized by Pike's parent, Orange and Rockland Utilities, Inc. ("Orange and

Rockland”). Orange and Rockland, like Pike, is affiliated with the NYISO. Accordingly, any EGSs wishing to serve Pike’s customers would be familiar with Orange and Rockland’s EDI protocols. The cost of requiring Pike to develop its own separate EDI protocols would be out of proportion to any possible benefit.

Section 54.185 (a) (e)

As recognized by the Commission in the comments preceding the Regulations, the settlement in Pike's rate cap exception proceeding¹ provides that if the Commission has not issued the final version of the Regulations by June 1, 2005, Pike will file a plan to establish provider of last resort (referred to in the Regulations as “default service”) rates, to become effective January 1, 2006. The Commission recognizes that the Regulations will not be finalized by June 1, 2005. Accordingly, by no later than June 1, 2005, Pike will be filing an interim default service plan, covering at a minimum calendar year 2006, with the Commission.

Section 54.185 (d)

This section provides that a default service implementation plan must propose a fair, transparent and nondiscriminatory competitive procurement process consistent with § 54.186 (relating to default service supply procurement) for the acquisition of sufficient electric generation supply, at prevailing market prices, to meet demand of all of the default service provider’s retail electric customers for the term of service. Pike is different from the other Pennsylvania default service providers. First, Pike only has approximately 4,000 customers. More important, Pike is the only Pennsylvania default service provider affiliated with the NYISO rather than the PJM Interconnection, LLC (“PJM”). Given its size and non-PJM affiliation, Pike is concerned that it would not be able to attract the interest of a sufficient number of suppliers if it issued a request for proposals for the provision and delivery of the physical supply needed to serve its default service customers. To increase its ability to achieve the goal of default coverage, Pike would propose to utilize commodity swap transactions rather than physical purchases. Pike likely will utilize two separate financial swaps, one pertaining to the forecasted capacity requirement, and the other pertaining to the forecasted energy requirement.² These commodity swap transactions would be for a term of up to three years.

Pike’s New Jersey affiliate, Rockland Electric Company, has utilized this approach successfully for the default service requirements of its Central and Western Divisions. Like Pike, these two Divisions are affiliated with the NYISO rather than PJM. Accordingly, this section should be amended so as to clarify that a default service provider is allowed to utilize financial instruments when acquiring its electric generation

¹ Docket No. P –00011872, *Petition of Pike County Light & Power Company for Exception to Rate Cap Limitations Pursuant to 66 Pa. C.S. § 2804(4)(iii)(D), and for Expedited Proceedings Pursuant to 66 Pa. C.S. § 2804(4)(iv)*, Opinion and Order (adopted August 8, 2002) (hereinafter referred to as the “Rate Cap Order”).

² Since there is no active, liquid market for ancillary services, Pike would be unable economically to utilize commodity swap transactions to lock in their price. Rather, Pike would purchase ancillary services, as required, through the NYISO.

supply. Specifically, Pike recommends that Section 54.185(d) be amended to read as follows:

A default service implementation plan must propose a fair, transparent and nondiscriminatory competitive procurement process consistent with § 54.186 (relating to default service supply procurement) for the acquisition of sufficient electric generation supply, either through contracts for physical supply or by means of financial transactions, at prevailing market prices, to meet the demand of all of the default service provider's retail electric customers for the term of service. The default service plan must identify its method of compliance with the Alternative Energy Portfolio Standards Act (73 P. S. §§ 1647.1--1647.7).

Section 54.186 (f) (2)

Section 54.186 (f) (2) provides that the Commission has a period of not less than three business days to review the results of a default service provider's acquisition of generation supply. A minimum three-day period is a very long time for suppliers to maintain their price offers. Pike would note that the New Jersey Board of Public Utilities reviews and decides on the results of the annual Basic Generation Service Auction in no more than two days. Pike strongly recommends that the Commission adopt a similar standard. Experience in similar solicitations indicates that adoption of a longer review period is likely to cause prospective suppliers to add a risk premium to their prices to protect against market movement during the lengthy review period. Ultimately, this will result in higher prices for Pennsylvania customers.

Therefore, Pike recommends that Section 54.186 (f) (2) be amended to read as follows:

The review period may not be less than two business days.

Section 54.187 (a) (1)

Section 54.187 (a) (1) states that the generation supply charge would be a nonreconcilable charge. As noted above, Pike intends to utilize commodity swap transactions to lock in the capacity and energy components for the majority of its default service supply. Pike would propose to set, once per calendar year, the generation supply charge based upon the prices reflected in those commodity swap transactions and the Company's best estimate of the cost of the unhedged portion of its energy supply. Pike also would include a forecasted price of ancillary services in such generation supply charge. Inevitably, however, the actual prices of unhedged energy and ancillary services will diverge from the forecasted prices of such services. In addition, revenues collected on a bill cycle basis will differ from costs incurred on a calendar month basis. In order to address this situation, Pike requests that it be allowed to reconcile the generation supply

charge monthly, on a two-month lag.³ Such a reconciliation process will ensure that customers pay neither more nor less than they should for default service. Such a reconciliation process will ensure that Pike remains indifferent as to whether customers continue as full service customers or choose to take service from an EGS. Finally, such a reconciliation process will ensure full recovery of Pike's costs for acting as default service provider.⁴

Therefore, Pike recommends that Section 54.187(a)(3) be amended to read as follows:

A default service provider shall use an automatic energy adjustment clause, consistent with 66 Pa.C.S. § 1307 (relating to sliding scale of rates; adjustments) to reconcile differences between revenues received through the generation supply charge and generation supply costs and to recover reasonable costs incurred through compliance with the Alternative Energy Portfolio Standards Act (73 P. S. §§ 1647.1--1647.7).

Section 54.187 (a) (2)

Section 54.187 provides that the costs for providing default service shall be recovered through several separate charges. These include a nonreconcilable generation supply charge, as well as a non-reconcilable customer charge. Such a customer charge, according to Section 54.187 (a) (2), is supposed to collect the "default related costs for customer billing, collections, customer service, meter reading and uncollectible debt." Since Pike has not performed the sort of cost of service study necessary to unbundle these charges, Pike is not able to identify these specific costs. More important, this sort of unbundling exercise should occur in the context of a base rate case. This makes sense especially for a very small-sized utility like Pike. Accordingly, the Regulation should be amended to provide that a utility may choose to develop these separate charges in the context of its next base rate proceeding.

Therefore, Pike recommends that Section 54.187(a)(2) be amended to read as follows:

The customer charge is a nonreconcilable, fixed charge, set on a per customer class basis, that includes all identifiable, reasonable costs associated with providing default service to an average member of that class, exclusive of generation supply costs and costs recovered through paragraph (3). The associated costs with this charge include:

(i) Default service related costs for customer billing, collections, customer service, meter reading and uncollectible debt;

³ For example, an over or undercollection for the month of April would be computed during the month of May and credited or charged to customers in June.

⁴ Section 54.181 states "The EDC shall fully recover all reasonable costs for acting as a default service provider of electricity to all retail customers in its certificated distribution territory."

(ii) A reasonable return or risk component for the default service provider;

(iii) Applicable taxes; and

(iv) Other reasonable and identifiable administrative or regulatory expenses.

An EDC may choose to establish the customer charge, consistent with Section 54.187 (a) (2), in its next base rate case.

Section 54.187 (b)

Section 54.187 (b) provides that a default service plan “must include a fixed rate option for all residential customers.” Pike would propose that the methodology described above, in the discussion regarding Sections 54.185 (d) and 54.187 (a) (1), be deemed to qualify as such a fixed rate option plan. Given the size of Pike’s customer population, Pike should not be required to offer another fixed rate option for residential customers.

Section 54.187 (d)

Section 54.187 (d) provides that the default service provider “shall include an hourly rate in its implementation plan for all default service customers whose load test indicates a registered peak demand of greater than 500 kilowatts.” Pike currently has only one such customer. In order to implement such an hourly rate, Pike would need to implement both billing and metering modifications. Such expenditures are not justified given Pike’s current circumstances. Section 54.187 (d) does go on to provide, however, that the default service provider may propose a fixed rate for these customers in its default service implementation plan. Accordingly, Pike requests that the Commission clarify that the rate offering, described in the discussion above regarding Sections 54.185 (d) and 54.187 (a) (1), would qualify as such a fixed rate.

If you have any questions regarding the issues discussed above or require any additional information, please contact me at the telephone number or address listed above.

Very truly yours,

John L. Carley
Assistant General Counsel