

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In the Matter of the Pennsylvania :
Public Utility Commission :
Investigation into Policies to Mitigate :
Potential Electricity Price Increases :

Docket No. M-00061957

SECRETARY'S BUREAU

2007 MAR -5 PM 4: 21

RECEIVED

**INITIAL COMMENTS OF THE
CONSTELLATION ENERGY GROUP COMPANIES**

I. INTRODUCTION

On February 8, 2007, the Pennsylvania Public Utility Commission (“Commission”) adopted a Tentative Order in the above-captioned proceeding addressing policies to mitigate higher electricity prices (“Tentative Order”).¹ Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (collectively, “Constellation”) commend the Commission for its foresight and initiative to address the issues associated with rising prices in energy markets due largely to rises in underlying fuel costs, their effect on Pennsylvania’s economy and its citizens, and the development of successful competitive markets in advance of the expiration of rate caps in the Commonwealth.

As we outlined in our Initial and Reply Comments, maintaining the integrity and competitiveness of wholesale and retail markets is the best way to mitigate any rate shock, that consumers may face upon the expiration of rate caps.² The Commission has already taken an positive step toward addressing rate mitigation issues by issuance of its Policy Statement on

¹ *Tentative Order on Policies to Mitigate Potential Electricity Price Increases*, Commission Docket No. M-00061957 (Adopted February 8, 2007).

² *See* Initial Comments of Constellation Energy Group Companies (Docket No. M-00061957), June 15, 2006 at 4-5, 6; Reply Comments of Constellation Energy Group Companies (Docket No. M-00061957), July 20, 2006 at 1.

Default Service and Retail Electric Markets (“Policy Statement”) and Advanced Notice of Proposed Rulemaking (“Default Service Rules”).³ This step will help ensure that many of the public policy goals of competition – efficiency, development of new technologies and more incentives for customers to choose renewable sources of energy – will be realized at the conclusion of capped rates, all of which should provide significant benefit all Pennsylvanians in the long run.

Another important related way the Commission can empower consumers is through education about competitive market dynamics and options that are potentially available through energy choice. Advanced efforts to educate consumers, and encourage marketplace enhancements is a critical tool that will enable consumers to be active participants in moderating electricity prices in the longer term. Experience has shown that **all** consumers may be better served if a stable regulatory policy to address potential price spikes is taken now, in a well thought out manner, rather than making “after the fact” attempts at price mitigation.

II. COMMENTS ON SPECIFIC ISSUES

A. Consumer Education

The Commission can play an important role in educating customers, particularly residential customers and low income customers, about how electricity markets work, the factors that contribute to electricity prices, and how customers can help manage their electricity rates.

³ See *Proposed Policy Statement on Default Service and Retail Markets*, February 8, 2007; and *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), Advanced Notice of Formal Rulemaking*, February 8, 2007, Docket Nos M-00072009, L-00070183 and L-00040169.

Constellation supports the three specific measures that the Commission adopted that are designed to lead to the development of consumer education materials:⁴

- Reconvening the Council for Utility Choice (“CUC”) to begin that process;
- Requiring each electric distribution company (“EDC”) to submit a consumer education plan to the Commission for approval; and
- Undertaking a five-year \$5 million campaign funded by EDC assessments.

Constellation recommends that the Commission clarify that all stakeholders have the ability to participate in any Commission review of the EDC consumer education plans, and likewise be allowed to participate in the development of the 5-year statewide campaign. Further, Constellation recommends that the Commission consider broadening the membership of the CUC to include representatives from other stakeholder groups, including other consumer representatives (OSBA), electric generation suppliers (“EGSs”), and others. By expanding the membership of the CUC to include other interested stakeholders that have experience with retail customers, the Commission can better utilize all existing resources and experience to develop the consumer education plans and statewide campaign.

Constellation is particularly pleased to see that the Commission has mandated that the EDC consumer education plans and the five-year statewide campaign must, among other things, help customers understand that they may realize savings by purchasing electricity from an EGS.⁵ The Commission also appears to have recognized that different segments of the customer base require a different type of consumer education plan.

⁴ See *Infra*, FN 1 at 4.

⁵ See *Infra*, FN 1 at 4, 5.

With respect to funding and cost-recovery, we agree with the Commission that the EDCs should be able to fully recover the costs of the consumer education program.⁶ However, proper ratemaking requires the EDCs to limit the recovery of such costs from the customer classes that receive the benefit of the consumer education program.

B. Energy Conservation and Reduction of Peak Demand

Constellation supports the actions that have already been taken by the Commission in the area of conservation, energy efficiency, and demand response.⁷ We look forward to the policy recommendations that are to be delivered to the Commission later this year.⁸ Encouraging and enabling all customers to manage their energy demand on an ongoing basis (not only at critical times) is a critical component to costs and price management. The more consumers adjust their usage and respond to market price signals, the less stress there is on the system necessitating the dispatch of the last available resources which are generally the highest cost resources, and therefore, costs could be lower than they otherwise would have been. This management of energy use will also help Pennsylvania achieve its environmental policy goals.

C. Alternatives for Avoiding Abrupt, Large Price Increases.

Constellation agrees that the issuance of the Policy Statement and the proposed Default Service Rules is one of the best ways to address the issue of price mitigation.⁹ If properly constructed – including the improvements suggested by Constellation in its Initial Comments on the proposed Policy Statement and Default Service Rules¹⁰ – the Policy Statement and Default

⁶ See *Infra*, FN 1 at 10.

⁷ See *id.*

⁸ See *id.* at 11

⁹ See *id.* at 13

¹⁰ See Initial Comments of the Constellation Energy Group Companies, *Re Default Service Regulations and Policy Statement* (Docket Nos. M-00072009, L-00070183 and L-00040169) (Filed Mar. 2, 2007).

Service Rules should create stable and predictable market rules designed to establish reliable and competitive default service procurement, as well as policies that promote the development of competitive retail markets. Moreover, Constellation agrees that a plan properly structured, such as that proposed by PPL Electric Company in its Competitive Bridge Plan – as outlined by the Commission in its Order, and as recently approved by an Administrative Law Judge – effectively serves to mitigate price increases by laddering contracts and staggering procurements leading up to energy delivery.¹¹

D. Assistance for Low-Income Consumers

Constellation recognizes the importance of providing assistance for low-income energy consumers and understands that this important issue is being addressed before a number of other forums.

E. The Relationship Between Wholesale Energy Markets and Retail Rates

The Commission's Tentative Order appropriately recognizes the interplay between wholesale energy markets and retail markets. As outlined in our Initial Comments, Constellation believes that maintaining carefully the integrity and competitiveness of wholesale and retail markets through well designed default service procurement models for each of Pennsylvania's EDCs will provide the most competitive default service prices and thus best serve to mitigate rate shock, if any, that consumers may face.¹²

Further, the Commission properly recognizes a number of important steps taken by the Commission to address a number of competitive wholesale and retail market issues, including a rulemaking to develop standardized request for proposal and supplier master agreement

¹¹ See Tentative Order at 12 citing *Petition of PPL Electric Utilities Corporation for Approval of a Competitive Bridge Plan*, Docket No. P-00062227 ("*PPL Competitive Bridge Plan Proceeding*"); See also Recommended Decision, *PPL Competitive Bridge Plan Proceeding* (Issued February 23, 2007).

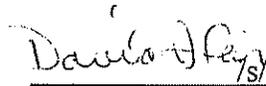
¹² See Initial Comments of the Constellation Companies, (Filed June 15, 2006), at 6.

documents and the formation of a Retail Markets Working Group.¹³ Constellation intends to play an active role in both proceedings.

III. CONCLUSION

Constellation applauds the efforts of the Commission to thoughtfully consider the steps needed to complete the transition to competitive markets in Pennsylvania. As the Commission has clearly recognized, competitive markets provide a host of benefits to consumers and are the best way to manage rising energy costs. Pennsylvania already has made great strides in bringing the benefits of competition to its citizens; the challenge of successfully sustaining that task is now before this Commission.

Respectfully submitted,



David I. Fein
Senior Regulatory Counsel
Constellation Energy Group, Inc.
550 West Washington Blvd., Suite 300
Chicago, IL 60661
312-704-8499
david.fein@constellation.com

Divesh Gupta
Counsel
Constellation Energy Group, Inc.
111 Market Place, Suite 500
Baltimore, MD 21202
410-468-3468
divesh.gupta@constellation.com

*On Behalf of Constellation NewEnergy, Inc. and
Constellation Energy Commodities Group, Inc.*

DATED: March 5, 2007

¹³ See Tentative Order at 21.

