

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Implementation of Act 129 of October 15, 2008;))
Default Service) Docket No. L-2009-2095604

Proposed Policy Statement Regarding Default)
Service and Retail Electric Markets) Docket No. M-2009-2140580

**COMMENTS OF THE PENNSYLVANIA ENERGY MARKETERS COALITION:
AGWAY ENERGY SERVICES, LLC, ENERGY PLUS HOLDINGS LLC, GATEWAY
ENERGY SERVICES CORPORATION, INTERSTATE GAS SUPPLY, INC.,
PENNSYLVANIA GAS & ELECTRIC, AND VECTREN RETAIL, LLC**

INTRODUCTION

Pursuant to 52 Pa.Code §§ 54.181—54.188 and to be consistent with Act 129, the Pennsylvania Public Utility Commission (“PUC,” or “Commission”) seeks comments on the above-referenced rulemaking in connection with revisions to default service regulations¹ that became effective on September 15, 2007 for electric distribution companies (“EDCs” or “utilities”). The default service regulations set forth detailed requirements for default service plans (“DSPs”). The regulations require DSPs to acquire default supply at prevailing market prices. The regulations further require that electric generation supply be acquired by competitive bid solicitations, spot market purchases or a combination of both.

As independent energy marketers, Agway Energy Services, LLC (“Agway”), Energy Plus Holdings LLC (“Energy Plus”), Gateway Energy Services Corporation (“Gateway”), Interstate Gas Supply, Inc. (“IGS”), Pennsylvania Gas & Electric (“PAG&E”), and Vectren Retail, LLC (“Vectren”), known separately and together for purposes of this filing as the Pennsylvania Energy Marketers

¹ 52 Pa.Code § 54.186(b)(4)

Coalition ("PEMC")², appreciate the opportunity to comment on least-cost pricing in connection with revisions to electricity default service regulations in the Commonwealth.

As participants in competitive electricity and/or natural gas markets, PEMC has a strong interest in the consistent development and formation of an efficient, competitive electricity market in Pennsylvania. As such, our Comments in this rulemaking are focused on helping ensure competitive, market-based pricing by electricity generation suppliers ("EGSs") and basic, reliable service by EDCs to those customers who choose not to select supply service from an EGS. The most important consideration in these efforts is the protection of the consumer.

While the Commonwealth's default service regulations should provide a backstop for consumers who choose not to take advantage of electricity competition, any default pricing mechanism should not be construed as price guarantees or long-term supply contracts. A move in that direction, as shown in other states, would ultimately work to the disadvantage of consumers because of the inevitable commodity price distortions and lack of price transparency that would occur in a pricing mechanism that does not promote true market-based prices. In addition, artificial price guarantees that are the result of subsidized regulatory constructs – and which will ultimately require cost recovery by the utility in later years – do not provide timely price signals of the market cost of power for consumers. Cost-effective, market-based, and prudently controlled default service must be evident by real-time prices so that consumers become educated on the real costs of their consumption. Then, through effectively supported competition, an electric marketplace will be enabled to evolve with a wide array of offers that provide consumers with the best opportunity to shop and select those products which they value. Those benefits include but are not limited to energy products and services, affinity memberships, *and* least-cost supply.

² This group of energy marketers, which supply electricity, natural gas, and various other energy services to residential and commercial customers across a large number of utility markets throughout several states, works together collaboratively on non-competitive, regulatory issues to advance competitive markets and consumer choice.

LEAST COST STANDARD SHOULD MEAN MARKET-BASED EDC PRICING

A “least cost” procurement requirement should codify and integrate the policies of the Commonwealth’s Electricity Generation Customer Choice and Competition Act³.

The least cost standard must be consistent with the competitive electric market principles adopted for the Commonwealth in 1996 and implemented in a way that informs consumers of their right to choose an electricity supplier. A least cost procurement standard should yield market-based utility default service pricing. Without such a standard, consumers in the Commonwealth could have the same experience they had when utilities increased prices significantly following prolonged rate freezes. In such an environment, consumers do not have the benefit of truly competitive pricing designed to minimize the peaks and valleys that long term contracts and hedging can incorporate into default service pricing. In addition, least cost pricing that resembles long-term contracts means consumers could be “locked into” rates that may be above the competitive market rate, that distort the value of competitive offers, and that create stranded costs for utilities.

LEAST COST STANDARD SHOULD INCLUDE MONTHLY ADJUSTMENTS

PEMC believes utility default service pricing for residential and small commercial customers should be a monthly-adjusted, market-based commodity rate and reflect a utility's fully allocated, embedded and projected stranded cost. These should be fully represented as transparent components of a default, full service rates. Market-based, default utility service rates which are adjusted monthly will ensure just and reasonable rates for consumers, entail minimal regulatory oversight, and cultivate a market environment in which effective competition can flourish. Monthly adjustments to EDCs’ default service pricing are essential to an efficient

³ See § 54.3. Standards and pricing practices for retail electricity service.

electricity market in the Commonwealth because they will encourage a large number of competitive offers from innovative EGSs.

CONCLUSION

PEMC believes the Commission has a very important opportunity to put in place default service regulations that will help ensure robust electricity competition in the Commonwealth. It is critical that this rulemaking process be approached with a continued commitment to empower consumers so that they have the ability to take control of their energy purchases with products that consumers believe best fit their individual needs. If done right, the revised default service regulations will give Commonwealth residents and small businesses more choices for electricity supply and more control of their energy future.

We recognize that much work remains to be done on this topic and others related to competition and pledge to the Commission our continued support to help with these efforts.

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Respectfully submitted



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