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November 3, 2011

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

VIA HAND DELIVERY

**RE: Investigation of Pennsylvania's Retail Electricity Market;
Docket No. I-2011-2237952**


Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission are the original and five (5) copies of the Comments of the Industrial Energy Consumers of Pennsylvania ("IECPA"), Duquesne Industrial Intervenors ("DII"), Met-Ed Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), Penn Power Users Group ("PPUG"), Philadelphia Area Industrial Energy Users Group ("PAIEUG"), PP&L Industrial Customers Alliance ("PPLICA"), and West Penn Power Industrial Intervenors ("WPPII") (collectively, "Industrial Customer Groups") in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to this proceeding are being duly served. Please date stamp the extra copy of this transmittal letter and Notice, and kindly return them to our messenger for our filing purposes.

Very truly yours,

McNEES WALLACE & NURICK LLC

By 
Teresa K. Schmittberger

Counsel to the Industrial Customer Groups

TKS/sar

Enclosures

c: Office of Competitive Market Oversight Retail Markets Investigations
(via E-mail: ra-RMI@state.pa.us)
Certificate of Service

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Pennsylvania's
Retail Electricity Market

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Docket No. I-2011-2237952

COMMENTS OF THE INDUSTRIAL CUSTOMER GROUPS

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Dated: November 3, 2011

I. INTRODUCTION

In response to the changing Pennsylvania electricity market triggered by the adoption of the Electricity Generation Customer Choice and Competition Act, *See* 66 Pa. C.S. §§ 2801-2812,¹ the Pennsylvania Public Utility Commission ("Commission") instituted an investigation to "ensure that a properly functioning and workable competitive retail electricity market exists in the state."² Accordingly, the Commission entered an Order on April 29, 2011 seeking feedback from stakeholders on a number of questions, and instructing its Office of Competitive Market Oversight (OCMO) to review the stakeholder feedback and make recommendations to the Commission. On July 28, 2011, the Commission found that "Pennsylvania's current retail market requires changes in order to bring about the robust competitive market envisioned by the General Assembly when it passed the Electricity Generation Customer Choice and Competition Act." July 28, 2011, Order at 7. As a result of this finding, the Commission tasked OCMO with determining specific proposals to improve the market. In the Commission's Tentative Order on October 14, 2011 ("Tentative Order"), the Commission presents OCMO's recommendations for improving the structure of default service plans. The recommendations are categorized as "intermediate recommendations" that can be implemented in the Electric Distribution Companies' ("EDCs") upcoming filings to amend or extend existing default service plans while the Commission continues its examination of longer term, and more fundamental, changes to default service. The Commission invites stakeholder comments before officially adopting the OCMO recommendations.

¹ Act 129 of 2008 subsequently amended Chapter 28 of the Public Utility Code and added Sections 2813-2815. 66 Pa. C.S. §§2813-2815.

² *See Joint Application of West Penn Power Company d/b/a Allegheny Power, Trans-Allegheny Interstate Line Company and First Energy Corp. for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code approving a change of control of West Penn Power Company and Trans-Allegheny Interstate Line Company, Docket Nos. A-2010-2176520 and A-2010-2176732 (Order entered March 8, 2011), at 46.*

The Industrial Energy Consumers of Pennsylvania ("IECPA") is an association of energy-intensive industrial companies operating facilities across the Commonwealth of Pennsylvania. IECPA's members consume in excess of 25% of the industrial electricity in Pennsylvania and employ approximately 41,000 workers. Also sponsoring these Comments are coalitions of industrial customers receiving service from most of the Commonwealth's EDCs: Duquesne Industrial Intervenors ("DII"), Met-Ed Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), Penn Power Users Group ("PPUG"), Philadelphia Area Industrial Energy Users Group ("PAIEUG"), PP&L Industrial Customer Alliance ("PPLICA"), and West Penn Power Industrial Intervenors ("WPPII") (collectively, "Industrial Customer Groups").

Because the Industrial Customer Groups use substantial volumes of electricity in their *manufacturing* and operational processes, any modification to the pricing scheme for large commercial and industrial ("C&I") customers could substantially impact the Industrial Customer Groups' overall operating costs. As a result, the Industrial Customers submit these Comments regarding OCMO's proposal outlined in the Tentative Order recommending for hourly-priced default service to be expanded to include customers with demand greater than 100 kW.

II. COMMENTS

The Tentative Order recommends expanding hourly-priced default service beyond the current offering to Large C&I customers to include "Medium" C&I customers (customers with demand greater than 100 kW). The Commission contends that this expansion will improve the default service pricing scheme, because Small C&I customers (customers with demand less than 100 kW) will no longer be required to pay for the higher risk premium associated with Medium C&I customers who are more likely to participate in shopping. This expansion, the Commission asserts, is necessary to "mitigate any cross subsidies explained above and may facilitate more

competitive offerings from EGSs by encouraging competitive market entry." October 14, 2011, Tentative Order at 8. The Commission, however, does not acknowledge how this change to hourly-priced default service could impact Large C&I customers who currently receive hourly-priced default service. As explained below, there could be costs and challenges of expanding hourly-priced service to "Medium" C&I customers, especially if a single procurement group is used that includes both Medium and Large C&I customers. To mitigate potential cross subsidies between Large and Medium customers, the default service provider should consider establishing a separate procurement group for the Medium C&I customers.

Initially, some members of the Industrial Customer Groups have accounts that would fall into the new "Medium" C&I category. Although these members generally will seek competitive suppliers for the Medium C&I accounts, situations may arise where customers must rely on default service for a month or more due to supplier default, errors in switching accounts, or lack of competitive offers. Given the types of facilities involved, such as convenience stores, these accounts cannot realistically respond to hourly price signals to control energy costs. The Industrial Customer Groups urge the Commission to ensure that all classes, including both Large and Medium C&I, have an effective fixed-price default service option.

Currently, each EDC has established an hourly-priced default service offering for a segment of its customers. Those decisions were reviewed in the default service proceedings based on the specific characteristics of the EDC's customer base and rate schedule classifications. Although the demands for these offerings may vary to as low as 25 kW, the customers rate schedule is the more predominant basis for determining whether the hourly-priced default service will apply. Requiring EDCs to provide hourly-priced default service to all Medium C&I customers with demands above 100 kW will substantially increase the total hourly-priced

customers in many territories, and incorporate many customers on "small commercial" rate schedules that generally have more unpredictable loads. Accordingly, this increases the possibility that wholesale suppliers who bid for the hourly-priced default service product may include higher risk premiums for serving these less predictable customers, resulting in a higher adder to be paid by the hourly default service customers. In contrast, the Large C&I customers tend to have more predictable loads and usage patterns.

In addition, Medium C&I customers are included on different rate schedules, and therefore, may have different metering requirements than Large C&I customers. For example, *some EDCs may use load profiles for the hourly billing of Medium C&I customers rather than the actual hourly usage of Large C&I customers.* The use of load profiles is not as accurate as actual hourly usage. Moreover, the addition of Medium C&I customers may require changes to the EDC's billing system, increasing costs to the EDC that will be passed on to hourly-priced customers. Large C&I customers should not be expected to pay for billing system changes when they have already incurred similar costs when hourly-priced service was designated as their default service option.

All of the above-stated metering, size, and usage inconsistencies between Medium and Large C&I customers could impact the adders associated with hourly-priced default service. As discussed in the Industrial Customer Groups' initial comments, as part of this investigation, the Commission should examine ways to keep the adder for hourly-priced service as low as possible. The expansion of hourly-priced service to smaller customers may increase the adder. The best means of minimizing the default service adders and promoting consistency in the hourly-priced default service scheme is creating separate procurement groups for Medium and Large C&I customers. Separate procurement groups would ensure that Small and Large C&I customers are

not be responsible for the risk premiums associated with Medium C&I customers, and vice versa. Simply, separate procurement groups would best promote the Commission's goal of avoiding cross-subsidies and facilitating shopping among C&I customers. *See* Tentative Order at 8.


III. CONCLUSION

The Industrial Customer Groups request that the Commission review the factors highlighted above before formally adopting this new hourly-priced default service scheme. Specifically, the Industrial Customer Groups recommend that the Commission reconsider its suggestion to expand hourly-priced services to "Medium" C&I customers and, if the proposal is implemented, that separate procurements occur for Medium and Large C&I customers based on the differences in metering, size, and usage predictability between the two groups.

WHEREFORE, the Industrial Energy Consumers of Pennsylvania, Duquesne Industrial Intervenors, Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Penn Power Users Group, Philadelphia Area Industrial Energy Users Group, PP&L Industrial Customer Alliance, and West Penn Power Industrial Intervenors respectfully request that the Pennsylvania Public Utility Commission consider and adopt, as appropriate, the foregoing Comments.

Respectfully submitted,

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Dated: November 3, 2011

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Dated this 3rd day of November, 2011, at Harrisburg, Pennsylvania