BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

POLR ROUNDTABLE	:
	: Docket No. M-00041792
	:

REPLY COMMENTS OF DIRECT ENERGY

Introduction

Direct Energy is a subsidiary of Centrica, a leading provider of energy and other essential services to over 20 million households worldwide, with annual revenues of $31 billion and $17 billion in market capitalization, and over 38,000 employees. Direct Energy operates in North America, with 980,000 gas and electricity customers in Alberta, Canada and 30,000 gas customers in Manitoba, Canada and 375,000 gas customers in Michigan, Ohio and Pennsylvania and 827,000 electricity customers in Texas. Direct Energy serves about 30,000 residential and small commercial natural gas customers in Western Pennsylvania under the name Energy America. In serving electricity customers in the U.S., Direct Energy provides an "all in" service, including billing and customer care service, and acts as the single point of contact for electricity service, including acquiring and paying for the EDC's distribution service. Direct Energy also offers retail customers price protection programs to mitigate their concerns about constantly fluctuating energy prices.

Direct Energy made a presentation at the Commission's May 3, 2004 POLR Roundtable meeting, and appreciates this opportunity to provide additional comments to assist the Commission in developing regulations concerning the provision of POLR service in the post-transition period. Direct Energy's position on these issues is informed by Centrica's experiences in the United Kingdom where competitive electricity and gas markets have resulted in switching by almost one-half of all customers, and customers have experienced substantial savings – demonstrating conclusively that competitive markets can and do work.

In fact, competition is the law of the land for post-transition POLR service in Pennsylvania, and rightly so. The Electric Choice Act states in Section 2802(5) that "[c]ompetitive market forces are more effective than economic regulation in controlling the cost of generating electricity," while the purpose of the Act is to "create direct access by retail customers to the competitive market for the generation of electricity." The Pennsylvania Commission wisely recognized that competition provides the right tools to deliver the best service to electricity consumers, so every decision the Commission makes concerning the post-transition period should be in favor of more competition, not less. The Commission's task is made easier because the Commission need not be concerned about the anticompetitive burdens of stranded costs.

Reply Comments

Direct Energy, a member of the Mid-Atlantic Power Supply Association ("MAPSA"), hereby adopts and incorporates by reference MAPSA's Reply Comments concerning:

- Switching Restrictions
- Customer Migration Risk
- Purpose of Post-Transition POLR Service
- Uniformity of Post-Transition POLR Service Across Pennsylvania
- Demand Response
- Customer Billing and Customer Care Offerings

Direct Energy offers additional reply comments concerning the following issues.

1. Post-Transition POLR Pricing

- Must be market responsive
- For all customers except large C&I customers, pricing should be adjusted regularly, preferably monthly

- Hourly energy pricing for large C&I customers
- POLR service should be priced as a fully separate service from the retail wires service

Pennsylvania's Electric Choice seems fairly straightforward in requiring post-transition POLR prices to be "at market." Sections 2807(e)(2) and (3) of the Act provide that an EDC's obligation to POLR customers in the post-transition period is to acquire electric energy "at prevailing market prices." For sophisticated buyers such as a large C&I customers, market pricing should mean hourly pricing because these customers can respond effectively to the real time market signals provided by hourly pricing. Hourly pricing thus promotes competition because this ability to respond provides incentives for competitive suppliers to provide energy products tailored to meet the special needs of these large C&I customers.

For the remaining customers (residential and small commercial), POLR prices should be fixed for a set time period, preferably monthly but not less than every 6 months. Monthly pricing reflects the market, will send appropriate price signals to customers and will smooth the volatility of prices. The prices should be set far enough in advance of the set time period (at least 30 days) so that customers and competitive suppliers understand and know the price. There must not be any retroactivity for the pre-set POLR prices – no true-ups, reconciliations or variance accounts – the POLR price people see and are told they are paying at the time of consumption should be the price they get.

2. Costs Included in Post-Transition POLR Prices

- All costs associated with providing the service, including the costs of risks associated with customer migration
- Must fully reflect the full cost of being the POLR

Section 2807(e)(3) plainly requires that post-transition POLR prices provide for full recovery of all reasonable costs. Therefore, POLR prices must include all costs associated with providing POLR service, including: all generation procurement expenses; all administrative costs; all operational costs; all customer care costs; and all customer migration expenses. Large C&I hourly prices must include wholesale hourly energy prices, capacity costs, administration costs, operation costs and customer care costs. Finally, there should be no deferral on the collection of any POLR costs. Adhering to these guidelines will ensure that competitive suppliers are not placed at a competitive disadvantage by POLR service.

3. Threshold Between Small C&I and Large C&I Customers

- The threshold should be set at 25 kW and reduced over time
- Advanced meters with two-way communications should be installed for all customers before the end of each EDC's transition period.

Post-transition POLR rules and pricing should recognize the difference between sophisticated large C&I customers and smaller commercial customers. The Commission's regulations provides an appropriate differentiation by defining a "small business customer" as a customer "that receives electric service under a small commercial, small industrial or small business rate classification, and whose maximum registered peak load was less than 25 kW within the last twelve months."[1] However, the Commission's post transition POLR regulations should provide a process for reducing this threshold over time as smaller business customers become more familiar with the competitive market and better able to respond to the price signals that the market provides.

The Commission's regulations should also require that advanced meters with two-way communications be installed for all customers before the end of each EDC's transition period. This is not an unreasonable proposal as many Pennsylvania EDCs have already installed advanced meters for many C&I customers. In addition, in view of the long lead time to the end of the transition periods for most Pennsylvania EDCs, there should be ample time for the

[1] 52 Pa. Code § 54.3.

installation of advanced meters for the remaining customers, or at least for a majority of customers. Advanced meters provide significant benefits to customer's and the industry by permitting greater demand response from customers and fostering the development of more innovative offerings to customers that have these meters. Finally, as required by Section 2804(6) of the Act, data from advanced meters should be available to EGSs.[2]

4. Who Provides Post-Transition POLR Service

- EGSs can and should be able to compete to provide POLR service
- Retail POLR auctions can be used to determine alternate POLR providers

The Electric Choice Act clearly authorizes the Commission to designate a company other then the incumbent EDC to be the POLR provider in the EDC's service territory.[3] Many EGSs have the resources and wherewithal to provide retail POLR service. Having companies other than the EDC provide POLR and equivalent service has worked in other territories. In fact, Direct Energy is the provider of "Price to Beat Service" to approximately 700,000 electricity customers in Texas, and has recently finalized an agreement to become the provider of "Default Service" to 980,000 gas and electric customers in Alberta, Canada. In addition, nothing in the Electric Choice Act prohibits multiple POLR providers in an EDC's territory, and the Commission should consider this option as well as a way of spreading the risks and benefits of POLR service among qualified companies.

A retail POLR auction could be used to determine who will act as the POLR provider for a particular customer segment in each EDC territory. Having an auction for each customer

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[2] Section 2804(6) requires that an EDC provide use of its distribution by EGSs and their customers on a comparable basis to the EDC's use of its system.

[3] 66 Pa. C.S. § 2802(16) (EDCs should continue to be the POLR "unless another provider of last resort is approved by the Commission."); § 2807(e)(3); (In the post-transition period, the EDC or commission-approved alternative supplier shall provide POLR service to non-shopping customers or shopping customers whose EGS does not deliver the energy).

segment will allow interested companies to bid to be POLR for the customer segment of their choosing, thus permitting companies to target the customer segment they believe they can most effectively serve. This will most likely increase the number of companies vying to provide this service. The Commission can establish necessary and appropriate creditworthiness and reliability safeguards when defining the preconditions for the auction.

However, if the EDC provides the POLR service, there must be a clear distinction between the company providing distribution services and the company providing POLR services that is readily understood by consumers. Structural separation is the preferred approach because it meets these goals.

Respectfully submitted,

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