Before the
Pennsylvania Public Utility Commission

Commission Staff
Rate Ready Report with Recommendations

Docket No.
M-2010-2189433

August 6, 2010

Introduction

In *PPL Electric Utilities Corporation Retail Markets*, Docket No. M-2009-2104271 (Order entered April 19, 2010) (*PPL Order*), the Commission directed the Retail Markets Working Group (RMWG) to discuss whether the consensus plan for a Rate Ready billing platform developed for PPL Electric Utilities Corporation (PPL) by the Commission's Electronic Data Exchange Working Group (EDEWG) could serve as a statewide model for Rate Ready billing platforms. *PPL Order* at 5. The RMWG was specifically directed to "consider: (1) EGS business needs for a uniform approach to Rate Ready billing; and (2) EDC billing system capabilities to respond to this approach."[1] *Id*. The Commission directed the RMWG to submit a report and that "Commission Staff submit an independent recommendation to the Commission following its receipt and review of the RMWG report." *Id*. at 6. The RMWG Report was filed with the Commission on July 23, 2010 (RMWG Rate Ready Report).

As described in the *PPL Order*,

> 'Bill Ready' means the company doing the billing receives calculated results from the non-billing party for its charges for printing on a consolidated bill. 'Rate Ready' means the company doing the billing knows the rates of the other party, calculates its charges, and prints these charges on a consolidated bill.

PPL Order at *2*, *citing* Electronic Data Exchange Standards for Electric Deregulation in the Commonwealth of Pennsylvania, v. 2.6, p. 13.

[1] "EGS" refers to electric generation suppliers, the competitive suppliers in Pennsylvania's retail electric market. "EDC" refers to electric distribution company.

To date in Pennsylvania's electric retail market, EDCs are the entities which usually issue consolidated bills. Because of that, Rate Ready billing platforms require substantially more involvement by the EDCs in developing a bill than a Bill Ready platform. A review of the RMWG Rate Ready Report will indicate that cost and effort by EDCs to modify existing Rate Ready platforms or build new Rate Ready platforms were substantial concerns of many members of the RMWG. *See*, *e.g*., RMWG Rate Ready Report at 27-28.

During the RMWG discussions, Commission Staff (Staff) worked with the various interests represented to achieve as much consensus as possible on the elements involved in Rate Ready platforms. For existing Rate Ready billing platforms, Staff was able to achieve consensus on several different elements. In addition, Commission Staff will recommend that the Commission direct a few modifications to existing platforms even though consensus was not achieved.

The most difficult question is whether or not EDCs that do not have an existing Rate Ready billing platform should be directed to build one at this point in time. In the case of PPL, the Commission was well advised to direct such a build-out at the time it did because of concerns relating to price mitigation, EGS entry into the market and the need, at that time, to ensure that the ramp-up to a fully functioning competitive market be achieved as fast as possible. That dynamic has changed over the last six months.

In addition, there is some difficulty in assessing the value of a wholesale build-out of a new Rate Ready platform and the potential need. For the most part, it is a given that the EGSs which will benefit the most from such a platform are new entrants. These are the suppliers that have not had the opportunity to complete their own billing systems or which are simply testing Pennsylvania's markets to determine whether the expense of market entry is justified. In either case, Staff is concerned that this type of supplier was not represented in the RMWG discussion.

The foregoing concern must be matched with the prevailing view concerning Rate Ready billing platforms. Discussions with the Co-Chair (EGS) of the EDEWG have indicated that, in general, Rate Ready billing platforms are viewed as an initial state for EDC/EGS interactions. As Pennsylvania's markets mature and EGSs become more engaged, the most commonly desired end-state is for EGSs to develop Bill Ready platforms. There are a few exceptions, but for the most part, EGSs prefer the control that a Bill Ready interaction provides. This viewpoint underlies much of what Staff will recommend.

Uniformity for Existing Rate Ready Platforms

The first issue to be addressed is uniformity. Surprisingly, the EGSs did not voice concern that Rate Ready platforms should be uniform among EDCs. The EGSs were more concerned that EDCs provide fast turn-around times for rate changes and simplicity of access, regardless of how access is designed. Staff's perception is that the EGSs were equally comfortable with web-based access, manual email communication and EDI transactions so long as the access was readily available, easy to navigate and resulted in prompt and correct EDC action.

In Staff's view, certain elements can be made uniform, or at least similar, across existing Rate Ready platforms. To the extent that can be accomplished without substantial expense, we will recommend adoption of those elements. However, consistent with the RMWG Report, Staff will not recommend a uniform Rate Ready platform on a statewide basis based upon the EDEWG consensus for PPL. To a large extent, Staff agrees with the observation made in the RMWG Report which states that the EDEWG consensus model for PPL was designed with PPL's specific billing systems in mind.

It has been suggested, and Staff has no reason to doubt, that adoption of the PPL consensus platform on a statewide basis would require substantial expense and effort to modify not only the existing Rate Ready platforms, but also the underlying billing systems. We are mindful that such a requirement would be made just as the EDCs are ramping up for the impact of January 1, 2011, when rate caps are removed. Staff believes that EDC efforts must be focused on improving existing systems and EGS interactions to ensure a smooth transition to the more vibrant markets that we expect. The requirement of a uniform, statewide Rate Ready platform at this time will interfere with those efforts without producing a concomitant benefit to the customers, the market or the EGSs. For those reasons, Staff recommends against requiring a uniform, statewide Rate Ready platform.

Rate Code vs. Price Driven Model Requirements

Staff agrees with the prevailing viewpoint from the RMWG that a rate code model is the best model for existing Rate Ready platforms. That is the current model used by existing Rate Ready platforms. The cost and effort attendant upon a direction to shift to a price driven model is simply not worth any benefit that would be achieved. In addition, Staff is cognizant that such a direction would come at a time when existing systems must be improved to meet the increased demands that are anticipated to coincide with January 1, 2011, and the months leading up to that date.

Design Requirements for Rate Code Driven Model

The RMWG failed to reach consensus on the inclusion of a “percent of default service” component in all rate ready platforms statewide. Specifically, Duquesne submitted that it would require an overhaul of its current supplier billing system at a cost of up to $300,000. Multiple EGSs expressed their interest in this rate component being made available as part of a statewide standard. Staff recognizes that this rate component may be widely utilized by EGSs and, therefore, it may be in the interest of the competitive market-place to include it as part of any uniform statewide standard.

While inclusion of a percent of default service rate component does seem like a reasonable request, Staff is concerned with the cost effectiveness of requiring Duquesne to alter its billing system to allow this option. The significant costs put forth by Duquesne may be prohibitive for a rate component which will merely automate a calculation that could be made relatively easily by an EGS. Staff feels that such a significant cost to change the system may be an unnecessary subsidization by the EDC of a potentially simple internal EGS procedure. Duquesne's upcoming default service program institutes a flat rate for all residential customers, an annual rate for small commercial & industrial (C&I) customers, and a semi-annual rate for medium C&I customers. This program structure increases the simplicity of calculating a percent of default service rate by an EGS.

Staff suggests that at this time, it may be inappropriate to order Duquesne to update its billing system to allow inclusion of a percent of default service rate component. Before Duquesne is ordered to include such a component, there should be some analysis of the rate of utilization of the percent of default service rate component in PPL and other EDC service territories. If it is found that this component is widely utilized, it may be prudent for the Commission to order its adoption in Duquesne's Rate Ready platform at that time.

The RMWG was unable to reach a consensus on the rate components that should be made available on EDC Rate Ready platforms. The RMWG was able to agree upon certain minimum requirements, but there was disagreement over the inclusion of more complicated components such as blocked rates, variable rates, time-of-use rates and real-time-pricing rates. Some EDCs, including PECO and Duquesne, suggested that the rate components would require significant changes to their IT systems. Some EGSs, specifically Direct Energy, contended that dynamic rates should be made available on EDC Rate Ready platforms.

Staff recommends that existing Rate Ready platforms should be capable of managing simple fixed rate structures. The minimum elements directed should include:

- Usage (kWh) charge only (no proration)
- Demand (kW) charge only (no proration)
- Flat fixed monthly charge (no proration)
- Any combination of Usage, Demand and Flat fixed monthly charge
- Percentage of default service rate (except in Duquesne's service territory). Note: Must be a flat POLR rate; percentage could be either a premium or discount to the POLR rate
- Flat fixed monthly charge, plus percentage of default service rate (except in Duquesne's service territory). Note: Must be a flat POLR rate.

EGSs wishing to offer more complex, dynamic rates should be able to do so through either dual billing or Bill Ready billing where available. It seems reasonable to expect that EGSs wishing to offer sophisticated products like variable rates should have the back office capability to make the necessary calculations and submit them either through a Bill Ready platform or dual billing. To the extent that existing EDC Rate Ready platforms already provide for dynamic rate components, these components should remain available. However, Staff does not recommend that EDCs not currently allowing these components should be directed to include them in their existing Rate Ready platforms.

A sub-issue arose during the RMWG's discussion of this issue. Apparently, Duquesne's system is simply not capable of offering 5 decimal point precision. Duquesne's existing technology provides for 5 characters and up to 4 decimal points.

Duquesne asserted that modification of its system would cost approximately $30,000.00. Staff notes that there was no EGS discussion of this item. On that basis, subject to comment, Staff does not recommend directing Duquesne to implement the modification; we simply have no basis to support such a directive at this point in time.

Enrolling Accounts on Rate Ready Billing

Staff supports the consensus reached by the RMWG on the issue of enrolling accounts. Rate Ready enrollment transactions and change transactions should be made using the existing EDI 814 transaction; existing switching rules should apply; EDCs may reject enrollments for non-established rate codes; and, tax exemption information should be provided by EGSs on 814 transactions for EDC calculation of EGS sales tax charges. Staff also supports the RMWG recommendation that setting a uniform effective date for change transactions should be the subject of further discussion. Staff recommends that this issue be referred to the EDEWG for resolution.

Creating New EGS Rates

Staff has already stated that uniformity in Rate Ready platforms is not necessary for EGS operations in the Commonwealth. This is consistent with the prevailing view of the RMWG which holds that different modes of access are acceptable provided that EDCs act on a timely basis to establish new rates. Staff does not recommend any direction which would establish statewide uniformity of process. However, Staff has substantial concerns relating to the timeliness of EDC response.

Discussions within the RMWG disclosed substantial concern with the turnaround time for the creation of new rate codes by First Energy. First Energy states that it will take approximately 30 days to program 15 or fewer new rate codes and approximately 90 days to program 15 or more new rate codes. These timelines are substantially longer than

Formatted: Space After: 0 pt, Line spacing: 1.5 lines the timelines presented by other EDCs in the RMWG Rate Ready Report. For example, Duquesne commits to a turnaround time of five days for the creation of up to 100 rate codes while PPL commits to a maximum turnaround time of 14 days.

Staff sees value in decreasing the turnaround time for the creation of new rate codes by First Energy. As summarized by the RMWG Report, reasonable requirements for responsiveness between EDCs and EGSs are an important factor in facilitating effective EGS operations. Staff believes that the current timeline for First Energy is unreasonable. Consequently, Staff recommends that the Commission direct First Energy to implement processes supporting a 14 calendar day maximum rate code creation turnaround time. This turnaround period is consistent with the EDEWG consensus report.

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Staff is cognizant that this directive may impose incremental costs to First Energy. However, Staff believes that fostering long-term, robust EGS participation in the First Energy service territories outweighs any potential short-term incremental costs that this directive may create. Staff also recommends that First Energy be directed to file a project estimate and timeline.

Changing EGS Rate Codes on Accounts

Staff recommends that the Commission direct implementation of the RMWG consensus position regarding changing EGS rate codes on accounts. As we stated above, uniformity for process among all systems is not required. However, the timelines can be uniform. The RMWG consensus position was that EDCs should process rate code changes within 14 days. The number of rate code changes per day can be limited, depending on the EDC's IT capabilities. The RMWG suggested that a reasonable limitation could be 3,000. It was also agreed that the last change processed for an account will be the effective rate code.

Changing Prices Associated with Existing EGS Rate Codes

As with the other rate code issues, Staff agrees that uniformity of process is not necessary, with the caveat that response times by EDCs must be reasonable. Unfortunately, the RMWG discussion did not provide sufficient information which would enable Staff to recommend specific response times for price changes. Because the EDEWG consensus model was developed with a focus on PPL's systems, Staff recommends that this issue be returned to the EDEWG for development of uniform response times across all existing Rate Ready platforms.

Billing and Associated EDI Impacts

The RMWG Report states that consensus was not reached on the issue of billing and associated EDI impacts. However, a close reading of the RMWG Report indicates that there was general agreement on this issue for existing Rate Ready platforms. For existing platforms, it was agreed that EDCs shall calculate EGS customers' charges based on the pricing components set in the customers' corresponding rate codes; that EGS charges shall be calculated using the identical criteria that is used for EDC charges; and, that the EDI 810 transaction shall be used to communicate price, quantity, unit of measure, and total amount for each pricing component used to calculate an EGS customer account bill. Staff recommends that the Commission direct implementation of the foregoing elements for existing Rate Ready platforms.

Cancel-Rebill Process

The Cancel-Rebill process element is the process used to remove or alter incorrect data or charges on the customer's bill. Staff's perception is that for existing Rate Ready platforms, there appears to be agreement with the EDEWG consensus report. That report provided that an EDC will submit an EDI 867 monthly usage cancel transaction and an

EDI 810 cancellation transaction to the EGS indicating the cancelled usage and charges, respectively. The corresponding rebill will require the EDC to submit an EDI 867 usage transaction and an EDI 810 rebill transaction to the EGS indicating the usage and rebilled charges, respectively. If prior billing periods are involved, the EDC will use the EGS billing parameters associated with that period. Staff recommends that the Commission direct implementation of the EDEWG model for the Cancel-Rebill Process for existing Rate Ready platforms.

Bill Print

There was no consensus on the bill print design for EDCs providing rate ready billing; specifically the placement of a supplier rate-code designation on an EDC consolidated bill. Residential/small business billing requirements that apply to both EDCs and EGSs are found primarily in 52 Pa. Code §54.4 (Bill format for residential and small business customers). There are also billing requirements at 52 Pa. Code §56.15 (Billing Information) and 52 Pa. Code §69.251 (Plain language-statement of policy). While §54.4 requires that "Generation charges shall be presented in a standard pricing unit for electricity in actual dollars or cents per kWh…" (§54.4(b)(3)(A)), there is no requirement in this regulation that the "rate code" and/or "text name associated with that rate code" be printed on the bill.

Section 54.4(b)(5) states that the "The requirements of §56.15 shall be incorporated in customer bills *to the extent that they apply*." (Emphasis added). Section 56.15(13) does require that a bill have "A designation of the applicable rate schedule as denoted in the officially filed tariff of the utility." However, since suppliers do not file tariffs and technically do not have "rate schedules" in the manner that regulated utilities have, Staff does not believe that the § 56.15(13) requirement applies to supplier charges on a bill. In addition, the "plain language guidelines" at §69.251 have no requirement of a "rate class" or "rate code" designation.

Staff believes that providing the customer with the charge per standard pricing unit in actual dollars or cents per kWh is the critical piece of pricing information that customers need to make sure they are being billed correctly, and this is already required by regulation. Given the cost and the technical issues identified by the EDCs, the lack of a regulatory requirement, and that the price per kWh is on the bill, Staff recommends that the "rate code" and/or the "text name associated with that rate code" should not be a required element on a EDC consolidated bill and therefore should not be a required part of a rate-ready billing system. Further, Staff does not recommend directing a statewide, uniform billing format at this point in time, so long as the bills comply with the Commission's regulatory requirements.

Taxes

The RMWG was unable to reach a consensus on the issue of taxes. However, the discussion surrounding this issue leads Staff to recommend uniform treatment among existing Rate Ready platforms. Specifically, Staff recommends that the EDEWG report on this issue be adopted for existing Rate Ready platforms. The EGS will be responsible for holding tax exemption certificates for its charges. The EDC will calculate and bill the taxes owed based on the last tax exemption percentage submitted by the EGS on an 814 enrollment/change transaction. Any change to an existing tax exemption percentage will be performed on an 814 transaction. Changes to an account's tax exemption percentage will be effective for the entire billing cycle during which the change request is received. The last request received will be effective for the entire billing cycle. EDCs will specify which taxes they are responsible for calculating in their Supplier Agreements.

Proration

The issue of proration arises when an EGS seeks a rate adjustment within a billing period rather than an adjustment of rates which would take effect at the start of a subsequent billing period. The RMWG reached consensus on this issue and decided that EDCs should not be directed to prorate charges within a billing cycle. Staff agrees that EDCs should not have that responsibility. EGSs are in control of when rate changes are made and should be able to adjust their operations to coordinate with billing cycles.

Budget Billing

The RMWG concluded that EDCs using rate ready platforms should calculate the budget billing amounts for both EDC and EGS charges. The EDCs will also calculate the true-ups of the budgeted amounts throughout the year. EGSs serving residential customers are expected to comply with any applicable Chapter 56 requirements and at the time of licensing submit an affidavit attesting to such. This is in keeping with the 66 Pa. C.S. §2807(d) requirement that "Customer services shall, at a minimum, be maintained at the same level of quality under retail competition" and the 66 Pa. C.S. § 2809(e) requirement "…assuring that 52 Pa. Code Ch. 56 (relating to standards and billing practices for residential utility service) are maintained." The Commission has a well-established expectation that EDCs and EGSs make budget billing, as required of all electric and natural gas utilities per 52 Pa. Code § 56.12(7), available for all of their residential customers.

On June 18, 1998 the Commission issued an order, *Chapter 28 Electric Generation Customer Choice and Competition Act; Budget Billing Obligations of Electric Generation Suppliers* (M-00960890, F.0011), that noted that "…the Commission has repeatedly indicated its intention to apply the requirements of Chapter 56 to EGSs" and that EGSs "…who provide billing services must comply with Chapter 56, which specifically requires billing entities to offer budget billing…" At the same time, the Commission offered temporary exemptions from this obligation for any supplier that could demonstrate that they would experience an "unreasonable hardship as a result of complying with the budget billing requirement." Currently, two licensed suppliers have temporary exemptions (see *Energy Plus Holdings*, P-2010-2158189 and *BlueStar Energy Services*, P-2010-2164782, both granted May 6, 2010).

In addition to the above, in PPL's Purchase of Receivables Order (*Petition of PPL Utilities Corporation Requesting Approval of a Voluntary Purchase of Receivables Program and Merchant Function Charge*, P-2009-2129502, November 19, 2009), the Commission directed that "EGS customers on consolidated EDC billing will be able to select budget billing. PPL will pay EGSs based on actual billed supplier charges less the POR discount (versus budget amounts), and suppliers will not be impacted in any way by the budget billing program." And while this order is specific to PPL, it is not unreasonable to assume that future POR programs for other EDCs may well include similar requirements.

Given this history of the Commission placing budget billing requirements on both EGSs and EDCs, Staff recommends that EDCs using Rate Ready platforms should be able to calculate the budget billing amounts for both EDC and EGS charges and that the EDC will also calculate the true-ups of the budgeted amounts throughout the year.

Build-out of Rate Ready Platform/Cost Benefit Analysis

The RMWG Report included a discussion of the need for a cost benefit analysis before a direction to move to a uniform, statewide Rate Ready platform is given. Throughout this Staff Report, we have stated that when possible, direction should be given to adopt as many uniform elements as possible, but that statewide uniformity was unnecessary. Staff does not believe that the recommended directions set forth above require any cost benefit analysis prior to implementation.

However, one EDC does not currently have an operating Rate Ready platform. For every issue raised in the RMWG discussions, PECO has variously stated that its existing billing system would have to be revised, that the effort to accommodate a change would be time consuming and that such a task would be extremely expensive. While Staff is not convinced that a Rate Ready platform is unnecessary in PECO's service territory, we have several concerns about directing PECO to accomplish a full build-out at this time.

Staff's over-riding concern is that PECO is now ramping up its existing systems to manage what is expected to be a greatly increased demand from EGSs as PECO's rate caps expire at the end of the year. A direction to build-out a Rate Ready platform at this point in time would greatly interfere with PECO's IT efforts on existing systems and could jeopardize the roll-out of the fully competitive market for Bill Ready capable EGSs. Staff also notes that the tremendous success in PPL's service territory was accomplished with a Bill Ready platform. Even that success presented overwhelming challenges to PPL's systems and its IT capabilities. It is fortunate that the direction to PPL to build-out its Rate Ready platform occurred well after PPL's competitive market was launched.

Staff recommends that the Commission continue to observe existing Rate Ready platforms, including PPL's platform once it begins operations. Based upon those observations, the Commission may then make a determination as to whether PECO should be directed to build-out its own Rate Ready platform and, if so, the extent to which a PECO Rate Ready platform should conform to PPL's. The time taken to observe the operation of PPL's platform will also permit PECO to move into the first quarter of its operations without rate caps and work with EGSs and PECO's existing systems without simultaneously developing a Rate Ready platform. This recommendation also provides for an analysis which, while not precisely a cost benefit analysis, will provide the Commission with a solid basis to determine whether a Rate Ready platform is needed for PECO's service territory.

Conclusion

Staff recommends that the Commission issue both this Staff Report and the RMWG Report for additional comment. This may be done via Secretarial Letter served upon all EDCs, licensed EGSs and the distribution lists for both the RMWG and the Committee Handling Activities for Retail Growth in Electricity (CHARGE). The Commission should also post both Reports on its website (the RMWG Report is already posted) and note that comments are requested to both Reports. Staff recommends a comment period of 30 days. Once comments are received and reviewed, the Commission may take such action as it deems appropriate on the RMWG Report and the Staff's recommendations.

Respectfully submitted,

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