



100 Pine Street • PO Box 1166 • Harrisburg, PA 17108-1166  
Tel: 717.232.8000 • Fax: 717.237.5300

Carl J. Zwick  
Direct Dial: 717.237.5271  
Direct Fax: 717.260.1788  
czwick@mwn.com

June 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:

Please find enclosed the original and five (5) copies of the Comments of Citizens' Electric Company of Lewisburg, PA, and Wellsboro Electric Company, in the above-referenced proceeding.

Please date stamp the extra copy of this transmittal letter and Comments and kindly return them for our filing purposes.

Very truly yours,

McNEES WALLACE & NURICK LLC

By

Carl J. Zwick

A handwritten signature in black ink, appearing to read 'CJZ', is written over the printed name 'Carl J. Zwick'.

Counsel to Citizens' Electric Company of Lewisburg, PA,  
and Wellsboro Electric Company

CJZ/sds

Enclosures

- c: Office of Competitive Market Oversight (via E-mail)
- Patricia Krise Burket, Assistant Counsel, Law Bureau (via E-mail)
- H. Kirk House, Assistant Counsel, Office of Special Assistants (via E-mail)

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## I. INTRODUCTION AND BACKGROUND

On April 29, 2011, the Pennsylvania Public Utility Commission ("PUC" or "Commission") entered an Order commencing its investigation of Pennsylvania's Retail Electricity Market.<sup>1</sup> The Commission's Retail Market Order notes that, with the passage of the Electricity Generation Customer Choice and Competition Act ("Competition Act") in 1996,<sup>2</sup> Pennsylvania emerged as a national leader in electricity policy.<sup>3</sup> Remaining at the forefront of electricity policymaking, the PUC determined it prudent to institute a statewide investigation "with the goal of making recommendations for improvements to ensure that a properly functioning and workable competitive retail electricity market exists in the state."<sup>4</sup>

The PUC's Retail Market Order describes the scope of the Commission's investigation of Pennsylvania's retail electricity market as a two-phase mission, with the first phase dedicated to assessing the status of the current market and exploring necessary changes to allow customers to best realize the benefits of competition, and the second phase designed to implement the needed changes identified in the initial phase.<sup>5</sup> To begin the first phase of its investigation, the Commission has asked that interested parties answer eleven questions that are geared toward developing a complete appraisal of the current status of Pennsylvania's retail electricity market.<sup>6</sup>

Citizens' Electric Company of Lewisburg, PA ("Citizens"), and Wellsboro Electric Company ("Wellsboro") (collectively, "Companies") submit these Comments to respond to the Commission's specific queries into the functionality of Pennsylvania's retail electricity market.

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<sup>1</sup> See *Investigation of Pennsylvania's Retail Electricity Market*, Docket No. I-2011-2237952 (Order entered Apr. 29, 2011) ("Retail Market Order").

<sup>2</sup> 66 Pa. C.S. § 2801 *et seq.*

<sup>3</sup> See *id.* at 1.

<sup>4</sup> See *id.* at 2 (citing *Joint Application of West Penn Power Company d/b/a Allegheny Power, Trans-Allegheny Interstate Line Company and FirstEnergy Corp. for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code approving a change in control of West Penn Power Company and Trans-Allegheny Interstate Line Company*, Docket Nos. A-2010-2176520 and A-2010-2176732 (Order entered Mar. 8, 2011), at 46).

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

In accordance with the Competition Act,<sup>7</sup> the rate caps for Citizens' and Wellsboro customers expired on January 31, 2002 and January 2, 1999, respectively. As a result, the Companies have been operating in the "post transition period" for a number of years. The abbreviated rate cap period was the result of the Companies' historic reliance on wholesale purchases to obtain generation supply to serve customers, rather than owning generation facilities. Both before and immediately after the rate unbundling accomplished in the Competition Act, the Companies obtained energy via a series of fixed-price, multi-year wholesale full requirements contracts.

On October 3, 2007, the Commission entered an Order,<sup>8</sup> which approved, with modifications, the Companies' first Default Service Plan, effective from January 1, 2008, through May 31, 2010 ("2008 DSP"), that was filed to comply with the then-new PUC default service regulations.<sup>9</sup> These regulations required Electric Distribution Companies ("EDCs") to implement a portfolio of energy products to include a mix of spot market, fixed-block, and other energy supply products to meet their default service obligations. Additionally, as part of the 2008 DSP, Citizens' and Wellsboro began utilizing a Portfolio Manager to administer the joint procurement of default service supply for both Companies. The Companies chose ACES Power Marketing, LLC ("APM") to design and implement the portfolio procurement approach.

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<sup>7</sup> 66 Pa. C.S. § 2801 *et seq.*

<sup>8</sup> See generally *Joint Petition for a Default Service Plan for Citizens' Electric Company of Lewisburg, Pennsylvania and Wellsboro Electric Company for the Period of January 1, 2008 through May 31, 2010*, Docket Nos. P-00072306 and P-00072307 (Order entered Oct. 3, 2007).

<sup>9</sup> On May 10, 2007, the Commission issued its Default Service Regulations and Policy Statement, which provided a comprehensive strategy for the provision of default electric service in the Commonwealth. The Commission expressed reservations about procuring all default generation supply for a given period at one point in time (as Citizens' and Wellsboro had done in the past), and instead encouraged utilities to pursue portfolio energy procurement approaches. See *Rulemaking 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)*, Docket No. L-00040169, at pp. 31-32 (Order entered May 10, 2007).

As approved in the Commission's February 25, 2010,<sup>10</sup> and February 11, 2011,<sup>11</sup> Orders, the Companies' Second Joint Default Service Plan, effective for the period of June 1, 2010, through May 31, 2013 ("2010 DSP"), authorizes the use of physical transactions, cleared financial transactions, as well as non-cleared financial transactions (in the form of fixed or floating swaps and call options) and physical options, subject certain conditions and limitations. Citizens' and Wellsboro filed their 2010 DSP to comply with the default service procurement provisions of Act 129 of 2008 ("Act 129").<sup>12</sup>

## II. COMMENTS

### A. **Questions Regarding The Status of Pennsylvania's Retail Electricity Market.**

As noted above, the Companies submit the following responses to the eleven questions that the Commission included within its Retail Market Order. Citizens' and Wellsboro limit their responses to issues that are relevant to the Companies.

1. What is the present status of competition for retail electric generation for customers, by class and service territory, and for alternative suppliers?

*Citizens' and Wellsboro do not have any customers who are currently shopping. Citizens' had three residential and two small commercial accounts that shopped in the early days of restructuring, the latest being February 2001. Wellsboro never had any customers shop.*

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<sup>10</sup> See Joint Default Service Plan for Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013, Docket Nos. P-2009-2110798 and P-2009-2110780, at pp. 26-28 (Order entered Feb. 26, 2010).

<sup>11</sup> See Joint Default Service Plan for Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013, Docket Nos. P-2009-2110798 and P-2009-2110780, at pp. 26-28 (Order entered Feb. 11, 2011).

<sup>12</sup> See Joint Default Service Plan for Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013, Docket Nos. P-2009-2110798 and P-2009-2110780, at pp. 26-28 (Order entered Feb. 26, 2010).

2. Does the existing retail market design in Pennsylvania present barriers that prevent customers from obtaining and suppliers from offering the benefits of a fully workable and competitive retail market? To the extent barriers exist, do they vary by customer class?

*Citizens' and Wellsboro do not believe that the retail market design presents a barrier to customers obtaining competitive supply. Customer shopping in Wellsboro's territory may be more complicated due to the Federal Energy Regulatory Commission ("FERC") regulated charge that Wellsboro pays to Pennsylvania Electric Company ("Penelec") for the use of the lower voltage transmission line that serves its territory. It is not clear whether Electric Generation Suppliers ("EGSs") will be able to purchase this service from Penelec for the customers that the EGSs serve.*

3. What are the economic and managerial costs associated with electric distribution companies ("EDCs") fulfilling the default service role? Are the EDCs accurately passing those costs along to default service customers? Do default service rates include any elements that are not cost-based? Is an examination of distribution rates needed to ensure proper cost allocation? Are there barriers to competition as a result of having EDCs provide default service?

*Citizens' and Wellsboro separately track the legal and outside portfolio management costs that the Companies incur to administer their portfolios, as well as the costs of credit facilities that are in place to support the generation purchases. These costs, and the working capital associated with the generation function, are recovered through the Companies' Generation Supply Service Rates ("GSSRs"). In addition, legal and consulting expenses associated with the development and submission of the Companies Default Service Plans are recovered through the GSSR. Appendix A shows the quarterly administrative costs incurred by each Company as submitted to the Commission as part of the Companies' GSSR filings.*

*The issue of whether to assign any additional managerial costs to default service has been examined in the Companies' default service proceedings. At this time, no managerial costs are recovered through default service rates, which is consistent with cost causation principles because managerial and other employee positions would not be eliminated if the Companies ceased providing default service, and the costs of those positions remain the same regardless of whether all customers shop or all take default service. In fact, Citizens' and Wellsboro question whether it is appropriate to recover the legal and portfolio management costs only from customers purchasing default service because those services arguably are incurred to enable the Companies to stand ready to serve all customers on the system, even those customers that at any given time may be purchasing supply from an EGS. The level of those costs do not vary based on whether 100% or 50% or some other level of the Companies' ratepayers are on default service. If the Commission is going to examine cost recovery of particular costs during this investigation, the Companies urge the Commission to ensure that all types costs are examined.*

4. Are there unintended consequences associated with EDCs providing default eservice, and related products, such as time-of-use rates?

*The Companies have no position on this question at this time, but reserve the right to respond to other parties' comments.*

5. Should default service continue in its current form? Does default service impede competition or otherwise prevent customers from choosing electricity products and services tailored to their individual needs? Does default service provide an advantage to the incumbent EDC and/or its generation affiliate(s)?

*Providing default service to customers who do not or cannot find a competitive supplier is an obligation of the incumbent EDC under the Competition Act, unless an alternative default service provider is approved for the service territory. The Companies do not make a profit on default service, so there is no "advantage" for the Companies. Finally, the Companies have no generation affiliates.*

6. Can/should the default service role be fulfilled by an entity, or group of entities, other than the EDC? If the default service role should be filled by an entity other than an EDC, what mechanisms could be employed to transition the default service role away from the EDC and onto competitive electric generation suppliers ("EGSs")? Are different approaches appropriate for different customer classes? What criteria should be used to ensure that EGSs are qualified to assume the default service role and maintain reliable service?

*Default service could be provided by an alternative default service provider pursuant to Section 2803 of the Competition Act. 66 Pa. C.S. § 2803. If the Commission approves an alternative default service provider, then the EDC should be relieved of all responsibility to stand ready to serve customers. The criteria for approving an alternative default service provider should be sufficient to ensure that the incumbent EDC can permanently relinquish the obligation to serve. This is a natural consequence of the Commission's approval of the alternative default service supplier. Requiring the EDC to keep the infrastructure and arrangements in place to serve as a "backstop" to the alternate default service provider is a duplication of resources. For example, if an alternate default service provider is approved, the Companies would cease contractual relationships with the Portfolio Manager and various wholesale suppliers. The credit arrangements that the Companies have put in place to support default service would also be eliminated. The Companies cannot easily or quickly put these items back in place if the alternate default service provider fails to deliver.*

*Citizens' and Wellsboro offer a flat rate that applies to all customer classes. Given the small territories involved, separating procurement and rates by customer class is not feasible.*

7. How can Pennsylvania's electric default service model be improved to remove barriers to achieve a properly functioning and robust competitive retail electricity market? Are there additional market design changes that should be implemented to eliminate the status quo bias benefit for default service?

*The Companies have no position regarding this question, but reserve the right to respond to other parties' comments.*

8. What modifications are needed to the existing default service model to remove any inherent procurement (or other cost) advantages for the utility?

*The Companies have no position regarding this question, but reserve the right to respond to other parties' comments.*

9. What changes, to Regulations or otherwise, can the Commission implement on its own under the existing default service paradigm to improve the current state of competition in Pennsylvania?

*The Companies have no position regarding this question, but reserve the right to respond to other parties' comments.*

10. What legislative changes, including changes to the current default service model, should be made that would better support a fully workable and competitive retail market?

*The Companies have no position regarding this question, but reserve the right to respond to other parties' comments.*

11. Are there, or could there be, potential barriers being created by the implementation of the EDC Smart Meter Plans?

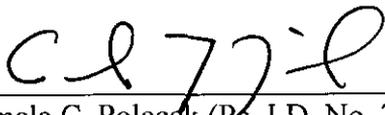
*The Companies have no position regarding this question, but reserve the right to respond to other parties' comments.*

### III. CONCLUSION

**WHEREFORE**, the Citizens' Electric Company of Lewisburg, PA, and the Wellsboro Electric Company respectfully request that the Pennsylvania Public Utility Commission consider and adopt, as appropriate, the foregoing Comments.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By   
Pamela C. Polacek (Pa. I.D. No. 78276)  
Carl J. Zwick (Pa. I.D. No. 306554)  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
Phone: (717) 232-8000  
Fax: (717) 237-5300  
ppolacek@mwn.com  
czwick@mwn.com

Counsel to Citizens' Electric Company of  
Lewisburg, PA, and Wellsboro Electric Company

Dated: June 3, 2011

<b>Citizens' Electric Company of Lewisburg</b>		
<b>Administrative Costs Associated With Default Service</b>		
<b>Quarter</b>		<b>Actual Administrative Costs</b>
Q1 2008	Jan. 1, 2008 - Mar. 31, 2008	\$134,644
Q2 2008	Apr. 1, 2008 - June 30, 2008	\$126,816
Q3 2008	July 1, 2008 - Sept. 30, 2008	\$135,317
Q4 2008	Oct. 1, 2008 - Dec. 31, 2008	\$156,073
Q1 2009	Jan. 1, 2009 - Mar. 31, 2009	\$167,904
Q2 2009	Apr. 1, 2009 - June 30, 2009	\$155,830
Q3 2009	July 1, 2009 - Sept. 30, 2009	\$138,857
Q4 2009	Oct. 1, 2009 - Dec. 31, 2009	\$206,040
Q1 2010	Jan. 1, 2010 - Mar. 31, 2010	\$133,557
Q2 2010	Apr. 1, 2010 - June 30, 2010	\$140,821
Q3 2010	July 1, 2010 - Sept. 30, 2010	\$131,690
Q4 2010	Oct. 1, 2010 - Dec. 31, 2010	\$140,252
Q1 2011	Jan. 1, 2011 - Mar. 31, 2011	\$137,408

<b>Wellsboro Electric Company</b>		
<b>Administrative Costs Associated With Default Service</b>		
<b>Quarter</b>		<b>Actual Administrative Costs</b>
Q1 2008	Jan. 1, 2008 - Mar. 31, 2008	\$141,751
Q2 2008	Apr. 1, 2008 - June 30, 2008	\$157,656
Q3 2008	July 1, 2008 - Sept. 30, 2008	\$222,532
Q4 2008	Oct. 1, 2008 - Dec. 31, 2008	\$185,024
Q1 2009	Jan. 1, 2009 - Mar. 31, 2009	\$174,254
Q2 2009	Apr. 1, 2009 - June 30, 2009	\$206,340
Q3 2009	July 1, 2009 - Sept. 30, 2009	\$115,303
Q4 2009	Oct. 1, 2009 - Dec. 31, 2009	\$171,725
Q1 2010	Jan. 1, 2010 - Mar. 31, 2010	\$121,874
Q2 2010	Apr. 1, 2010 - June 30, 2010	\$128,421
Q3 2010	July 1, 2010 - Sept. 30, 2010	\$120,815
Q4 2010	Oct. 1, 2010 - Dec. 31, 2010	\$144,814
Q1 2011	Jan. 1, 2011 - Mar. 31, 2011	\$127,514