

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**DEFAULT SERVICE AND RETAIL  
ELECTRIC MARKETS**

**: DOCKET NO. L-00070183  
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**COMMENTS OF CITIZENS' ELECTRIC COMPANY  
AND WELLSBORO ELECTRIC COMPANY TO  
PROPOSED POLICY STATEMENT**

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## I. INTRODUCTION

On February 9, 2007, the Pennsylvania Public Utility Commission ("PUC" or "Commission") issued an Order and Proposed Policy Statement to address various issues related to the acquisition of and pricing for electricity obtained by Default Service Providers ("DSPs"). Default Service and Retail Electric Markets, Docket No. L-00070183, Proposed Policy Statement (February 9, 2007) (hereinafter "Order" and "Proposed Policy Statement"). The Proposed Policy Statement, proposed final regulations in the Advance Notice of Final Rulemaking Order issued the same day at Docket No. L-00040169<sup>1</sup> and a Tentative Order issued at Docket No. M-00061957<sup>2</sup> are designed to constitute "a comprehensive strategy for addressing retail rates in the context of expiring rate caps." Order, p. 2. Comments on the Proposed Policy Statement are due on March 2, 2007, with Reply Comments due by March 23, 2007. Pursuant to the requirements in the Order, Citizens' Electric Company of Lewisburg, PA ("Citizens") and Wellsboro Electric Company ("Wellsboro") (collectively "the Companies"), hereby submit these Comments.

Citizens' and Wellsboro's rate caps expired in 2002 and 2000, respectively. Citizens' has engaged in two default service procurement processes since restructuring. Wellsboro has conducted one process in that timeframe. Both Companies currently are planning a competitive process to obtain replacement contracts for default service to take effect when their current wholesale contracts end as of January 1, 2008. Citizens' and Wellsboro have been active participants in the rulemaking process to develop statewide default service regulations that will be applicable to all EDCs after stranded cost recovery ends.

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<sup>1</sup> 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-00041069, Advance Notice of Final Rulemaking Order (February 9, 2007) (hereinafter, "ANOFR").

<sup>2</sup> Policies to Mitigate Potential Electricity Price Increases, Docket No. M-00061957, Tentative Order (February 13, 2007).

Citizens' and Wellsboro support the Commission's use of a policy statement to provide guidance on detailed aspects of the default service procurement and ratemaking process. Citizens' and Wellsboro recognize that the policy statement is not an adjudication that is a binding norm on the Commission in ruling on specific default service implementation plans. See Eastwood Nursing and Rehabilitation Center v. Dept. of Pub. Welfare, 610 A.2d 134, 141-145 (Pa. Commw. 2006). Due to the unique nature of the Companies' service territories and customer bases, Citizens' and Wellsboro trust that the Commission will be judicious in reviewing their implementation proposals and authorize reasonable deviations from the policy statement attached to the Order. Citizens' and Wellsboro highlight in these Comments initial issues for which flexibility may be necessary to best serve the interests of the citizens in their territories.<sup>3</sup>

## II. COMMENTS

### A. Proposed Section 69.1805-Electric Generation Supply Procurement.

The Proposed Policy Statement expresses the Commission's preference default service procurement plans to reflect a portfolio approach, "including a prudent mix of supply-side and demand-side resources such as long-term, short-term, staggered-term and spot market purchases to minimize the risk of contracting for supply at times of peak prices." Proposed Policy Statement, § 69.1805. The Proposed Policy Statement further states that long-term contracts "should only be used when necessary and required for DSP compliance with alternative energy requirements, and should be restricted to covering a relatively small portion of the default service load." Id.

As the Commission is aware, Citizens' and Wellsboro traditionally entered into multi-year contracts with a single supplier to obtain the wholesale supply and other services necessary to serve the Companies' default service loads. In addition, as explained in the Companies'

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<sup>3</sup> Citizens' and Wellsboro also support the Comments submitted by the Energy Association of Pennsylvania.

Comments to the ANOFR at Docket No. L-00040169, the Companies do not believe that they can independent (or jointly) implement a procurement process with multiple, competitively-bid contracts and/or hedges. If requested, the Companies will explore the development a competitive process to select an entity to administer a portfolio procurement approach for their default service loads. The Companies seek clarification that their traditional procurement strategy to enter into multi-year, full requirements wholesale contracts and/or their proposal to conduct a competitive process to select an entity to administer a portfolio approach will be consistent with the Commission's intention in the Proposed Policy Statement.

**B. Proposed Section 69.1807-Competitive Bid Solicitation Processes.**

The Proposed Policy Statement sets forth general guidelines that the Commission will apply to competitive bid solicitation processes. See Proposed Policy Statement, § 69.1807. Several aspects of the guidelines may be impractical or not in the best interests of customers in smaller DSP territories.

First, although Citizens' and Wellsboro support the development of a standardized request for proposals and other documents by the Commission, the Companies believe that those documents may need to be modified to address the specific wholesale product that they seek from suppliers (i.e., a full requirements, load following wholesale contract). The Companies assume that the Commission will incorporate flexibility into any standardized documents to accommodate the unique contracting needs of smaller DSPs.

Second, the guidelines state that the competitive bid solicitation should be structured to separately bid the default service products for residential, small commercial and large commercial/industrial customers. See Proposed Policy Statement, § 69.1807(3). Due to their

small peak loads (25 MW and 45 MW), Citizens' and Wellsboro do not believe that it is practical to implement customer class bidding for the default service product in their service territories.

Third, the Proposed Policy Statement requires the competitive bid solicitation process to be monitored by an independent evaluator. See Proposed Policy Statement, § 69.1807(8).

Because neither Citizens' nor Wellsboro is affiliated with a wholesale supplier, the Companies question whether this is necessary for their solicitation processes. In addition, Citizens' and Wellsboro seek confirmation that attendance by Commission Staff at the bid review process is sufficient to satisfy this guideline in lieu of undergoing the expense of hiring a third party.

**C. Proposed Section 69.1808-Default Service Cost Elements.**

The Proposed Policy Statement specifies various cost elements that should be included in the Price to Compare ("PTC"). See Proposed Policy Statement, § 69.1808. Among other items, the required elements include: "Administrative costs, including billing, collection, education, regulatory, litigation, tariff filings, working capital, information system and associated administrative in general expenses related to default service." Id. § 69.1808(a)(3).

Citizens' and Wellsboro have been administering default service programs for approximately five years. The Companies have experience regarding the activities that they undertake (and the costs of those activities) related to their DSP function. For a smaller DSP that seeks a single, full requirements supplier, the DSP's non-power costs of providing default service are minimal. Despite this, the rates charged to retail customers in the territories do reflect many of the same activities and risks that Electric Generation Suppliers ("EGSs") must recover in their competitive rates, because those costs are included in the bids provided by the wholesale suppliers to Citizens' and Wellsboro that serve as the basis for the retail default service rates charged to customers.

Furthermore, due to the relatively small workforce maintained by the Companies, Citizens' and Wellsboro will not avoid any billing or collection costs if a customer purchases competitive supply. As a result, Citizens' and Wellsboro will not claim any of these costs in the PTC. Citizens' and Wellsboro already collect through their default service rates their "supply management costs," regulatory costs, legal costs, and credit costs that are related to the DSP function. In addition, Wellsboro includes a working capital cost, and Citizens' will do the same after its next distribution base rate filing. The Companies do not believe that any additional costs are "related costs of default service" that should be collected through the default service rate.<sup>4</sup>

**D. Proposed Section 69.1809-Interim Price Adjustments and Cost Reconciliation.**

The Commission's ANOFR modifies the rate options available to retail customers to require a Price To Compare ("PTC") for each default service customer. ANOFR, Annex A, § 54.187(b). The PTC must be adjusted periodically to "ensure the recovery of costs reasonably incurred in acquiring electricity at prevailing market prices and to reflect the seasonal costs of electricity." See id. §§ 54.187(h), (i) & (j). For customer classes with maximum registered peak loads of up to 500kW, the proposed regulations state that the PTC should be adjusted on a quarterly basis (or more frequently). Id. §§ 54.187(h) & (i). For customer classes with a registered peak load of equal to or greater than 500kW, the PTC shall be adjusted on a monthly basis, or more frequently. Id. § 54.187(j). The regulations authorize DSPs to propose alternative divisions of the PTC options to preserve current customer classes. The Proposed Policy Statement also memorializes the requirement for the PTC to be adjusted on a regular basis. See Proposed Policy Statement, § 69.1809.

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<sup>4</sup> As part of settlement agreements, Citizens' and Wellsboro agreed to collect a limited portion of certain additional categories of costs through their retail generation supply rates. The Companies will not propose to continue those allocations in future filings.

The Commission's ANOFR states that the proposed default service regulations are designed to be similar to the natural gas supply cost adjustments under Section 1307 of the Public Utility Code. ANOFR, p. 4. As the Commission is aware, however, the procedures for quarterly adjustments to natural gas supply rates apply only to those natural gas distributors with gross intrastate annual operating revenues in excess of \$40,000,000. 66 Pa. C.S. § 1307(a). Smaller natural gas distributors change natural gas supply rates once per year, with the ability to submit an interim filing between the scheduled annual rate changes to the extent necessary to avoid a substantial overcollection or undercollection of natural gas supply costs. 52 Pa. Code §§ 53.66 & 53.67.

The administrative burden that would be placed on smaller DSPs to implement monthly or quarterly default electric service rate changes is equivalent to the burden on Group I or II gas utilities to implement mandatory quarterly gas cost changes. As a result, Citizens' and Wellsboro respectively request for this element of the natural gas supply regulatory regime for smaller natural gas distribution companies to be incorporated into the electric default service regulations. Specifically, as explained in their Comments to the ANOFR, the Companies suggest for DSPs with gross intrastate annual operating revenues less than \$40,000,000 to be permitted to implement annual PTC changes, with more frequent modifications permitted to avoid substantial overcollections or undercollections. To the extent this is implemented, changes to the Proposed Policy Statement also may be needed.

**E. Proposed Section 69.1811-Rate Change Mitigation.**

The Proposed Policy Statement requires a DSP to offer residential and small business customers the opportunity to prepay or defer a portion of any rate increase following the expiration of a generation rate cap if the total retail rate rises by more than 25%. See Proposed

Policy Statement, § 69.1811. Because Citizens' and Wellsboro are no longer under rate caps, the Companies do not interpret this as applying to subsequent rate changes that they implement. In addition, requiring smaller DSPs to implement such a proposal would be excessively burdensome from both a financial and an administrative perspective.

### III. CONCLUSION

The Commission is completing a long process to develop statewide default service regulations under the Competitive Act. The Proposed Policy Statement is an important part of that process. Citizens' and Wellsboro appreciate the opportunity to assist the Commission in understanding the needs of the smaller DSPs in Pennsylvania to ensure that regulations and a Policy Statement are adopted that meet the needs of all citizens in the Commonwealth.

Respectfully submitted,

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