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VIA ELECTRONIC MAIL

Office of Competitive Market Oversight (ra-RMI@state.pa.us)

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

Pursuant to the Commission's Secretarial Letter dated October 7, 2011 in the above-referenced proceeding, enclosed herewith for submission are the Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company.

Please contact me if you have any questions regarding this matter.

Very truly yours,

Tori L. Giesler

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dlm
Enclosures

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY

I. INTRODUCTION AND BACKGROUND

On October 7, 2011, the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter referencing the above-captioned matter, announcing the scheduling of an *en banc* hearing to be held on November 10, 2011 ("October 7 Secretarial Letter"). The October 7 Secretarial Letter also provided that parties interested in submitting written comments associated with the development of an intermediate work plan for Commission consideration following the *en banc* hearing may do so no later than November 23, 2011. A Final Agenda and a more detailed Suggested Issues List were issued prior to the *en banc* hearing, which outlined those topics and sub-issues to be discussed both at the hearing and within written comments. Those topics generally include Consumer Education, Accelerated Switching Timeframes, Customer Referral Programs, Retail Opt-In Auctions, and Default Service Plans Beyond June 2013.

Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power") and West Penn Power Company ("West Penn") (collectively "the Companies") respectfully submit the following comments in response to the October 7 Secretarial Letter regarding the Final Agenda's topics for discussion.

II. COMMENTS

A. Consumer Education

Consumer education has been the subject of much discussion and debate throughout the series of Retail Market Investigation ("RMI") technical conferences that have been administered by the Commission's Office of Competitive Markets Oversight ("OCMO"). The topics considered throughout the technical conferences have included electric distribution company ("EDC") call center scripts, an annual letter from the Commission's Chairman, biannual EDC letters, inclusion of small business customer prices on PaPowerSwitch.com, a statewide education campaign, and customer surveys. The Companies appreciate and agree with the emphasis on consumer education. Due to the regular contact with their own customers, the Companies have significant experience in consumer education and urge the Commission to continue its focus on this important area.

Many of the communication efforts discussed thus far are, or seem to be, directed toward residential customers. To avoid confusion for these customers, the Companies recommend that communications be clear and consistent regardless of the communication channel. For instance, messages provided through different mechanisms such as letters, postcards and other educational tools should be focused on the same message which can be consistently delivered. Additionally, the message should not contain an excessive amount of detail; an overly busy and confusing communication may simply be ignored by the customer. Instead, communications should be simple and straightforward in their message and direct interested customers to additional areas (such as a website) where a greater level of detail can be provided in a user-friendly format.

When requiring an EDC to provide educational materials to its customers, great care should also be taken to prevent an over-promise of benefits or the provision of potentially misleading information that could negatively affect the way customers view EDCs. One example of such a misleading item would be the inclusion of a promise of specific monetary savings without properly qualifying the calculation variables, such as energy usage, savings rate, and whether the savings are monthly or annual. Information that is viewed by customers as misleading could lead to negative shopping experiences and complaints to, as well as an erosion of the public's trust in the EDC, the Commission, or consumer advocates.

Furthermore, any discussion of consumer education must also include the cost of such an effort, how costs should be collected, who should bear the cost responsibility, and when costs should be collected. These costs could be in the millions of dollars and could vary depending upon the communication medium. Costs are also proportional to the frequency of the communication, with a biannual letter having an expected cost of twice as much as an annual letter. As the Commission considers the frequency and nature of such communication efforts, it must balance the cost to consumers and possibly retail electric generation suppliers ("EGSs"). Because such consumer education activities will be a required function the EDC will be performing to comply with the Commission's directives, the EDC should have the right to full and current recovery of any and all costs it incurs for a consumer education program. To the extent that an EDC does not currently have a mechanism in place for cost recovery on a full and current basis, the Commission should authorize the EDC to implement a reconcilable Section 1307[1] mechanism to facilitate full and current cost recovery. The Companies recommend that if the Commission were to direct additional customer education efforts, the Commission should do so by directing the EDCs to include those efforts, as well as an appropriate proposed cost recovery method, in a revised customer education plan to be filed with and approved by the Commission.

[1] 66 Pa.C.S. § 1307(e).

Finally, consideration should also be provided to the potential overlap of consumer education efforts that are currently underway, or will be implemented, by the EDCs. To the extent that an EDC is already implementing consumer education initiatives to customers, there is no need to duplicate efforts and overwhelm the customer with similar or redundant messages. Examples of such consumer education efforts are the communications provided by West Penn pursuant to the settlement agreement approved in the merger of FirstEnergy Corp. and Allegheny Energy, Inc. ("Merger"),[2] and the communications required by the settlement agreements approved in the proceedings leading to the current Met-Ed, Penelec, and Penn Power default service plans.[3] For instance, as a result of the obligations made by the Companies under these respective settlements, Met-Ed, Penelec, and Penn Power each send letters twice annually notifying their residential and small commercial customers of available EGS offers that they may sign up for. West Penn is obligated to provide the same materials on two separate occasions between the consummation date of the Merger and June 1, 2013. In these mailings, all EGSs serving in the respective territories are given the opportunity to provide an offer for inclusion, and all participating EGSs, as well as the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA") are given the opportunity to review and approve the letter that is enclosed with these offers. Commitments have also been made to provide inserts in each Company's new customer welcome packets which promote the Commission's PaPowerSwitch.com website, as well as the OCA's Residential Electric Shopping Guide, found at www.oca.state.pa.us. The Companies support semi-annual mailings of such EDC letters, and

[2] *Joint Application of West Penn Power company doing business as 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 of control of West Penn Power company and Trans-Allegheny Interstate Line Company*, Docket Nos. A-2010-2176520 and A-2010-2176732 (Opinion and Order entered March 8, 2011).
[3] *See* Docket Nos. P-2009-2093053 and P-2009-2093054 (Met-Ed and Penelec) (Order entered November 6, 2009); Docket No. P-2010-21576862 (Penn Power) (Order entered October 21, 2010).

to the extent the existing settlements provide less than biannual mailings, the Companies would supplement the existing mailings with those developed by the working groups, provided timely cost recovery is provided.

To the extent that existing EDC communication programs deliver the same or similar messages as ultimately ordered by the Commission, the EDC should have the ability to be exempt from providing duplicative, potentially less-effective communication efforts. This recommendation will help mitigate the magnitude of the previously-mentioned consumer education costs. Moreover, since the EDCs do not have unlimited mailing capabilities, latitude should be afforded the EDCs to determine when it can accommodate such mailings due to the fact that preparation, planning, printing, and call center training needs to be coordinated to ensure a cohesive and successful communication effort at a reasonable cost.

B. Accelerated Switching Timeframes

On November 14, 2011, the Commission entered a Tentative Order at Docket No. M-2011-2270442 ("November 14 Tentative Order") that proposed interim guidelines intended to facilitate the timely transfer of a customer's account from an EDC to an EGS or from one EGS to another, while preserving safeguards to prevent the unauthorized switching of a customer's account. The November 14 Tentative Order addressed many issues and included several proposals, two of which are the elimination of the ten-day waiting period that is initiated by the EDC sending a confirmation letter of change in EGS to the customer, and the substitution of an account transfer letter for the confirmation letter sent by the EDC to the customer. The Commission set forth a comment period requiring that comments be submitted no later than 30 days from the entry of the order, and the Companies intend to submit detailed comments to the November 14 Tentative Order on or before the comment period deadline.

In advance of those comments and consistent with their position taken in the RMI Working Group meetings, the Companies reiterate that, should the confirmation letter be discontinued, Met-Ed, Penelec, Penn Power and West Penn Power will need a minimum six-day notice due to scheduling and the requirements established by their retail tariffs. The need for this minimum six-day window stems from a variety of factors, which include the timing of system interfaces and the accommodation of meter read date schedules, weekends, and accommodation of PJM Interconnection, LLC's rule requiring that peak load contribution data be uploaded thirty-six hours prior to its set date. It should also be noted that this six-day minimum does not account for holidays. The Companies' comments and concerns respective to this topic will be provided in greater detail in the comments the Companies plan to provide to the November 14 Tentative Order.

C. Customer Referral Programs

The Companies feel confident that customer referral programs can be developed which are in the best interests of their customers. While the Companies believe that the format being discussed by the stakeholder sub-group can be used as a starting point, EDCs should not be required to incorporate all aspects of the format that is ultimately developed by the sub-group. Rather, an EDC should have the flexibility to design its referral program to best fit within the parameters of its DSP, recognizing the capabilities or limitations of existing systems to implement such programs, and to be in the best interests of its customers. Such a design may include certain aspects of the stakeholder sub-group format, but it should not be required to use all aspects of the format. One way in which this flexibility is important is when determining the types of calls during which customers would be referred to an EGS, as certain telephone calls to the EDC (e.g., calls associated with an outage) would be an inappropriate basis for a referral program. Such flexibility is consistent with Act 129, which offers EDCs the latitude to craft a DSP filing in a manner in which they deem appropriate.

EDCs must also be provided full and current cost recovery associated with implementing referral programs. Referral programs transfer responsibility for certain marketing functions and costs from the EGS to the EDC. An EDC should not be required to shoulder this responsibility without the opportunity for full and current cost recovery through a competitively-neutral mechanism. Such recovery must account for all costs associated with a customer referral program, including, but not limited to, increased call center activity, investments in technology systems, and increased administrative responsibilities associated with designing and administering such programs.

Another point to be considered when incorporating customer referral programs is the increased call center activity that will result from any referral program. Calls which are to be subject to a Company's referral program should be exempt from reporting of call center metrics measured and monitored by the Commission and addressed in prior stipulations and orders approved by the Commission. Such exemption will ensure reasonable expectations are placed on EDC call centers in light of this increased volume, which will likely increase the length of customer calls wherein the referrals are made. It is also likely that additional calls will be made by customers as they seek to understand the offerings or have questions regarding the program's implementation. Such increased activity will increase the burden on existing EDC call center resources; therefore, it is appropriate to exempt calls that are targeted by a customer referral program from those benchmarks against which EDCs are measured to take into account the increased call times and volumes that such programs will create and the potentially adverse impact on the average speed of answer and other call center metrics that will likely result.

In the interests of providing transparency to customers, the Companies do not support and explicitly recommend against the Commission ordering EDCs to facilitate, by referral, short-term "teaser rates" or "marketing gimmicks" that could damage the trust that an EDC has worked to earn from its customers, and result in increased customer complaints and call volume, diverting call center operations away from their primary business responsibilities. Instead, the Companies firmly believe that any offering made through a referral program should be obtained through a competitive process, and one that is in the best interests of their customers. The Companies have concerns that short-term variable rates offered by EGSs can quickly turn into prices that exceed the utilities' default service rates, thereby increasing the likelihood of increased call volume and customer concerns regarding these rates. EDCs should not be forced to recommend to their customers short-term teaser rates that could result in long-term costs to customers, while also placing potential liability on the EDC by virtue of its role in offering the recommendation. Customers should also not be held subject to early termination fees or penalties in the event they wish to transfer service to another EGS or back to default service before the term of their service has expired. At the end of a period of service, the Companies have no objection to the customer remaining with the EGS, to the extent that the EGS provides all required notices and provides every opportunity for the customer to be aware of the fact that the rate they enjoyed during that term may not be available any longer.

In their recent DSP filing filed on November 17, 2011, the Companies, in response to the Commission's recommendations in its October 14, 2011 Tentative Order ("October 14 Tentative Order"), proposed customer referral programs applicable to non-shopping residential customers, whereby the EDC will inform new mover, high bill complaint and customer choice calls of certain available offers. Each EGS serving the respective Company's territory would be given an opportunity to present an offer at a predetermined interval of time (i.e., weekly) for a standard product with both 12 and 24-month terms at a fixed rate. Upon receipt of these presentations, the EDC would offer, for the duration of the assigned period of time, the lowest offer to those customers who are interested in a referral. If the customer expresses interest in signing up for one of the offers, the customer would then be connected with the EGS directly for enrollment. It is the Companies' belief that these offers should be open to all non-shopping residential customers, whether they are enrolled in customer assistance programs ("CAPs") or otherwise. Because the Companies' CAPs are portable, their customers will receive the full benefit of the CAPs regardless of whether they shop, as they currently do today.

D. Retail Opt-In Auction

The Companies are not opposed to the general concept of a retail opt-in auction wherein customers would be given the opportunity to opt in to a known offer that is the result of a competitive process with EGSs competing to provide the lowest price to those customers who do opt in. As with customer referral programs, it is the Companies' position that, although the opt-in auction format being discussed by the stakeholder sub-group can be used as a starting point, all aspects of the format need not be used by each one of the EDCs. In other words, the EDC should have the flexibility to design an opt-in auction to best fit within the parameters of its DSP and to be in the best interests of the EDC's customers. Such a design may include certain aspects of the stakeholder sub-group format, but it should not be required to incorporate <u>all</u> aspects of the format.

For instance, the Companies do not believe that it would be appropriate for the Commission to order EDCs to support short-term "teaser rates" or "marketing gimmicks" in the form of cash incentives, etc., to those customers who opt in. Because these measures can be followed by volatile or higher rates once the initial rate expires, it is the view of the Companies that such offerings could damage the trust the Companies have earned from their customers and result in increased customer complaints and call volume directed to call centers which are tasked with fielding customer contacts associated with the core business functions of the EDC. The requirement to provide such "incentives" also could result in increased customer prices and higher costs to the EDC in managing customer unrest. The Companies' experience thus far has indicated increased call volume and customer concerns regarding short-term variable rates that have been offered by EGSs which have quickly turned into prices that exceed the utilities' default service rates. The Companies do not wish to impose upon themselves the responsibility that would come with being forced to connect their customers with such offers.

EDCs must, however, be provided with full and current cost recovery associated with the administration of any opt-in program they might propose. The administration of such a process would certainly prove costly, and it would be inappropriate and unlawful to require an EDC to funnel customers through this method on the behalf of EGSs without an opportunity for full and current recovery of its costs associated with doing so. Therefore, an EDC must be entitled to full and current cost recovery through a competitively-neutral, non-bypassable automatic adjustment rider.

Consistent with the points made in these comments and the recommendations in the Commission's October 14 Tentative Order, the Companies have proposed an opt-in offering for non-shopping residential customers in their November 17, 2011 default service filing. The opt-in proposal includes cost recovery through a rider, as described above. This proposal is comprised of a declining clock auction held to supply a percentage-off price-to-compare product without any marketing gimmicks or up-front incentives. The auction would be held following the auctions to procure default service for the duration of the default service plans, enabling suppliers to reasonably project the PTC that they will be discounting through their bid. Once the auction clears, the Companies would provide to customers the ability to opt in to the offering through a mailer during a specified period of time, enabling customers to select this option to begin receiving service effective with their June 2013 meter read date. As with customer referral programs, it is the Companies' belief that this program should be open to all non-shopping customers, whether they are enrolled in CAP programs or otherwise. Because the Companies' CAP programs are portable, their customers will receive the full benefit of the CAP program regardless of whether they shop, as is currently the case today.

The Companies do not support the implementation of any opt-in auction format prior to June 1, 2013. To implement such an offering prior to June 1, 2013 would present a regulatory risk not anticipated by the Companies' current wholesale suppliers. Imposing additional regulatory risk on suppliers could result in less interest by suppliers in participating in future default service auctions, which could result in higher prices. The very concept of default service, as it is contemplated by statute and by this Commission's regulations, rests on a presumption of regulatory stability, which stability is crucial to encouraging wholesale suppliers to participate in the auction process. To introduce an entirely new form of customer migration in the midst of an existing default service period adds unforeseen regulatory risk, which could hinder wholesaler participation for years to come. Any damage to this participation would likely translate to increased costs to the detriment of default service customers. By waiting until the beginning of the next default service period, any concerns surrounding how such a program might impact current default service contracts or future default service prices can be mitigated.

E. Default Service Plans Beyond June 2013

The Commission, in its October 14, 2011 Tentative Order, has recommended that EDCs file DSPs that run for two years, with a service period that is synchronous with the PJM Interconnection, L.L.C. ("PJM") planning year spanning June 1st through May 31st.[4] The Companies believe that, although a three-year DSP is preferable to two-year plans, the Commission's recommendation to propose two-year plans is more appropriate than the implementation of one-year "bridge" plans or one-year extensions of existing plans.

As the Companies have previously pointed out, the time and expense associated with developing, obtaining approval of, and implementing a DSP is not immaterial. An EDC's preparation and support of a DSP results in an expense that is ultimately borne by its default service customers. Additionally, significant time and expense is incurred by interveners to the DSP filing, including consumer representatives, consumer groups, EGSs, and the Commission. As such, it is in all parties' interests to minimize such time and expense whenever possible, which can be in part achieved through the use of three-year default service plans. Therefore, the Companies believe that a two-year DSP may result in a period that is too short, causing all parties to unnecessarily expend DSP-related time and money on a more frequent basis.

Moreover, a shorter term may not provide a reasonable opportunity to learn from the actual operation of the default service procurements and incorporate that experience in future plans. If DSPs were to run for only two years, the program filings for the subsequent set of plans would need to be made by November of the year in which the current plan would be starting. By that time, the two-year plans approved in the previous case would just be starting and, therefore, may not provide for a realistic opportunity to implement lessons learned based on actual experience. This is especially important if the Commission approves new programs such as

[4] October 14 Tentative Order at 4.

customer referral programs and opt-in auctions for inclusion in the next default service plan. The extra year afforded by a three-year default service term would enable the Companies to base their subsequent plan filings on about one year's experience with their current plans.

For these reasons, it would be the Companies' preference to establish a three-year time period for DSP plans going forward. Despite the Companies' position in this regard, in light of the Commission's ongoing RMI and recommendation for a two-year program within the October 14 Tentative Order, the Companies have adopted the recommendation that two-year plans be proposed in its November 17, 2011 default service plan filing.

In addition to plan duration, there has been discussion regarding the appropriate reconciliation period to be used, as well as the expansion of an hourly-pricing rate structure to a larger segment of customers. Unless the Commission is willing to address the asymmetrical treatment of interest found in its regulations for over- and under-collections of default service costs, the Companies do not support a change from quarterly to semiannual rate adjustments. In addition, the Companies do not support and have not proposed expanding hourly pricing to the medium-sized commercial and industrial class, which consists generally of customers with demands greater than 100kW but less than 500 kW. The Companies have estimated that installing the necessary metering to offer real-time pricing default service to customers with demands between 100 kW and 500 kW would require about an $8.5 million investment to install interval meters plus an additional $1.4 million annually for communications costs to support the meters. This investment simply is not practical in light of the upcoming smart meter implementation plan filings and future deployment, as any interval meters installed now would likely be replaced or modified in order to utilize the communication system ultimately employed by the Companies as part of their smart meter implementation plans.

III. CONCLUSION

Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company appreciate the opportunity to provide comments on the important topics and request that the Commission consider these comments in its development of the intermediate work plan to be issued at the above-captioned docket in the near future.

Respectfully submitted,

Dated: November 23, 2011

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Dated: November 23, 2011

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