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November 23, 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:

Enclosed for filing with the Pennsylvania Public Utility Commission are the original and five (5) copies of the Comments of the Industrial Energy Consumers of Pennsylvania ("IECPA"), Duquesne Industrial Intervenors ("DII"), Met-Ed Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), Penn Power Users Group ("PPUG"), Philadelphia Area Industrial Energy Users Group ("PAIEUG"), PP&L Industrial Customers Alliance ("PPLICA"), and West Penn Power Industrial Intervenors ("WPPII") (collectively, "Industrial Customer Groups") in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to this proceeding are being duly served. Please date stamp the extra copy of this transmittal letter and Notice, and kindly return them to our messenger for our filing purposes.

Very truly yours,

McNEES WALLACE & NURICK LLC

By Teresa K. Schmittberger

Counsel to the Industrial Customer Groups

TKS/sar
Enclosures
c: Office of Competitive Market Oversight Retail Markets Investigation (via e-mail)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Dated this 23rd day of November, 2011, at Harrisburg, Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF THE INDUSTRIAL CUSTOMER GROUPS

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Dated: November 23, 2011

I. INTRODUCTION

On November 16, 2011, the Pennsylvania Public Utility Commission ("PUC" or "Commission") held a second en banc hearing as part of its Retail Electricity Market Investigation, addressing many of the recommendations contained in the Commission's Tentative Order dated October 14, 2011. The en banc hearing included presentations on current consumer levels of shopping, followed by testimony regarding proposals for modifying default service plans to incentivize competition. Specifically, the testimony focused on accelerated switching time frames, customer referral programs, opt-in auctions, and default service plans beyond June 2013.

The Industrial Energy Consumers of Pennsylvania ("IECPA") is an association of energy-intensive industrial companies operating facilities across the Commonwealth of Pennsylvania. IECPA's members consume in excess of 25% of the industrial electricity in Pennsylvania and employ approximately 41,000 workers. Also sponsoring these Comments are coalitions of industrial customers receiving service from most of the Commonwealth's electric distribution companies ("EDCs"): Duquesne Industrial Intervenors ("DII"), Met-Ed Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), Penn Power Users Group ("PPUG"), Philadelphia Area Industrial Energy Users Group ("PAIEUG"), PP&L Industrial Customer Alliance ("PPLICA"), and West Penn Power Industrial Intervenors ("WPPII") (collectively, "Industrial Customer Groups").

Because the Industrial Customer Groups use substantial volumes of electricity in their manufacturing and operational processes, any pricing or service modification for Large Commercial and Industrial ("C&I") customers could substantially impact the Industrial Customer Groups' overall operating costs. As a result, the Industrial Customers respectfully submit the following Comments responding to testimony at the en banc hearing.

II. COMMENTS

The en banc hearing included testimony from EDC representatives, customer advocates, and electric generation supplier ("EGS") representatives. The hearing was divided into four categories of testimony: accelerated switching time frames, customer referral programs, opt-in auctions, and default service plans. The following Comments address the first three categories together, as a result of their limited impact on Large C&I customers. The Comments regarding default service plans are separated into the expansion of hourly-priced default service and default service providers.

A. Accelerated Switching Time Frames, Customer Referral Programs, and Opt-In Auctions

Accelerated switching time frames, customer referral programs, and opt-in auctions are mechanisms, often described as retail enhancements, proposed by the Commission to increase shopping and promote competition among residential and small commercial customers. Stakeholders were given an opportunity at the en banc hearing to present their opinions about these retail enhancements. Although most stakeholders were in favor of their potential to increase customer shopping, many stakeholders expressed concern over the costs associated with new retail enhancements. For instance, shortening the waiting period for switching from default service to competitive supply will result in expenses for system changes and internal training. Customer referral programs and opt-in auctions will have similar implementation expenses.

During the hearing, witnesses discussed whether EGSs or customers should be required to pay for the implementation expenses of customer referral programs, opt-in auctions, and accelerated switching time frames. EGS representatives testified that customers are benefiting from the lower costs of competitive supply, and therefore should bear the costs associated with new retail enhancements. By contrast, customer advocates testified that EGSs should finance the required system and training changes, because they will profit from increased shopping.

The Industrial Customer Groups agree with the customer advocates that EGSs should be responsible for these costs. Customer referral programs and opt-in auctions reduce the expenses for EGSs to acquire customers, thereby increasing the EGSs' profits. Some customer classes, such as Large C&I customers, will receive little to no benefit if the retail enhancements are adopted. Customer referral programs and opt-in auctions only increase competitive supply to residential and small commercial customers. Similarly, accelerated switching time frames will provide minimal benefits to Large C&I customers, who generally switch between EGSs, rather than from EDC to EGS.[1] Larger customers begin the process to switch suppliers months in advance of the date when the account must be switched so they can compare multiple offers, negotiate acceptable contract terms and conditions, and comply with any termination notice requirements in the existing agreements. Accelerated switching time frames will not increase the Large C&I customer's likelihood of shopping, because most Large C&I customers already purchase competitive supply, which is not surprising given the lack of cost stability under the hourly default service product. Because the costs of retail enhancements should be confined to the customers who benefit, Large C&I customers should not bear the costs, especially in regard to opt-in auctions and customer referral programs. Accordingly, if the Commission determines that customers should fund the implementation of these retail enhancements, we recommend that the costs be confined to residential and small commercial customers.

[1] As explained in the Industrial Customer Groups' May comments, shopping levels alone do not indicate the competitiveness of a market or the success (or lack thereof) of Pennsylvania's restructuring initiative; however, at this time the vast majority of the Large C&I customer load is currently served by EGSs. Unless the PUC modifies its policies to enable default service providers to offer more stable rate options for large customers, either in addition to or in place of hourly rates, going forward it is likely that large customers will rely on default service for only short periods in situations of supplier default or switching errors. The likely exceptions are situations where the customer's financial situation makes the account unattractive for EGSs to serve.

The testimony at the en banc hearing raised the additional question of which residential and small commercial customers should be permitted to join customer referral programs and opt-in auctions. Stakeholders suggested varying peak load limits, e.g., 100 kW or 25 kW, as cut offs for participation. As discussed in the Industrial Customer Groups' Comments dated November 3, 2011 ("November 3 Comments"), however, peak load designations often cut across rate schedules, and create inconsistencies among members of the same schedule. As a result, certain customers will benefit from these programs while other customers in the same rate schedule will not. Because this arrangement may create difficulties confining program costs to eligible customers, the Industrial Customer Groups recommend that the Commission evaluate whether a peak load limit is the correct method for differentiating among customers.

B. Hourly-Priced Default Service Customers with Peak Loads Between 100 and 500 kW

The proposal to extend hourly-priced default service to medium C&I customers, i.e., customers with peak loads between 100 kW and 500 kW, was controversial among stakeholders at the en banc hearing. EGSs testified in support of the expansion, because of its likelihood to encourage switching to competitive supply and increase the customer base of EGSs. EDCs opposed it, however, because of the logistical challenges and additional costs required for increasing the amount of hourly-priced default service customers. Chuck Fullem of First Energy Company ("First Energy") stated that the cost of installing interval-recording metering, metering necessary for the process of providing hourly-priced service, would be $8.5 million, and an additional $1.4 million annually. Further, the deployment of smart meters over the next two years, a process which will result in significant expense to consumers, will obviate the need for interval-recording meters. Thus, the expansion of hourly-priced default service is costly and unnecessary based on the upcoming smart meter deployment.

This First Energy testimony supports the Industrial Customer Groups' November 3 Comments, which stated that the expansion of hourly-priced default service to a new customer class would result in additional costs for installing new metering and billing systems. These costs raise doubts about whether this expansion is in the best interest of customers at this time. Furthermore, the customer rate schedule is the predominant basis for determining whether hourly-priced default service is applicable. Proposing to expand hourly-priced service to customers with peak loads between 100 kW and 500 kW implicates customers within different rate schedules. Because rate schedule classifications are often used by EDCs for determining cost recovery, customers within the same rate schedule would be required to contribute to the funding of hourly-priced expansion, even when they already receive hourly-priced default service. Large C&I customers should not be burdened by these costs, because they were already responsible for paying for the costs of their own default service.

Based on the significant costs and logistical challenges discussed above, the Industrial Customer Groups recommend that the Commission reconsider the expansion of hourly-priced default service to customers with peak loads between 100 kW and 500 kW. If the Commission chooses to expand hourly-priced default service, however, we further recommend creating a separate procurement group for customers switching from fixed price to hourly-priced service. This would be the most effective means of containing the costs of expansion to the eligible class of customers.

C. Default Service Providers

Another important issue addressed at the en banc hearing was whether the EDC or EGS should provide default service. EGS representatives argued to remove the EDC from the default service role based on the premise that it is unfair for EGSs to compete with EDCs who are allowed cost recovery from customers. Janee Briesemeister of AARP countered that the current default service mechanism, providing for default service by the EDC unless it is otherwise assigned by the Commission, is acceptable.

The Industrial Customer Groups agree that the EDC should continue as the default service provider for all classes of customers. Under Pennsylvania's restructuring statute, default service is available to all customer classes and must be provided at the least cost to customers over time.[2] The PUC can approve an alternate default service provider, but not eliminate the service all together. The Commission has established regulations regarding how the default service supply is acquired and what costs are recoverable from customers. In contrast, the Commission does not regulate the acquisition practices or cost recovery rules for EGSs. The EGSs' goals are to maximize profits, not to ensure the least cost to customers over time. In addition, EDCs already have the required infrastructure and training for providing default service. For these reasons, while in favor of promoting customer switching to EGSs, the Industrial Customer Groups support maintaining the EDC as default service provider.

III. CONCLUSION

The Industrial Customer Groups request that the Commission consider the above-stated facts as the Retail Electricity Market Investigation continues. In particular, the Industrial Customer Groups recommend that the Commission: (1) Confine the cost recovery for the mechanisms enhancing residential and small commercial customer shopping to EGSs or those

[2] 66 Pa. C.S. § 2807.

customer classes that participate in those programs; (2) Reconsider the expansion of hourly-priced default service to C&I customers with peak loads between 100 and 500 kW; and (3) Keep the EDC in the default service role.

WHEREFORE, the Industrial Energy Consumers of Pennsylvania, Duquesne Industrial Intervenors, Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Penn Power Users Group, Philadelphia Area Industrial Energy Users Group, PP&L Industrial Customer Alliance, and West Penn Power Industrial Intervenors respectfully request that the Pennsylvania Public Utility Commission consider and adopt, as appropriate, the foregoing Comments.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By ______________________

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Dated: November 23, 2011