



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

March 2, 2012

To: Interested Parties

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

The Pennsylvania Public Utility Commission (PUC) will hold an *en banc* hearing on Wednesday, March 21, 2012 at 10:00 a.m. to seek comments in its Investigation of Pennsylvania's Retail Electricity Market. The purpose of this hearing is to permit interested parties to participate in the investigation to highlight or summarize positions on key issues that the PUC plans to address as part of a Long-Range Work Plan to promote electric retail competition.

The hearing will be held in Hearing Room 1 of the Commonwealth Keystone Building, 400 North Street, Harrisburg, PA. The PUC's Office of Administrative Law Judge will manage the course of the hearing, which will be transcribed and recorded. This hearing is not an adversarial proceeding and companies may be represented by a partner, *bona fide* officer or employee of the company, in lieu of an attorney. See 52 Pa. Code §1.21(c) (relating to appearance). The public is invited to attend.

The *en banc* hearing will include three sets of presentations or panel discussions: 1) Shopping Experiences of Small and Medium Business Customers; 2) Statewide Consumer Education; and 3) End State Default Service Models. The Commission is making arrangements for presenters and panelists to participate in the first two sessions. For the third session, the Commission is inviting any interested parties to submit requests to provide testimony.

During the panel discussion for the End State Default Service Models, participants will be asked to highlight or summarize their own views, answer questions from the Commissioners and offer feedback on the issues described in this Secretarial Letter and the attached Staff Discussion Document. Parties who are interested in testifying as part of the panel discussion for the End State Default Service Models should submit a request to ra-rmi@pa.gov by March 9, 2012. Requests should identify the organization and person(s) who wish to testify. The Commission will issue an agenda for the *en banc* hearing by March 14, 2012.

Staff has collected written proposals from participants summarizing their positions, which are published on the Retail Markets Investigation page of the Commission's website at http://www.puc.state.pa.us/electric/Retail_Electricity_Market.aspx. The Commissioners' questions during the *en banc* hearing will be based on these position statements. Any party who wishes to update its position or to submit a written statement should do so by email directed to ra-rmi@pa.gov no later than March 9, 2012.

The attached Staff Discussion Document sets forth three possible models in which electric generation suppliers (EGSs) serve in the default service provider role, so as to focus the testimony at the *en banc* hearing on the default service product. Participants will be encouraged to identify concerns and challenges, particularly from the standpoint of implementation, impact on competition and effect on consumers. Also, participants should highlight pros and cons of these models.

Under Model A in the Staff Discussion Document, default service would be provided to non-shopping and returning customers on the basis of real-time/hourly locational marginal prices and an administrative adder. Prices would change monthly (or more frequently) and not be reconciled.

Model B would involve default service being provided to non-shopping and returning customers on the basis of prevailing market prices, as established through an index, auction or other acceptable method. Prices would change quarterly or semi-annually and not be reconciled.

Model C would mirror the existing framework of providing default service to non-shopping and returning customers at a price that is compliant with 66 Pa. C.S. §2807(e)(3.1)-(3.4). Prices would change quarterly or semi-annually, reconcilable on a twelve-month rolling basis.

The three models set forth in the Staff Discussion Document contain the following common elements:

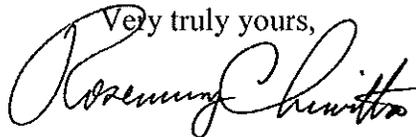
- Date certain of June 1, 2015
- Electric distribution companies (EDCs) in a provider of last resort role, providing backstop service in the event of the default by a default service provider
- Two-year product
- Uniform statewide approach
- Heightened technical and financial fitness standards for EGSs in the default service provider role
- Availability of supplier consolidated billing and third party billing
- Metering by EDCs
- Universal service customers served by EDCs
- Purchase of receivables programs handled by the billing entity
- PJM settlement functions performed by EDCs
- Act 129-energy efficiency programs carried out by EDCs
- Address issues concerning long-term contracts under the Alternative Energy Portfolio Standards Act
- Net metering customers served by EDCs, or in the alternative, address the need for EGSs in default service role to offer net metering arrangements
- PUC assessments paid by both the EGSs and EDCs or paid only by the EDC and recovered through non-bypassable surcharge
- Review and evaluation by July 2016

Staff envisions that these models would require varying degrees of statutory, regulatory and system changes, and expects to fully address those issues after selection of a model by the Commission, as necessary. Additionally, Staff recognizes that various permutations exist of each of these models, and that all of the models would require certain issues to be addressed, such as consumer protections and long-term contracts for alternative energy credits.

Parties should not infer from discussion of the above described models that the Commission has made a decision about the end state of default service, including the identity of the default service provider. The purpose of this investigation is to consider alternatives to the status quo, and accordingly the focus of our inquiry for this hearing is on the merits of different models.

Following the *en banc* hearing, all interested parties will have the opportunity to submit comments by March 28, 2012 for the Commission's consideration in development of a Tentative Order on the Long-Range Work Plan. Parties should keep in mind, however, that a formal comment opportunity will be afforded after adoption of a Tentative Order.

Questions about the *en banc* hearing should be directed to ra-rmi@pa.gov. Also, if interested parties have questions about this Secretarial Letter or the attached Staff Discussion Document, those should likewise be directed to ra-rmi@pa.gov. As necessary, Staff will either distribute a document or hold a conference call to answer these questions.

Very truly yours,


Rosemary Chiavetta
Secretary

Attachment

**Possible End-State Default Service Models
With Electric Generation Suppliers in Default Service Role**

	Model A Real-time/Hourly LMP and Adder Model	Model B Prevailing Market Prices Model	Model C Prudent Mix Model
Product	Default Service for non-shopping and returning customers, with real-time price based on hourly LMP and administrative adder	Default Service for non-shopping and returning customers, with price based on prevailing market prices, as established through index, auction or other comparable method	Default Service for non-shopping and returning customers, with price established in accordance with Act 129 factors, including prudent mix of contracts and least cost over time
Date Certain	6/1/2015	6/1/2015	6/1/2015
Provider of Last Resort (Backstop Service)	EDC	EDC	EDC
Length of Product	2 Year Period	2 Year Period	2 Year Period
Frequency of Price Changes	Monthly (or more frequently)	Quarterly or Semi-Annually	Quarterly or Semi-Annually
Reconcilable Prices	No	No	Yes, on a 12-month rolling basis
Uniform Statewide Approach	Yes	Yes	Yes
Heightened Financial and Technical Fitness Standards	Yes	Yes	Yes
Billing	Supplier Consolidated Billing and Third Party Billing Available	Supplier Consolidated Billing and Third Party Billing Available	Supplier Consolidated Billing and Third Party Billing Available
Metering	EDC	EDC	EDC
Universal Service Programs	EDC	EDC	EDC
Purchase of Receivables Programs	Billing Entity	Billing Entity	Billing Entity
PJM Settlement	EDC	EDC	EDC
Act 129 - Energy Efficiency Programs	EDC	EDC	EDC
Consumer Protections and Termination of Service	Need to address	Need to address	Need to address
AEPS	Need to address long-term AEPS contracts	Need to address long-term AEPS contracts	Need to address long-term AEPS contracts
Net Metering	EDC (or impose requirement on EGS)	EDC (or impose requirement on EGS)	EDC (or impose requirement on EGS)
PUC Assessment	EGS/EDC or EDC only through non-bypassable surcharge	EGS/EDC or EDC only through non-bypassable surcharge	EGS/EDC or EDC only through non-bypassable surcharge
Review/Evaluation	Between 1/1/2016 and 7/1/2016	Between 1/1/2016 and 7/1/2016	Between 1/1/2016 and 7/1/2016