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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

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

Dear Secretary Chiavetta:

In accordance with the October 7, 2011 Secretarial Letter in the above-captioned matter, enclosed for filing please find the Comments of Washington Gas Energy Services, Inc. on Phase II of the Commission's Investigation of Pennsylvania's Retail Electricity Market. These Comments were filed electronically through the Pennsylvania Public Utility Commission's e-File system today.

If you have any questions, please do not hesitate to contact me. Thank you.

Best Regards,

STEVENS & LEE

  
Michael A. Gruin

Encl.

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**COMMENTS OF  
WASHINGTON GAS ENERGY SERVICES, INC.  
On  
PHASE II OF THE INVESTIGATION**

**I. Introduction**

Washington Gas Energy Services, Inc. (WGES) is a licensed electric generation supplier ("EGS") in the Commonwealth of Pennsylvania and first began serving commercial and residential customers in Pennsylvania at the beginning of 2010. WGES has served electricity supply markets since 2000 in Maryland, 2001 in the District of Columbia and 2006 in Delaware in accordance with the start of electric choice programs in those jurisdictions.

WGES has actively participated in the Commission's Investigation of Pennsylvania's Retail Electricity Markets ("the Investigation"). WGES previously filed comments in response to the Commission's Order initiating the Investigation, attended both En Banc hearings held to date, and has participated in the technical conferences that have taken place during Phase II of the Investigation. WGES has also recently filed comments in the Commission's proceedings regarding Interim Guidelines for Eligible Customer Lists (Dkt. No. M-2010-2183412) and Net-Metering Policy (Dkt no. M-2011-2249441).

WGES once again appreciates the opportunity to provide comments and commends the Commission for its pro-active processes and rules that are clearly designed and intended to encourage the entry of electric generation suppliers ("EGSs") and the development of well-balanced, fair rules that protect consumers and create vibrant retail competition.

## **II. Comments on Phase II of the Investigation**

Overall, WGES is encouraged by the actions taken by the Commission to date. WGES believes that the issues identified by the Commission in this Investigation all require consideration and action in order for Pennsylvania's retail electricity markets to achieve fully competitive status. While WGES is encouraged by the actions taken to date on preliminary issues, such as accelerating the timelines for customer switching and customer education, WGES is hopeful that Phase II of the Investigation will result in bold, long-term policy prescriptions on the structural issues that have to date hindered the development of a fully competitive market. To that end, WGES would like to focus the Commission's attention on four major issues:

### **1. Structure of EDC's Default Service**

As previously stated by WGES, a major factor encouraging the entry of competitive suppliers into new markets, particularly residential and small commercial markets, is the structure of the utilities' default services. The fundamental principle that should be employed in default service is the principle that price should reflect prevailing market prices to businesses and consumers. Utilities should be able to recover their supply and associated costs in a timely manner without distorting the market price signal. The quarterly and monthly Price to Compare (PTC) adjustments provide this. So far, in the nearly two years since WGES has been active in Pennsylvania, the default service design has not adversely affected the rise of retail competition. As supply markets have been in a downward or flat trajectory since the recession of 2008 started, the blended default service prices have provided suppliers with a window of opportunity to make competitive offers to customers. However, if the market trajectory or trend reverses, the default service market design could become a barrier to competition as the blended default service prices

will reflect past lower prices while market prices are rising. Not only will this development send the wrong market signal to customers, but retail suppliers will be forced to leave the market as no competitive supplier can compete with a regulated default service that has an open market position backstopped by regulated cost recovery. This problem can be resolved by eliminating long-term contracts from default service supply. Default service rates should reflect current market conditions. Long term power supply distorts current market conditions.

WGES applauds the Commission for recognizing that EDCs will soon be filing new Default Service Plans, and for providing guidance on default service plan components that the Commission believes can better facilitate the competitive marketplace. WGES fully supports each one of the Recommended Directives on Upcoming Default Service Plans set forth by the Commission in its October 14, 2011 Tentative Order, and believes that the incorporation of these directives into the EDCs' upcoming Default Service Plans will pave the way for the types of reforms that are critical to the development of a fully competitive retail market.

2. Non-EDCs should be permitted to serve as Default Service Suppliers

Another flawed market design feature is the continuation of the electric utility as the default service provider. Keeping the utility as the default service provider perpetuates the false impression that suppliers are competing against the utility's service instead of competing against other suppliers to provide the best and lowest price service. There are many ways that a non-utility default service provider can be selected. Other states have successfully implemented similar models. For instance, Texas has implemented an annual bidding and selection process, and the Texas experience has demonstrated that an entity other than the incumbent utility can successfully provide default service. WGES believes that a similar model can be implemented in Pennsylvania without violating Act 129. In short, WGES encourages the Commission to "go

bold” and implement a policy whereby the default service role is filled by EGSs rather than EDCs.

### 3. Retail Opt-in Auction

WGES believes that a Retail Opt-in Auction would be an effective interim measure to increase customer awareness of, and comfort with, shopping opportunities. WGES agrees with the high-level principles identified by the subgroup working on the Retail Opt-in Auction, and encourages the Commission to eventually endorse a specific auction format that maximizes customer participation while preserving the customer protections that exist today.

### 4. Credit Standards

WGES believes that EDC credit requirements should be standardized in EDC tariffs throughout Pennsylvania and not be so onerous as to undercut the sound rules and initiatives the Commission is undertaking to promote competition and choice. EDC credit requirements must be reasonable and commensurate with the services that EDCs are providing EGSs and with the actual financial risks associated with such services. EDC credit requirements should not be imposed to cover risks that are already accounted for through the Commission’s financial integrity licensing requirements or through PJM credit requirements and obligations. In this regard WGES is concerned that the creditworthiness standards suggested by some EDCs in the working group involve “perfect storm” peak load and peak price calculations with multipliers that would result in excessive and unnecessary credit postings and could severely hamper the ability of EGSs to participate in Pennsylvania. EDCs should offer a wide variety of eligible credit vehicles, such as bonds, letters of credit, and parent guarantees to cover EGS payments for EDC services in order to provide EGSs with flexibility to meet the EDC credit requirements.

### **III. Conclusion**

WGES thanks the Commission for the opportunity to present these comments and would be pleased to address any questions the Commission may have.

Respectfully Submitted,

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