

Filed Session of May 16, 2013
Approved as Recommended
and so Ordered
By the Commission

JEFFREY C. COHEN
Acting Secretary

Issued and Effective May 21, 2013

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

May 1, 2013

TO: THE COMMISSION

FROM: OFFICE OF ELECTRIC, GAS & WATER
– Major Utility Rates Section

SUBJECT: CASE 13-E-0067 – Tariff filing by Pennsylvania Electric Company for
Approval to Modify Default Service Support and Price to Compare Riders.

SUMMARY OF
RECOMMENDATION: Staff recommends the proposed tariff amendments, listed in
the Appendix, to modify the Default Service Support and
Price To Compare Riders be approved with modifications.

Summary

On February 19, 2013, Pennsylvania Electric Company (Penelec or the Company) filed tariff amendments proposing to achieve consistency and administrative efficiencies between its Pennsylvania and New York tariffs. The Company claims that current commodity rates charged to its default service customers leaves energy service companies (ESCOs) at a competitive disadvantage because some costs are not market-based. Penelec proposed modifications to its tariff that would correct the problem by transitioning the recovery of these costs from ESCOs to the Company. The proposal is revenue neutral and no New York customer would experience a bill impact. Staff has

reviewed the filing and recommends that it be approved with a modification to the applied interest rate.

Background

Penelec provides electric delivery service to approximately 591,000 customers in Pennsylvania¹ and about 3,600 customers in the southern tier of New York in the Village of Waverly and the surrounding vicinity. In Case 11-E-0594, the Commission allowed Penelec to transition its default service customers (default service is commonly referred to as full service in New York) to market-based commodity rates over a two year period June 1, 2012 through May 31, 2014.² On June 1, 2012, Penelec began transitioning its Waverly customers from paying a fixed-rate for commodity to paying a market-based rate. To limit bill impacts due to the transition, all Waverly customers are subject to a non-bypassable Default Service Support (DSS) Rider, which limits customer bill increases to twelve percent or less, on a class-average basis, by use of customer credits funded by Penelec. The Commission authorized the Company to defer the value of those credits, with carrying charges at 10.01%, and to amortize the deferred balance over a four-year period commencing June 1, 2014.³

Waverly customers who are default service customers are subject to the bypassable Price To Compare (PTC) Rider that recovers commodity costs and should be used as a comparison price for customers to make informed decisions about competitive commodity alternatives. Waverly customers served by an ESCO avoid the PTC Rider.

Penelec incurs costs for certain non-market-based (NMB) services that it must procure to serve default service customers. Currently, those costs are recovered by rates charged through the PTC Rider. Penelec procures NMB transmission services from PJM for its default service customers, while ESCOs are responsible for procuring NMB

¹ Penelec is also regulated by the Pennsylvania Public Utility Commission (PaPUC).

² Case 11-E-0594, Pennsylvania Electric Company for Electric Service - Rates, Order Adopting, in Part, Terms of a Joint Proposal (issued May 17, 2012)(May Order).

³ Penelec is not proposing any modification to the application or funding of these credits.

transmission services from PJM on behalf of their customer load. The two NMB Charges are: (a) PJM Open Access Transmission Tariff Schedule 12 Regional Transmission Expansion Plan charges (RTEPs); and (b) PJM Open Access Transmission Tariff Schedule 13 Expansion Costs (Expansion Costs).

The Company claims that the current structure forces ESCOs to incur costs that are not market-based and cannot be hedged, and therefore, leaves ESCOs at a competitive disadvantage when compared to Penelec's default service rate. This is because Penelec can collect rate changes that have not been forecasted or hedged through its reconciliation process, whereas an ESCO cannot. Penelec proposed modifications to the PaPUC that would fix this problem by shifting the recovery of RTEPs and Expansion Costs from the PTC Rider to the non-bypassable DSS Rider and transitioning the recovery of these costs from ESCOs to the Company. The Company claims that the proposed recovery of RTEPs and Expansion Costs through the non-bypassable DSS Rider is consistent with cost-of-service principles and makes the comparison of retail offers more market-based.

On August 16, 2012, the PaPUC issued an order which authorized Penelec to recover RTEPs and Expansion Costs from all customers via the DSS Rider, provided that such costs are allocated on the basis of contributions to the single coincident peak transmission load.⁴ On December 20, 2012, the PaPUC issued an order and affirmed its earlier decision to allow RTEPs and Expansion Costs to be recovered under Penelec's non-bypassable DSS Rider from both default service and retail access customers.⁵ Penelec will begin charging its Pennsylvania customers under the revised Pennsylvania tariffs on June 1, 2013.

Company's Proposed Tariff Filing

⁴ Docket Nos. P-2011-2273650, et al., Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and Wes Penn Power Company For Approval of Their Default Service Programs, Opinion and Order (issued August 16, 2012).

⁵ Docket Nos. P-2011-2273650, et al., supra., Opinion and Order (issued December 20, 2012).

To achieve consistency and administrative efficiencies between the Company's Pennsylvania and New York tariffs, Penelec is proposing to procure and recover RTEPs and Expansion Costs under the DSS Rider from its Waverly customers in the same manner that it will procure and recover these services and expenses from Pennsylvania customers as of June 1, 2013. Penelec proposed new DSS Rates to be effective on June 1, 2013, which include the RTEPs and Expansion Costs. As proposed, the Company would allocate forecast NMB costs to customers, and reconcile over- or under-collections on an annual basis subject to an annual interest rate of 10.01%.⁶ Over- or under-collections from the prior annual period would be refunded to or collected from customers on a monthly basis.

Penelec currently forecasts that it will incur NMB charges of approximately \$9,039,435 for all customers in Pennsylvania and New York, of which 0.55% (\$49,717) is allocable to New York. The proposal to transfer RTEPs and Expansion Costs from the PTC Rider to the DSS Rider is revenue neutral and no New York customer will experience a bill impact. Default service customers will experience a decrease in the PTC charge of approximately one percent that will be offset by a corresponding increase in the DSS charge. Retail access customers will experience a decrease of approximately one percent in the RTEPs and Expansion Costs charged by their supply provider that will be offset by an increase in the DSS charge.⁷ Penelec will notify ESCOs of this change by updating its *Energy Service Company Coordination Manual*. Penelec requests that the associated changes be made to the Company's ESCO Manual to reflect the manner in which the services would be obtained, and paid for, on behalf of customers in New York.

⁶ This rate is Penelec's pre-tax rate of return, reflects a 9.0 percent return on equity, and previously was approved by the Commission as the carrying cost associated with certain Company-funded customer credits (Case 11-E-0594).

⁷ As of December 31, 2012, about 200 residential customers and 5 commercial customers – or approximately 3.8 percent of load in New York – were served by an ESCO.

Notice and Comments

Pursuant to the State Administrative Procedures Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on March 13, 2013. The public comment period in conformance with SAPA has expired. No comments were received. Penelec has complied with the requirements of the newspaper publication.

Discussion and Recommendation

Staff has reviewed the Company's filing and recommends that the Company's proposal be modified as discussed below, and that the Company be directed to file tariff revisions to reflect Staff's recommendation.

The Company's proposal is aimed at achieving consistency and administrative efficiency between its Pennsylvania and New York tariffs. The PaPUC allowed the Company to recover RTEPs and Expansion Costs under the DSS Rider so that the PTC better reflects market prices. Penelec will begin charging Pennsylvania customers under its revised Pennsylvania tariffs on June 1, 2013. The proposed modification is revenue neutral and will not produce any bill impacts for customers. Staff, therefore, believes the modification to the tariff and the *Energy Service Company Coordination Manual* is reasonable.

While the Company's proposal addresses the inequity of commodity cost charges, the interest rate applied to the shifted components is inconsistent with the Commission's May Order. The DSS Rider was established for mitigating customer bill impacts by using Company credits. The Commission allowed the pre-tax rate of return to be applied to the DSS Rider because the costs will be recovered over a long term. The Commission explicitly addressed in its May Order that PTC costs will be recovered over a relatively short term and, therefore, the other customer capital rate was applied. The Company's proposal to shift the RTEPs and Expansion Costs from the PTC Rider to the DSS Rider without recognition of the difference in the applicable recovery terms is problematic. The RTEPs and Expansion Costs continue to be recovered over a relatively short term. Staff, therefore, recommends the Company modify the proposed tariff to

apply the other customer capital rate to the NMBs reconciliation balances charged in the DSS Rider.

It is recommended that:

- 1) the amendments listed in the Appendix be allowed to become effective provided Pennsylvania Electric Company files further revisions on not less than one day's notice to become effective June 1, 2013, as discussed in this memorandum;
- 2) Pennsylvania Electric Company shall update its *Energy Service Company Coordination Manual* with the proposed revisions on not less than one day's notice to become effective June 1, 2013;
- 3) the requirement of Public Service Law Section 66(12) and 16 NYCRR 720-8.1 regarding newspaper publication of the further revisions directed in Clause No. 1 be waived; and
- 4) this case is closed.

Respectfully submitted,

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APPENDIX

SUBJECT: Filing by Pennsylvania Electric Company

Amendments to Schedule P.S.C. No. 6 – Electricity

Second Revised Leaves Nos. 129.1, 129.2, 129.3

Third Revised Leaves Nos. 127, 131

Fourth Revised Leaves Nos. 128, 129, 130

Issued: February 19, 2013

Effective: June 1, 2013

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