

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

REQUEST OF FITCHBURG GAS AND	:	
ELECTRIC LIGHT COMPANY d/b/a UNITIL	:	
FOR APPROVAL OF MODIFICATION OF ITS	:	D.P.U. 11-16
LARGE CUSTOMER BASIC SERVICE	:	
PROCUREMENT PILOT PROGRAM	:	

COMMENTS OF RETAIL ENERGY SUPPLY ASSOCIATION

The Retail Energy Supply Association (“RESA”)¹ hereby submits its comments in response to the Department of Public Utilities’ (“Department”) Notice of Filing and Public Hearing, dated February 23, 2011 (“Notice”), in the above-captioned proceeding.

INTRODUCTION

On January 6, 2011, Fitchburg Gas and Electric Light Company d/b/a Unitil (“Unitil”) filed a request with the Department seeking approval to modify its previously approved, pilot program for the procurement of basic service power supply for its large commercial and industrial customers (“Pilot”). See D.P.U. 11-BSF-A1, Request of Fitchburg Gas and Electric Light Company for Approval of a Modification of its Large Customer Default Service Procurement Pilot Program (“Request”). In response to the Request, the Department opened this proceeding, issued the Notice and indicated that

¹ RESA’s members include: Champion Energy Services, LLC; ConEdison Solutions; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Energy Plus Holdings, LLC; Exelon Energy Company; GDF SUEZ Energy Resources NA, Inc.; Green Mountain Energy Company; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; MXenergy; NextEra Energy Services; Noble Americas Energy Solutions LLC; PPL EnergyPlus; Reliant Energy Northeast LLC and TriEagle Energy, L.P. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

written comments must be submitted by March 15, 2011. Notice at 2. RESA hereby submits written comments in response to the Notice.

BACKGROUND

When restructuring began, the Department undertook an investigation into the pricing and procurement of default service. *See, generally, D.T.E. 99-60, Investigation by the Department of Telecommunications and Energy on its own Motion into the Pricing and Procurement of Default Service Pursuant to G.L. c. 164, § 1B(d).* As the retail competitive electric market continued to evolve, the Department continued to evaluate these issues. *See, generally, D.T.E. 01-54, Investigation by the Department of Telecommunications and Energy on its own Motion into Competitive Market Initiatives; D.T.E. 02-40, Investigation by the Department of Telecommunications and Energy on its own Motion into the Provision of Default Service; D.T.E. 04-115, Request for Comments on the Procurement of Default Service Power Supply for Residential and Small Commercial and Industrial Customers.*

Throughout the course of these proceedings, the Department undertook a thoughtful and considered evaluation of the various options for procuring default service and provided interested stakeholders with an opportunity to present alternatives for the Department's consideration. RESA urges the Department to follow that same approach in this proceeding and, accordingly, requests that the Department undertake a full investigation of Unital's Request, including soliciting alternative proposals and conducting an evidentiary hearing to consider those proposals, and to set its long-term vision and policies for the retail market as it begins to reach maturity.

COMMENTS

Prior to implementation of the Pilot, Unitil procured default service supply for its large commercial and industrial customers every three months at fixed monthly prices. *See D.T.E. 02-40-C, Investigation by the Department of Telecommunications and Energy on its own Motion into the Provision of Default Service.* Due to extensive migration by these customers to competitive supply and the lack of supplier participation in Unitil's procurements, Unitil proposed the Pilot, which provided for the solicitation of both fixed monthly prices and variable monthly prices. *See D.T.E. 06-74, Request of Fitchburg Gas and Electric Light Company for Approval of a Large Customer Default Service Procurement Pilot Program.* Because the Pilot would encourage the continued growth of retail competition in Massachusetts and provide customers with more accurate price signals, RESA supported the Pilot. *See D.T.E. 06-74, Comments of Retail Energy Supply Association on Unitil's Request for Basic Service Pilot, dated September 22, 2006.*

Unitil's Pilot did support the continued growth of retail competition and, as a result, the number of Unitil's large commercial and industrial customers and percentage of load served by competitive suppliers continued to increase. *See Request at 1* (indicating that ninety-seven percent (97%) of Unitil's large customers' power purchases are now made through competitive suppliers, leaving only four (4) customers on Unitil basic service). Despite this success, Unitil now proposes to discontinue the RFP process, to assign this load to its ISO New England ("ISO-NE") settlement account and to become the load serving entity ("LSE") for these customers. RESA objects to such a change as it

has the potential to have a substantial, precedential and long lasting negative effect on the state of retail competition in Massachusetts.

I. UNITIL'S REQUEST WILL IMPEDE THE LONG-TERM GOALS OF THE ELECTRIC RESTRUCTURING ACT AND THE DEPARTMENT.

The hallmark of a successful transition to retail competition is a reduced reliance on regulated retail service options, such as the current default service. Thus, over time, the incumbent utilities' historical obligation to serve load should be converted into an obligation to connect and deliver reliable service. Indeed, when a state mandates the selection of incumbent utilities for all consumers who fail to make timely supplier elections, it perpetuates the same non-competitive energy services that restructuring was designed to replace. Retaining the utility as the default provider of energy supply services in the long-term in a restructured environment where only four (4) customers remain has a negative impact on the development of competitive markets as it distorts and impedes the marketplace as evidenced by the numerous proceedings and rules the Department has instituted in an effort to reduce and/or eliminate barriers to competition resulting from such a structure. Therefore, while the incumbent utilities will and should continue to provide transmission and distribution services to all customers, it may not be necessary or desirable to continue to maintain the utility as the default provider of energy supply services for these four (4) accounts. Thus, in this situation, RESA encourages the Department to transition away from the incumbent utility as the provider of last resort to a paradigm that would allow competitive providers to fill this role for large commercial and industrial consumers that can no longer be successfully served through the default service procurement process; thereby, encouraging competition and allowing the EDCs to

concentrate on what they do best, providing reliable and cost effective transmission and distribution services.

In passing the Electric Restructuring Act, the legislature specifically declared that “ratepayers and the commonwealth will be best served by moving . . . to . . . a framework under which competitive producers will supply electric power” *See An Act Relative to Restructuring the Electric Utility Industry in the Commonwealth, Regulating the Provision of Electricity and Other Services, and Promoting Enhanced Consumer Protections Therein (“Electric Restructuring Act”), Chapter 164 of the Acts of 1997, at §1(c).* In support of this framework, the Electric Restructuring Act specifically granted the Department the authority to allow licensed competitive suppliers to provide default service. *See M.G.L. c. 164, § 1B(d)* (“The department may authorize an alternate generation company or supplier to provide default service, as described herein, if such alternate service is in the public interest.”).²

Moreover, the Department itself has long recognized that, especially for larger customers, default service should be viewed “as a *short-term*, last resort service, rather than a longer-term alternative to competitive supply.” D.T.E. 02-40-B, *Investigation by the Department of Telecommunications and Energy on its own Motion into the Provision of Default Service*, at 7 (emphasis added). Despite this recognition, default service still remains an alternative to competitive supply. Unitil’s proposal would only further a structure under which the generation supply service provided by the EDCs remains the long-term alternative to competitive supply, rather than a short-term service of last resort.

² The Electric Restructuring Act also specifically requires that the electric distribution companies (“EDCs”) procure default service through “competitive bidding.” *Id.* Unitil’s Request specifically ignores this statutory requirement.

Given the transition of customers toward competitive supply options throughout the years, the Department should be wary and more reluctant than ever to approve a program that would thwart continued migration away from default service. *See, e.g.,* Department of Energy Resources December 2010 Customer Migration Data (showing that just over 10% of large commercial and industrial customer service load in Massachusetts is still served through default service). Thus, rather than accepting Unitil's proposal, which would return the utility to the role of LSE for retail customers, RESA encourages the Department to evaluate the various options available and to implement a mechanism that transitions customers to the competitive marketplace so that default service truly becomes the last resort service it was always envisioned to be.

The Department has long expressed a willingness to periodically review the effectiveness of its policies and modify them when circumstances warrant. *See, e.g.,* D.T.E. 99-60-A, *Investigation by the Department of Telecommunications and Energy on its own Motion into the Pricing and Procurement of Default Service Pursuant to G.L. c. 164, § 1B(d)*, at 6. As Unitil points out in its proposal, only *four* of its largest commercial and industrial customers are still taking default service. Request at 1. These circumstances present the Department with a perfect opportunity to review its default service policies and modify them to implement true competition in retail electric supply service. Thus, RESA urges the Department to once again undertake a careful evaluation of default service alternatives and to avoid establishing a precedent that will actually encourage customers to continue to remain on default service, rather than transition to the competitive market.

II. UNITIL'S PROPOSAL WILL FURTHER DISTORT CUSTOMER PRICE SIGNALS.

The Department has long recognized that accurate price signals benefit consumers. *See, e.g., D.T.E. 02-40-C, Investigation by the Department of Telecommunications and Energy on its own Motion into the Provision of Default Service,* at 20. Moreover, the benefits of accurate price signals incent consumers to explore other products, including demand response and energy efficiency services that help manage the customer's overall energy bill and environmentally-friendly, renewable energy resources.

Currently, Unitil's customers pay a fixed adder for ancillary services associated with the provision of default service. Although this is better than the prior system in which customers paid a fixed price for all energy supply costs, it still sends distorted price signals to customers. Under Unitil's modified proposal, customers would continue to pay this fixed adder but it would be subject to reconciliation; thereby, even further distorting customer price signals.

In particular, pursuant to Unitil's Request, customers would pay a ten percent adder intended to cover ancillary charges and other ISO-NE charges and resettlements that would be subject to annual reconciliation resulting in the difference between the forecasted costs and actual costs, once known, being charged or credited to customers after the period for which those costs were incurred. This reconciliation process means that the energy service rate, at any point in time, would be higher or lower than the actual cost for that period.

Reconciliations are harmful to the development of a competitive retail market because they distort the relationship between the EDC's actual cost of providing power during a particular period and the prevailing market price of power. Reconciliations also

create some “intergenerational” issues, by passing back credits or implementing charges on customers who weren’t responsible for generating those credits or creating those charges in the first place. Thus, RESA asks the Department to reject any proposal that would require reconciliations and would only serve to further distort customer price signals.

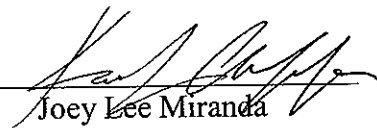
CONCLUSION

Over the years, the Department has instituted many valuable and constructive reforms that have removed barriers to competition and facilitated customer transition to competitive supply options. The time has come for another such reform: one in which the Department sets its long-term vision and policies for the retail market as it begins to reach maturity. Accordingly, RESA recommends that the Department:

- (a) provide stakeholders with an opportunity to submit alternative default service proposals for consideration;
- (b) conduct an evidentiary proceeding to determine the strategy that will further the goals of the Electric Restructuring Act and ensure that default service is viewed “as a short-term, last resort service, rather than a longer-term alternative to competitive supply”; and
- (c) require Unitil to procure its default service supply pursuant to the current Pilot until the Department issues a final decision in this proceeding.

RESA appreciates the opportunity to submit these comments and looks forward to continuing to participate in this proceeding.

Respectfully submitted,
RETAIL ENERGY SUPPLY
ASSOCIATION

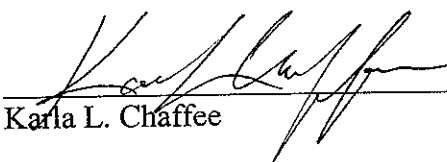
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Dated: March 15, 2011

Certificate of Service

I certify that I have this day served the foregoing document in the above-captioned proceeding in accordance with the requirements of 220 C.M.R. § 1.05.


Karla L. Chaffee

Dated: March 15, 2011