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April 4, 2006

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA HAND DELIVERY

**Re: Proposed Rulemaking Re Net Metering for Customer-Generators
Pursuant to Section 5 of the Alternative Energy Portfolio Standards
Act, 73 P.S. § 1648.5; Docket No. L-00050174**

Dear Secretary McNulty:

Enclosed for filing with the Commission are an original and fifteen (15) copies of Comments of Citizens' Electric Company of Lewisburg, PA, and Wellsboro Electric Company.

Please feel free to contact us with any questions you may have regarding this filing. Copies of this filing are being served upon the parties indicated below and on the attached Certificate of Service. Please date stamp the extra copy of this letter and Comments and kindly return them to us for our filing purposes. Thank you.

Very truly yours,

McNEES WALLACE & NURICK LLC

By

Pamela C. Polacek
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Counsel to Citizens' Electric Company
of Lewisburg, PA and Wellsboro Electric
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- c: Certificate of Service
- Calvin Birge, CEEP (via e-mail and Hand Delivery)
- H. Kirk House, OSA (via e-mail and Hand Delivery)

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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 Section 1.54 (relating to service by a participant).

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Dated this 4th day April, 2006, in Harrisburg, Pennsylvania.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PROPOSED RULEMAKING :
RE NET METERING FOR :
CUSTOMER-GENERATORS PURSUANT : DOCKET NO. L-00050174
TO SECTION 5 OF THE ALTERNATIVE :
ENERGY PORTFOLIO STANDARDS ACT, :
73 P.S. § 1648.5 :

COMMENTS OF CITIZENS' ELECTRIC COMPANY
AND WELLSBORO ELECTRIC COMPANY

At the Public Meeting November 10, 2005, the Pennsylvania Public Utility Commission ("PUC" or "Commission") adopted a Proposed Rulemaking Order issuing proposed regulations to implement the net metering requirements under the Alternative Energy Portfolio Standards Act of 2004, 73 P.S. § 1648.1-1648.8 ("AEPS Act"). See Proposed Rulemaking re Net Metering for Customer-Generators pursuant to Section 5 of the Alternative Energy Portfolio Standards Act, 73 P.S. §1648.5, Docket No. L-00050174, Proposed Rulemaking Order entered Nov. 16, 2005 (hereinafter "Proposed Rulemaking Order").¹ The Proposed Rulemaking Order was published in the Pennsylvania Bulletin on February 4, 2006. Pursuant to Ordering Paragraph 5, interested parties may submit Comments within 60 days of publication. In accordance with the adopted schedule, Citizens' Electric Company of Lewisburg, PA ("Citizens"), and Wellsboro Electric Company ("Wellsboro") (collectively, "the Companies") hereby submit these Comments.

¹ All citations to the Proposed Rulemaking Order herein are to the relevant pages in the slip opinion entered on November 16, 2005, and available on the PUC's website.

I. INTRODUCTION

Citizens' and Wellsboro recognize that the Commission's implementation of the AEPS Act requires a balance of all stakeholders' interests. Citizens' and Wellsboro have participated in the stakeholder process to ensure that the Commission understands and considers the interests of smaller Electric Distribution Companies ("EDCs"). The General Assembly has stated that the net metering regulations should be "consistent with rules defined in other states" to the extent possible. As the Commission recognizes, however, AEPS Act "provides a great deal of flexibility to the Commission regarding Net Metering." See Proposed Rulemaking Order, p. 4. The Commission should exercise this discretion to ensure that the proposed regulations: (a) do not unreasonably impose excessive technical or economic burdens on the impacted EDCs; (b) do not result in other ratepayers subsidizing customer-generators; and (c) ensure the continued provision of safe and reliable service to all customers.

The Commission must recognize the potential burdens on smaller EDCs created by the implementation of net metering. The interests of smaller EDCs in Pennsylvania may not have been represented in the processes that led to the net metering regulations adopted in other states. Due to the rural nature of portions of the Companies' service territories, it is likely that customer-generators in their territories could install 200 kW to 2000 kW generators that will produce electricity from farm by-products in amounts that substantially exceed the needs of the associated accounts. Because Citizens' and Wellsboro are "wires-only" EDCs that rely on distribution revenues for financial viability, this could have a significant financial and reliability impact on the Companies. Citizens' and Wellsboro trust that the Commission will acknowledge the unique and substantial impact that the implementation of net metering may have on smaller EDCs and

will reflect appropriate flexibility in the final regulations to meet the Companies' needs, as outlined herein.

To the extent the Commission adopts certain rules to provide an incentive or subsidy for customer-generators, the Commission should recognize that this results in other ratepayers subsidizing the customer-generators. Three significant (and inappropriate) subsidies included in the proposed regulations are using the full rate (rather than the generation rate) to compensate the customer-generator, requiring EDCs to conjunctively bill "virtual" meter aggregation and adopting the single meter approach to net metering. Citizens' and Wellsboro support the Comments submitted by the Energy Association of Pennsylvania ("EAPA") at this docket. In its Comments, EAPA has articulated important concerns regarding issues such as the preference of a dual meter approach over a single meter approach. As explained by EAPA, the single meter approach results in all other ratepayers unreasonably subsidizing the distribution service for customer-generators. The Commission can avoid this result by adopting the dual meter approach to net metering favored by EAPA and the Companies.

Finally, no aspect of the Commission's implementation of net metering should undermine safety and reliability. The Commission has an overarching duty under the Public Utility Code to ensure the adequacy, safety and reliability of service. For example, by absolving all customer-generators of the requirement to maintain appropriate insurance, the Commission may be sanctioning a degradation of service safety and reliability to other customers. A malfunctioning 1000 kW generator could have a significant impact on service to adjacent customers, for which the customer-generator should obtain insurance. This should be modified in the final regulations.

II. COMMENTS

A. The Regulations Should Specifically Address Cost Recovery for EDCs.

Several aspects of the proposed regulations create additional costs that the EDC must bear or may result in the EDC failing to fully recover its generation and distribution costs. In the Proposed Rulemaking Order the Commission indicates that the issue of cost recovery for meters (and presumably for all other additional costs or lost revenues) "may be raised and deliberated in an appropriate proceeding dealing with cost recovery under the Act or applicable provisions of the Public Utility Code." Proposed Rulemaking Order, p. 10. Citizens' and Wellsboro urge the Commission to reconsider this decision and to specifically address cost recovery in this rulemaking.

Section 1648.3(a) of the AEPS Act states:

After the cost recovery period, any direct or indirect costs for the purchase by electric distribution [sic] of resources to comply with this section, including, but not limited to, the purchase of electricity generated from alternative energy sources, payments for alternative energy credits, cost of credits banked, payments to any third party administrators for performance under this act and costs levied by a regional transmission organization to ensure that alternative energy sources are reliable shall be recovered on a full and current basis pursuant to an automatic energy adjustment clause under 66 Pa. C.S. §1307 as a cost of generation supply under 66 Pa. C.S. §2807.

73 P.S. §1648.3(a). The Companies are extremely concerned that, in future proceedings, parties may argue that the additional costs imposed on the EDCs to accommodate net metering, including, but not limited to the cost to install appropriate metering equipment and the lost generation and distribution revenues created by customer-generator "incentives" such as meter aggregation may not satisfy the cost recovery criteria outlined in the AEPS Act. The Commission can definitively ensure that such arguments will not be entertained by confirming

that all reasonable costs related to the implementation of net metering can be recovered by the EDC through the automatic adjustment clause referenced in Section 1648.3(a) of the AEPS Act or such other cost recovery mechanism that the EDC may propose for compliance costs.

If the Commission will entertain arguments in future proceedings that AEPS compliance costs related to net metering will not be recoverable by the EDCs (which it should not do), then fairness dictates that the Commission should explicitly consider the potential burden on EDCs created by the proposals in this proceeding. Although many EDCs may be able to absorb the impact of these regulations, companies like Citizens' and Wellsboro may experience a significant financial impact as "wires-only" utilities that rely on their distribution revenues for financial viability. Under the AEPs Act, it appear that all EDCs are required to offer net metering; however, once the PUC memorializes its "preferred" version of net metering in the regulations, EDCs should retain the opportunity to request waivers of any regulations that will result in excessive financial, technical or safety burdens (given the specific circumstances of the EDC).

Citizens' and Wellsboro urge the Commission to address cost recovery as part of this rulemaking. At a minimum, the regulations should specifically confirm that the EDCs may recover both the additional costs and the lost opportunity to recover distribution and generation costs through the generation rates charged to the customer classes who benefit from the net metering provisions of the AEPS Act and the regulations.

B. The "Cash-Out" for Customer-Generators Should Be Performed Monthly.

Section 75.13(d) of the proposed regulations requires the EDC to "carry over" credits earned by a customer-generator to successive billing months, with the EDC ultimately cashing-out any unused credits at the end of the annualized period. Proposed Regulation §75.13(d).

Citizens' and Wellsboro urge the Commission to reconsider this mechanism and to permit EDCs to perform the cash-out for excessive generation on a monthly basis.

As set forth in EAPA's Comments, if the average locational marginal price ("LMP") is used to calculate the customer-generator's compensation, then performing the cash-out on an annual basis may harm customer-generators economically when the price of generation is high. In addition, the potential distribution revenue impact could be particularly significant for a smaller EDC in a rural territory where a customer-generator using farm by-products could install a generator of 100 kW to 2000 kW. The output of such generators will more than exceed the anticipated usage for the accounts and result in the customer paying no distribution charges for the entire year (if the full rate including distribution is used for the monthly offset, which is should not be). This clearly is inappropriate. Furthermore, the EDC will also be required to install computer billing protocols and/or to manually reconcile and bill the customer-generator to accommodate the annual cash-out, adding to the costs to implement net metering.

Citizens' and Wellsboro respectfully submit that the best interests of all parties are furthered by accomplishing the cash-out on a monthly basis. The proposed regulations should be revised as follows:²

§ 75.13 Net metering general provisions.

* * *

(c) If a customer-generator is a generation customer of an EDC and supplies more electricity to the electric distribution system than the EDC delivers to the customer-generator in a given billing month, the EDC shall credit the customer-generator for the excess on a kilowatt-hour for kilowatt-hour basis. [The EDC shall reduce the customer generator's bill for the next billing month to

² Text that is in [brackets] is deleted; text that is underlined is added.

compensate for the excess electricity produced by the customer-generator in the previous billing period.]

[(d) An EDC shall carry over credits earned by a customer generator from a billing month to successive billing months. Any unused credits shall accumulate until the end of the annualized period.]

(e) At the end of each [annualized] monthly billing period, the EDC shall compensate the customer-generator for excess kilowatt-hours generated at the EDC's avoided cost of wholesale power.

* * *

[(g) If a customer-generator switches electricity suppliers, the EDC shall treat the end of the service period as if it were the end of the annualized period.]

C. The "Avoided Cost of Wholesale Power" Should Be Based on the EDC's Actual Wholesale Costs for EDCs When Those Costs Can Be Identified.

At the end of the annual reporting period (or the monthly billing period as argued above), the proposed regulations require the EDC to compensate the customer-generator for excess kilowatt-hours generated at the EDC's avoided cost of wholesale power. Proposed Regulation § 75.13(e). The proposed regulations define "avoided cost of wholesale power" as: "The average locational marginal price of energy, or its successor, over the annualized period in the applicable EDC's transmission zone." Proposed Regulation § 75.12. Citizens' and Wellsboro urge the Commission to modify this definition to include the option for the EDC to base the compensation on the actual avoided cost of wholesale power.

Citizens' and Wellsboro currently obtain the wholesale supply to fulfill their Provider of Last Resort ("POLR") obligations through full requirements, fixed rate contracts. Because these contracts are not indexed to the average LMP of electricity in the transmission zone, it is highly likely that the cost of wholesale power that Citizens' and Wellsboro "avoid" when a customer-

generator produces more electricity than it consumes during the annualized or monthly period will not equal the average LMP of energy for their zones. It is inappropriate for the regulations to employ a proxy for the avoided cost of wholesale power when the actual avoided cost of wholesale power can be identified. The AEPS Act does not require such a perverse result.

For EDCs that can accurately identify the actual avoided cost of wholesale power under their supply arrangements, the regulation should allow this compensation to replace the average LMP. The definition should be modified to read as follows:

Avoided cost of wholesale power – The actual cost of wholesale power that the EDC avoided due to the operation of the customer-generation facility or, at the EDC's option, the average locational marginal price of energy, or its successor, over the annualized period in the applicable EDC's transmission zone.

D. Compensation Paid to Net Metering Customer-Generators Should Reflect Only Generation Costs and Not Distribution Costs.

Under Sections 75.13(c) and (d), the EDC must credit the customer-generator for hours of production on a kilowatt-hour for kilowatt-hour basis. See Proposed Regulation § 75.13(c) and (d). The Companies interpret this as requiring EDCs to credit the customer-generator for the full retail rate, including generation and distribution, for each kilowatt-hour of electricity that is exported from the facility to the distribution grid.

The Companies agree with the comments submitted by the EAPA that compensation to customer-generator should be limited solely to generation costs and should not offset the distribution charges that are properly payable by the customer. If the customer-generator is permitted to avoid distribution charges by using the full rate as the offset to the customer's monthly usage, then other customers will be subsidizing the customer-generator. This will occur both by the recovery of the lost distribution revenues through the automatic energy adjustment clause (as discussed above) and when the distribution rates are established in the EDC's next rate

case. Regardless, this subsidization is not required under the AEPS Act and should not be independently implemented by the Commission. Fairness dictates that the customer-generator should pay its full distribution cost of service and be compensated based on the generation benefit that it contributes to the system. Citizens' and Wellsboro support the EAPA's proposed modifications to the regulations on this issue.

E. The Regulations Should Specifically Recognize that a Dual Meter Arrangement is Preferred or, at a Minimum, Permissible Due to Technical and Financial Feasibility.

The proposed regulations create a presumption that the "customer-generator facility used for net metering shall be equipped with a single bi-directional meter that can measure and record the flow of electricity in both directions at the same rate." Proposed Regulation § 75.14(a). The regulations further state that the EDC must install electric metering equipment to meet the requirements of Section 75.14(b) at the EDC's expense. Proposed Regulation § 75.14(b). Finally, the regulations state that upon agreement of the customer-generator, a dual meter arrangement may be substituted for a single bi-directional meter. Proposed Regulation § 75.14(a).

The Companies support the EAPA's Comments related to use of a dual meter approach to net metering. Section 1648.2 of the AEPS Act defines "net metering" as:

The means of measuring the difference between the electricity supplied by an electric utility and the electricity generated by a customer-generator when the renewable energy generating system is intended primarily to offset part or all of the customer-generator's requirements for electricity.

73 P.S. §1648.2. Neither this definition nor any other portion of the AEPS Act mandates that the Commission adopt a single meter approach to net metering. Because the single meter approach unnecessarily results in other customer subsidizing the customer-generator, Citizens'

and Wellsboro respectfully request that the Commission reconsider its preference for the single meter approach.

Citizens' and Wellsboro are in the process of studying the technical and financial requirements to implement single bi-directional meters for customer-generators. This includes examination of whether the Automated Meter Reading ("AMR") system recently installed in the Citizens' territory can accommodate this requirement. To the extent the EDC (and, ultimately, other ratepayers) will bear the expense for the meters installed at a customer-generator facility, the EDC should have the flexibility under the regulations to pursue a dual meter arrangement when it is more technically and economically feasible for the particular EDC or facility. The Companies urge the Commission to modify Section 75.14(a) of the proposed regulations to read as follows:

A customer-generator facility used for net metering shall be equipped with a single bi-directional meter that can measure and record the flow of electricity in both directions at the same rate. If the EDC determines that it is more technically or economically feasible or the customer-generator agrees, a dual meter arrangement may be substituted for a single bi-directional meter.

F. "Virtual" Meter Aggregation Should Not Be Permitted.

Under Section 75.14(e) of the proposed regulations, the EDC must allow a customer-generator to aggregate meters "within a particular rate class on contiguous and adjacent properties owned and operated by a customer generator." Proposed Regulation § 75.14(e). The proposed regulations permit "physical meter aggregation" (i.e., the "physical rewiring" of the meters "to provide a single point of contact for a single meter") and "virtual meter aggregation."

Id. "Virtual meter aggregation" is defined as:

The combination of readings and billing for all meters in a particular rate class on contiguous and adjacent properties owned and operated by a customer-generator by means of the EDC's

billing process, rather than through physical rewiring of the customer-generator's property for a physical single point of contact.

Proposed Regulation § 75.12.

The combination of accounts for billing purposes (whether physical or virtual) results in the reduction of distribution revenues from the customer. For rate schedules that contain a customer charge, rather than paying a customer charge for each account, the customer-generator will pay a single customer charge. In addition, if the distribution rate design includes a declining block structure, then more of the customer-generator's usage will be priced in the lower, tail blocks of the distribution rates. This incentive to the customer-generator is being provided at the expense of other customers on the system who will compensate the EDC for the lost distribution revenues in the automatic adjustment mechanism and also face higher rates in the EDC's next distribution rate case when the impact of the aggregation is reflected in the projected customer class usage and revenues at proposed rates.

Citizens' and Wellsboro respectfully submit that the Commission should limit this subsidy for customer-generators to situations where the customer-generator has paid the expense to physically rewire the meters to produce a single point of contact. In such situations, the customer-generator has undertaken an investment to (partially) justify the reduced distribution expense. In addition, the EDC's cost to serve the customer-generator reflects the single point of contact, rather than multiple points of contact. Finally, as no other customer generally can require the EDC to offer virtual account aggregation, which is essentially conjunctive account billing by a different name, the Commission may be creating an unsupportable service distinction under Section 1502 of the Public Utility Code, 66 Pa. C.S. § 1502. All of these factors militate

in favor of limiting aggregation to physical situations and eliminating virtual aggregation from the regulations.

The following modifications are necessary to remove virtual meter aggregation from the proposed regulations:

75.12 Definitions.

* * *

Meter aggregation – The combination of readings from and billing for all meters within a particular rate class on contiguous and adjacent properties owned and operated by a customer-generator. Meter aggregation may be completed only through physical [or virtual] meter aggregation.

* * *

[*Virtual meter aggregation* – The combination of readings and billings for all meters in a particular rate class on contiguous and adjacent properties owned and operated by a customer-generator by means of the EDC's billing process, rather than through physical rewiring of the customer-generator's property for a physical, single point of contact.]

* * *

§ 75.14 Meters and metering.

* * *

(e) Meter aggregation within a particular rate class on contiguous and adjacent properties owned and operated by a customer-generator shall be allowed for purposes of net metering. Physical meter aggregation shall be at the customer-generator's expense. The EDC shall provide all the necessary equipment to complete physical aggregation. [If the customer-generator requests virtual meter aggregation, it shall be provided by the EDC at the customer-generator's expense. The customer-generator shall be responsible only for any incremental expense entailed in processing his account on a virtual meter aggregation basis.]

G. Larger Customer-Generators Should Be Required to Maintain Appropriate Insurance.

Section 75.13(k) states that an EDC may not require a customer-generator to obtain insurance unless "specifically authorized under these regulations or by Order of the Commission." Proposed Regulation § 75.13(k). Citizens' and Wellsboro are extremely concerned that this creates the presumption that no customer-generator will be required to obtain insurance.

As the Commission is aware, the net metering regulations address generation units as large as 1000 kW or 2000 kW. A malfunction by a unit such as this may have detrimental impacts on the operation of the Companies' distribution systems and on service to other customers. Large customer-generators should be required to provide insurance to protect the EDC and other ratepayers. The appropriate size at which an insurance requirement may be imposed may vary based on the distribution system characteristics and configuration of the particular EDC. Accordingly, Section 75.13(k) should be modified to read as follows:

(k) An EDC may not charge a customer-generator a fee or other type of charge unless the fee or charge would apply to other customers that are not customer-generators. The EDC may not require additional equipment [or insurance] or impose any other requirement unless the additional equipment, [insurance] or other requirement is specifically authorized under these regulations or by order of the Commission. The EDC may require a customer-generator to obtain appropriate insurance protecting the EDC and other customers from harm for customer-generators of sufficient size to potentially cause significant harm or liability.

H. The EDC's Ratepayers Should Get the Benefit of any Alternative Energy Credits Related to Customer-Generators.

Multiple aspects of the net metering regulations are designed to provide incentives and subsidies to customer-generators. Ultimately, other customers will be subsidizing these activities


through rates. Because ratepayers are paying these costs to subsidize customer-generators, ratepayers should retain the benefit of any Alternative Energy Credit ("AEC") created through the customer-generator's activities. The AECs should be assigned to the EDC for use in fulfilling the compliance obligations under the AEPS Act. Citizens' and Wellsboro fully support the proposed revisions to the regulations set forth in EAPA's Comments.

III. CONCLUSION

Although the General Assembly directed the Commission to adopt net metering regulations that are consistent with those used in neighboring states, the Commission also has flexibility to ensure that the final regulations reflect the unique and specific needs of Pennsylvania. The modifications discussed here reflect changes that are necessary to ensure that the interests of the smaller EDCs in Pennsylvania, the interests of other ratepayers and fundamental requirements for safety and reliability are accommodated in this process. Citizens' and Wellsboro respectfully urge the Commission to implement the changes to the proposed regulations discussed above to ensure that the interests of all stakeholders are adequately reflected in the final regulations.

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