BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Provider of Last Resort Roundtable
Docket No. M-00041792

Comments
On behalf of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company –
The FirstEnergy Operating Companies

April 21, 2004

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1. INTRODUCTION[1]

The Pennsylvania Public Utility Commission ("PaPUC" or "Commission") established a Provider of Last Resort ("POLR") Roundtable on March 5, 2004 for the purpose of discussing the issues involved in performing POLR service beyond the generation rate cap era. The meetings are intended to give interested parties an opportunity to present their views on the topic and respond to specific Commission questions.

On March 18, 2004 the Commission Secretary's Bureau issued a schedule of the POLR Roundtable Meetings as well as an "issues list" to facilitate the meetings. The list of issues covered matters such as (1) nature and scope of POLR service, (2) qualifications for POLR (an electric distribution company ("EDC") or alternative supplier), (3) POLR service models (direct assignment, competitive assignment, etc.), (4) terms and conditions of POLR service, (5) full recovery of reasonable costs, (6) adjustment and reconciliation of POLR rates, (7) default of POLR provider, (8) implementing POLR rules and transition issues.

These comments will (1) reference the relevant statutes pertaining to post-transition POLR service, (2) provide Metropolitan Edison Company's ("Met-Ed"), Pennsylvania Electric Company's ("Penelec") and Pennsylvania Power Company's ("Penn Power") (collectively "the FirstEnergy Operating Companies") perspectives regarding how post-generation rate cap POLR service should be structured, (3) provide an overview of how

[1] The FirstEnergy Operating Companies are represented in this Roundtable discussion by Mr. Richard A. D'Angelo. Mr. D'Angelo's work experience and background is detailed in Appendix A to these comments.

a competitive wholesale auction would work in Pennsylvania, (4) respond to many of the Staff issues and (5) close with a summary of the FirstEnergy Operating Companies' position.

II. BACKGROUND

The Commission POLR Roundtable sessions mark a major milestone in the long and complex implementation of the Electricity Generation Customer Choice and Competition Act ("Competition Act" or "Chapter 28"). Although the Commission has drafted and steered to final enactment many important sets of regulations during this process, the regulations governing POLR service stand out as particularly significant because they address the much anticipated end of the transition period toward full generation competition that commenced in 1997.

As the Commission is well aware, the transition plan that takes each EDC to full generation competition is the product of a process that started with the filing of a restructuring plan, litigation of the merits of that plan, a final PaPUC order and an eventual settlement of disputes arising from the order in the form of a Restructuring Settlement Agreement ("RSA"). The RSAs provide a roadmap for each EDC, its customers and generation suppliers to move from the era of bundled rates and vertically integrated public utilities, to the era of unbundled retail rates, divested generation plants, separate generation affiliates, market based generation rates, and finally the end of rate caps. Significant similarities exist among these RSAs in the form of competitive transition charge ("CTC") rates and rate caps on generation and transmission and distribution ("T&D") rates.

However, despite these similarities, the RSAs are not exact cookie-cutter settlements and the transition period is unique for each EDC. For example, Duquesne Light Company has almost completed its collection of stranded costs and is emerging from the period of capped rates. The Commission's approach to POLR regulations should be consistent with the reality of RSAs by recognizing that the timing of the applicability of the regulations to each EDC will vary. The timing of each EDC's emergence from transition is determined by its RSA and will vary based on when rate caps expire and market based generation rates prevail.

<u>III. FIRSTENERGY COMPANIES' PERSPECTIVE ON POLR</u>

Penn Power is a wholly owned subsidiary of Ohio Edison Company that provides service to over 155,000 electric utility customers in western Pennsylvania. FirstEnergy transmission facilities within the Penn Power service territory are under the operational control of the Midwest Independent Transmission System Operator, Inc. ("MISO"). Penn Power obtains power to meet its POLR requirements under wholesale contracts with FirstEnergy Solutions, an affiliated generation company. Met-Ed provides service to over 510,000 electric utility customers in eastern and south central Pennsylvania. Penelec provides service to nearly 585,000 electric utility customers in western and northern Pennsylvania. Met-Ed and Penelec are transmission owners in the PJM Interconnection, LLC. Met-Ed and Penelec obtain power to meet their POLR supply from a combination of non-utility generation and purchased power contracts, including a partial requirements contract with FirstEnergy Solutions.

The following comments represent the FirstEnergy Operating Companies' views on the policies that should provide the foundation for the Commission's POLR regulations.

The statutory guidance for the PaPUC's implementation of POLR regulations are straightforward and can be paraphrased as follows:

1. The Commission must issue regulations to define the EDC's obligation to acquire and deliver electricity at the end of the transition period;

2. The EDC is to acquire electricity at "prevailing market prices" to serve POLR customers and shall be allowed to "recover fully all reasonable costs";

3. The EDC is to continue to be the provider of last resort unless another provider is approved by the Commission;

4. EDC's are to continue universal service and energy conservation programs subject to full recovery of the costs of those programs "through a nonbypassable rate mechanism."

IV. SCOPE OF REGULATIONS AND DATE OF APPLICABILITY

In developing POLR regulations in the post generation rate cap world, certain basic standards should be adhered to in order to develop a fair and equitable regulatory mechanism. Uniform competitive procurement of POLR service for EDCs across Pennsylvania is desirable wherever possible in terms of rate design and implementation of the wholesale auction process. Such uniformity is implied by the very task of promulgating industry-wide POLR regulations. The FirstEnergy Operating Companies believe that the EDC must maintain the POLR obligation with competition providing the necessary supply requirements. In the event of supplier default, the EDC must be made whole for its costs of acquiring the necessary POLR shortfall. However Pennsylvania's POLR regulations must also accommodate the fact that Penn Power is one of only two EDCs in the state not to be a part of PJM and as such, its auction process may need to be different to satisfy requirements of MISO.

The Commission's POLR regulations should also focus on the period when each EDC emerges from the transition process, i.e. when rate caps on POLR service end. Due to the nature of the Commission's restructuring process, EDCs will be completing their generation rate cap periods at different points in time. New POLR regulations should be applicable to an EDC only when its specific transition period has been completed. For the FirstEnergy Companies, the transition period ends on December 31, 2006 for Penn Power and December 31, 2010 for Met-Ed and Penelec. Each EDC's POLR obligation to acquire and deliver electricity to customers continues through the transition period, and as further defined by the Orders issued by the Commission as part of each EDC's restructuring proceeding. Accordingly, a phased-in approach to auction participation may be necessary.

V. POLR REGULATIONS SHOULD CONFIRM THE EDC'S RESPONSIBILITY FOR POLR SERVICE

Since it is not likely that an entity other than the EDC will seek to provide retail POLR service at any time in the foreseeable future, the Commission should refrain from investing significant effort developing specific rules or regulations addressing the issue of alternative POLR suppliers. The Commission's authority to consider alternative POLR suppliers is already established as a matter of statute. The obligation of providing retail POLR service properly, if not inescapably, belongs to the incumbent EDC. It is difficult, if not impossible to divide POLR responsibilities between the EDC and some other entity, much less transfer the entire POLR obligation to an entity that does not own the T&D system, particularly when the traditional customer care functions of EDCs are considered. Consequently, the EDC should remain responsible for making the necessary provisions for POLR service. The use of a competitive wholesale auction to meet its retail POLR service obligation will provide the best solution to achieving market based rates for its POLR customers, to avoid unnecessary costs to the EDC, and to provide the Commission assurance that POLR service is being obtained at competitive prices. The fact that a competitive retail supplier has the contractual obligation to supply a specific portion of POLR load, however, does not shift the ultimate POLR obligation from the EDC.

The EDC's POLR obligation should include retail market support functions, such as customer lists and demand side response, customer care and Chapter 56 functions. All customer care functions including billing, collections, metering, and service installations should be retained by the incumbent EDC. With the incumbent EDC maintaining its POLR obligation, customer care functions and protections (Chapter 56 including termination procedures) are already in place. If an alternate supplier takes on the retail POLR obligation, then there needs to be two termination procedures developed for non-payment cases, one for POLR charges and one for delivery related charges.

A Universal Service charge is currently collected by EDCs through the distribution charge to residential customers. To the extent an alternate supplier assumes the retail POLR obligation from the incumbent EDC, it would complicate the administration of Universal Service programs and Chapter 56.

VI. AN AUCTION SHOULD BE THE COMMISSION'S PREFERRED METHOD FOR EDCS OBTAINING POLR SUPPLY

Any regulations adopted by the PaPUC should provide for competitive, state-wide wholesale auctions, by individual EDC, to obtain POLR supply. The regulatory objectives of the acquisition process should be: 1) to obtain sufficient supply to meet the requirements of all customers, including those who return to POLR service ; 2) to have as many qualified bidders participate in order to drive prices as low as possible while recognizing that the market will dictate price. An auction open to all qualified bidders is the ideal mechanism to meet these objectives.

As noted above, however, Penn Power's transition to market based POLR rates will commence on January 1, 2007, and Penn Power is not a member of PJM. Accordingly, it may be appropriate for Penn Power to hold a separate competitive wholesale auction to obtain its supply. During 2006, a competitive wholesale auction should be conducted to obtain adequate supply to meet Penn Power's POLR obligations in 2007. The costs resulting from the competitive wholesale auction plus administrative costs and any retail adder, discussed in detail later in these comments, would form the basis of a new POLR service price.

The competitive wholesale auction will determine most of the price for EDC POLR service to its customers. However, the cost of hedging risk instruments associated with replacement power in the event of supplier default, the cost of "back office", and other administrative procurement costs should be part of the retail rate structure for POLR service. The Commission's regulations should specify the types of EDC administrative and other costs that may be added to the cost of wholesale energy and capacity acquired through a competitive auction to supply retail POLR service when developing the applicable POLR service rates. The regulations should provide for EDCs requesting a Commission approval of other non-specified cost components (i.e. retail "adder") that events may prove are necessary to facilitate retail shopping.

The administrative costs that will need to be incorporated into the POLR price should account for at least the cost of the following items:

- Develop, test, implement and maintain new billing functionality.

- Develop, test and implement new programs, transactions, tables and interfaces to procure, store and calculate the data needed to create new hourly market price bills, if needed.

- Develop, test and implement new programs to track bids, prices, the customer's service choice, contract information, forecast and transfer settlement data to PJM for the multiple wholesale providers of last resort, if using an auction.

- Design, code, test and implement new EDI programs for POLR payments.

- Design, code, test and implement new bill print programs.

- Create new closing reports.

- Develop and implement back-up and security provisions.

- Metering, communications, storage and maintenance thereof, meter upgrades for communications and required data and hardware costs for data storage.

- Consumer education, development of customer notifications and marketing material, train in-house call center representatives and customer education sessions.
- Legal costs
- Risk management costs
- Information technology/programming costs
- Auction related costs: Set-up and conduct initial and subsequent auctions, create, negotiate and finalize contracts with the auction manager, submission of auction compliance filing, the Auction Manager designs computer-bidding systems to conduct an auction, preparation of auction/bidder information packets, preparation of load data for eligible customer classes, notification of auction to prospective bidders and conduct bidders conference, respond to bidder requests for information, create, negotiate and finalize contracts with bidders/suppliers, conduct credit reviews to mitigate credit risks and notify customers and suppliers.

VII. COMPETITIVE AUCTION PROCESS

Initial solicitation of offers to provide competitive wholesale POLR supply would be conducted on a statewide basis, i.e. conduct an auction in 2006 for all EDCs scheduled to conclude fixed rate cap generation POLR in 2007. The EDC would continue to have the retail POLR obligation for its customers.

Since most EDC's generation rate caps expire at calendar year-end, the initial wholesale POLR supply solicitations would be for seventeen months. The seventeen-month solicitation would enable future auctions to coordinate with upcoming PJM planning years, June 1 through May 31.

The wholesale supply auction would seek offers for the supply of full requirements tranches[2] representing the totality of the customer load in each participating utility service territory. Tranches would be identical and uniform within each utility and would represent a fixed percentage of EDC POLR loads. Tranche sizes would be set so the size of the obligation for a tranche for all EDCs is approximately equal. A reasonable target size is 100 MW, based on the coincident peak for each utility but the actual load for each successful bidder may be greater or less than 100 MW. The bidders would be obtaining a slice of the actual system.

An independent third party, or Auction Manager, should be selected to establish the full details of the auction process and conduct the auction. The Auction Manager would include in the details the necessary bidding qualifications for suppliers to participate in the competitive wholesale auction process. The selection of the Auction Manager and the detailed auction process should be subject to the review and approval of the PaPUC. The fee paid to the Auction Manager by the EDCs should be recovered through an administrative adder to the final generation price as well as other administrative costs associated with the competitive auction process.

In general, to participate in the competitive wholesale supply auction, bidders must qualify by submitting an application to the Auction Manager. Bidders must meet any PaPUC and RTO registration requirements. Applicants must meet pre-bidding creditworthiness requirements, agree to comply with all rules of the wholesale auction, agree to execute a Supplier Agreement within two days of winning bids being certified by the PaPUC, and demonstrate compliance with specified creditworthiness requirements. Standard master supply agreements and credit standards would be developed and provided to applicants prior to the auction. Applicants will be required to submit bid bonds with indicative offers and may be required to provide letters of credit. Applicants would be required to disclose ownership information and other relevant details including any associations with other bidders. Affiliate generators should be permitted to participate in the auction so as to maximize participation by bidders in the auction.

Specifically, the Auction Manager would establish rules to conduct the wholesale supply auction as a "simultaneous descending clock auction similar" to that used in New Jersey. The Auction Manager would establish maximum and minimum starting prices and will

[2] A tranche is a percentage portion of utility wholesale POLR load.

solicit indicative offers from qualified bidders. The solicitation of indicative offers from qualified bidders at the starting prices would establish the initial starting price. Separate bids would be submitted for the residential class and the larger customers to recognize pricing distinctions between customer classes. At the end of the bidding round, the Auction Manager will reduce the price for the tranches as long as bidders subscribe to more tranches than are available. The auction would continue in a series of rounds until the total number of tranches bid falls to a point where it equals the number of tranches being auctioned. All bids are binding and there would be no post auction negotiations.

Each wholesale POLR supplier would be required to provide transmission service for the portion of the POLR load supplied by that entity. The wholesale auction winners would be physically and financially responsible for the day-to-day provision of electricity to meet the actual POLR load requirements. The winning bidders would provide energy, capacity, and transmission service through the RTO Open Access Transmission Tariff ("OATT") and any other services required by the RTO. The EDC should recover its transmission-related costs billed by the RTO, such as congestion, through a separate retail billing mechanism.

Customers are free to migrate to and from POLR service in accordance with the EDCs applicable switching rules. The winning wholesale POLR bidders would stand ready to meet any changes in demand that may arise from customer growth and migration between POLR service and supply offered by competitive suppliers, i.e. shopping load.

The winning bidders would be required to manage this uncertainty as well as weather, changing economic conditions, and any other factor that may change POLR load requirements. The lone exception would be changes resulting from the default of a successful POLR bidder. As discussed below, the EDC would assume responsibility for POLR service in this situation until alternate supply arrangements can be made.

The winning wholesale bidders would be paid a fixed price per kWh for all kWhs delivered as POLR service to a particular EDC. The actual price will result from the competitive wholesale bidding auction conducted by the Auction Manager plus administrative fees and the retail "adder".

The detailed commercial terms and conditions under which the winning bidders will operate are addressed in the individual Supplier Tariffs and auction master supply agreements for the EDCs. The following terms and conditions would be incorporated into the Supplier Tariffs and separate Supply Agreement to the extent they are not already present:

- The wholesale POLR supplier will be responsible to the RTO/PJM for meeting its commitments to supply as allocated to it through the auction process.

- The wholesale POLR provider will deliver to the EDC energy and capacity including the necessary OATT transmission services and line losses. The EDC will deliver the load requirements to its customers.

- The Supplier Tariff and Supply Agreements will be structured to provide adequate credit protection to the EDC and its customers from the risk and cost of wholesale POLR supplier default.

- Consistent with its POLR obligation, the EDC will provide customer billing, bill calculations and metering for all its customers taking POLR supply.

The Commission would review and approve the competitive auction process, monitor the conduct of the auction and the Auction Manager, and certify the results of the auction.

All bids made during the auction process will represent binding commitments on the behalf of supply bidders and full acceptance of all contract terms and conditions, including the Supplier Tariff, the Supplier Agreement and any other terms specified by the PUC. Commission certification will occur within two business days of the close of the auction.

The generation rate for customers taking retail POLR service would cover all costs of the wholesale auction, including administrative fees. Based upon the final auction price, an array of generation charges for each customer class would be developed. These prices will take into account customer load profiles, cost of delivery losses, seasonal differentiation and any other relevant information in establishing POLR service rates for each customer class. Any under or over collection of costs would be addressed in a subsequent billing period.

In the event of a wholesale POLR supply default, the prices customers would pay will be adjusted to reflect whatever the market price is at the time of the default or to cover the POLR suppliers' failure to supply. The EDC would have the obligation to acquire the generation supply necessary to cover the default or shortfall at then current market prices. Any over or under collection by the EDC would be included as a reconciliation item in subsequent billing periods. Power obtained in RTO administered markets should be considered presumptively reasonable by the PaPUC.

VIII. TARRIFF AND RATE DESIGN ISSUES

Specific terms and conditions of post-generation rate cap EDC POLR service should track existing service rules and offerings as much as possible. EDCs are already addressing issues such as the length of service contracts for POLR customers, customer migration issues and rate classes and rate design. The regulations need not provide specific new direction on these topics. Rate design should follow the auction process.

Prices should be determined primarily from the results of wholesale competitive auctions. The generation charge should be determined by the bids received plus administrative charges and retail adder.

Terms and conditions of POLR service should be reasonably uniform across Pennsylvania although they may not have to be identical. Switching rules are already in place and are familiar to customers.

With a competitive wholesale procurement process, POLR rate design should be able to reflect the wholesale market to the extent possible. The POLR rate design should at a minimum reflect time-of-day price differentials and/or seasonality. Current POLR rates for the Companies are flat across all hours and seasons. Where appropriate interval-metering permits, rate design should be set on an hourly basis. Fixed rates for POLR service should only be applied to rate classes with a predictable usage pattern, i.e., residential classes, street lighting, etc. Variable market-based rates should apply to all other rate classes since their usage patterns can vary significantly between time of day and seasons.

While residential customer usage patterns are driven mostly by weather, the usage is not to any great extent impacted by economic conditions. Since the weather is somewhat predictable in the short term, planning for residential usage tends to be more manageable. In contrast, commercial and industrial load is largely influenced by economic conditions. For example, product demand and wage differentials can cause these types of customers to significantly shift their usage pattern. Predicting these types of load swings can be difficult and creates additional risk for the POLR provider in the market.

In the case of Met-Ed and Penelec, a reasonable threshold to place customers on a variable market-based rate would be customers served under Rate Schedule GST (General Service-Secondary Time of Day) and larger. These customers have demands in excess of 400 kw and many of these customers already have the necessary metering in place to accommodate hourly market pricing. For Penn Power, a corresponding threshold would be Rate Schedule GT – General Service Transmission since these customers have demands in excess of 200 kva.

IX. STAFF ISSUES LIST

Using the outline of Staff produced POLR Roundtable Issues List as a guide, the FirstEnergy Operating Companies offer the following additional detailed comments.

Scope of Service: The POLR obligation should stay with the incumbent EDC. The EDC continues all retail market support functions such as customer lists and demand side response programs. All customer care functions and Chapter 56 activities stay with the incumbent EDC since these are important regulated activities subject to appropriate regulatory oversight. If after appropriate hearing and order (or statutory mandate), a determination is made that a certain percentage of the POLR portfolio be in the form of a renewable energy component, that characteristic can be included as a requirement of the wholesale POLR supply auction provided all associated costs are fully recovered. Retail

POLR service will be available for all customer classes although type of service and price of POLR will not be the same for each class. The post- generation rate cap POLR product should be as uniform as possible for the EDCs to encourage competitive bidding of wholesale supply.

Qualifications for POLR: POLR is a regulatory obligation of incumbent EDCs. It is not clear that this function can be successfully delegated by contract or regulatory decision to another entity without impairing the quality of customers' service. As such this obligation should remain with the incumbent EDC because as a practical matter they will be held responsible in a default scenario. There are numerous and complex regulatory barriers to enable currently unregulated alternate suppliers to serve retail POLR. There are risks to both customers and the EDC by having a third party entity provide retail POLR. If the third party entity defaults, such as recently happened at PECO, the EDC would have to fill the void at then current market prices. Therefore, the incumbent EDC still maintains the ultimate POLR obligation. Creditworthy alternate suppliers should be limited to the role of providing wholesale POLR supply requirements to the EDCs through a competitive bidding auction.

POLR Service Models: Direct assignment of POLR obligation should be made to the incumbent EDC. The EDC should solicit wholesale POLR supply requirements as part of a statewide auction. Prices will be set at prevailing market rates plus full cost recovery of administrative costs and the retail adder. By setting the price for POLR service through a competitive wholesale auction process, there should be opportunities for further growth in the retail competitive market, since retail competitors will compete against market based retail rates including EDC administrative and retail adders. The incumbent EDC should retain the POLR obligation and implement a competitive wholesale auction for supply requirements in establishing a post generation rate cap retail POLR program.

To ensure a full competitive environment all suppliers should be encouraged to participate, including the affiliates of EDCs. Simple economics dictate that a successful competitive bidding process hinges upon an open market, allowing the participation of all potential bidders. Many states that have had successful auctions allow for participation by affiliates. Connecticut allows affiliates to bid through the same process as other competitive entities, citing the code of conduct rules already in place. Other states with successful auctions include New Jersey and Maryland.

<u>Terms and Conditions of POLR Service:</u> The recommended length of service should be seventeen months for the initial program, January 1st through May 31st of the subsequent year. Thereafter, wholesale auctions should be on a PJM planning year basis, June 1st through May 31st. This should be uniform for all PJM companies. The PUC may want to consider longer terms for POLR service as it gains experience with the auction. Penn Power, which is a part of MISO, may need to conduct its own individual wholesale supply requirements auction. Adequate customer switching rules are already in place. Therefore, no changes are necessary. Rate design should allow flexibility to offer fixed rates to smaller load customers and variable rates to larger load customers in the post

generation rate cap POLR world. The EDC would maintain the retail POLR obligation under similar customer rules and regulations as those that are in place today, which would be inappropriate for an alternative supplier.

<u>Full Recovery of Reasonable Costs:</u> All costs of wholesale POLR supply and the administrative costs of obtaining the supply need to be incorporated into the POLR pricing model. A competitive wholesale auction should be utilized to establish the price subject to an up front regulatory review process. This regulatory process would review the competitive wholesale supply winners, approve the auction results and determine the rate to be paid by customers including appropriate "adders" to effectuate competition. Universal Service would continue to be an EDC function as part of distribution rates.

<u>Adjustment and Reconciliation of POLR Rates:</u> After each competitive wholesale supply auction, new POLR rates would be established for subsequent years including administrative costs. If not previously recovered, these rates would contain any adjustments for prior year reconciliations of administrative costs and, if any, direct EDC POLR supply costs. With use of a reconciliation, an EDC would not over or under collect costs associated with the provision of POLR service in situations where a supplier default has occurred. The generation price, including wholesale supply costs, administrative costs, a retail adder and prior year reconciliation would be established prior to the POLR billing year, subject to reconciliation at the conclusion of the billing year.

Default of POLR Service Provider: If a supplier defaults on its POLR obligations, serious supply problems may ensue. Since the incumbent EDC performs the necessary regulatory functions, it makes sense to have the POLR obligation remain with the EDC. The EDC would obtain the POLR shortfall from the RTO-administered capacity and energy markets until responsibility can be transferred to a qualified wholesale POLR provider, or the next auction is completed. All costs of backstopping POLR process should be fully recovered through the administrative adder and reconciliation process.

Implementing POLR Service Rules/Transition Issues: With the staggered schedule for the expiration of generation rate caps, the Commission should issue one set of POLR regulations that would be effective upon the conclusion of all EDCs generation rate cap, which was established by statute or lengthened as part of a RSA. Initial competitive POLR supply auctions would be for seventeen months, January 1st through May 31st with subsequent auctions for twelve or longer periods coinciding with the PJM planning year, June 1st through May 31st. Market power abuses should continue to be monitored by the Commission regardless of the POLR model selected. However, a competitive wholesale auction should mitigate potential market power abuses through the bidding process.

The appropriate time to address consumer education would be during the last year under fixed generation rate capped rates for each individual EDC. Details of how consumer education will be conducted can be addressed as EDCs transition to a competitive wholesale POLR model and primarily address any rate design changes. The existing generation rate cap based POLR plans should not be disturbed. Any new rules developed should only impact post generation rate cap POLR service. No orders would need to be changed provided the new rules do not impact existing POLR provisions.

X. SUMMARY

In response to the Commission's initiative to seek solutions to the provider of last resort issue in Pennsylvania after restructuring generation rate caps, it is the position of the FirstEnergy Operating Companies that the PUC should require a competitive statewide wholesale auction for PJM companies, by EDC, that would be open to all registered suppliers. Since EDC generation rate caps expire at different points in time over the ensuing years, competitive wholesale auctions can be phased in as individual EDCs come off their generation rate cap and become eligible to include their load in the auction. Penn Power's rate cap ends December 31, 2006, while Met-Ed's and Penelec's caps terminate on December 31, 2010. Auction prices should be bid and developed on an EDC specific basis. Penn Power should conduct a separate competitive wholesale auction commencing with post generation rate cap POLR service on January 1, 2007, assuming MISO has a sufficiently developed wholesale market. The EDCs would continue with the obligation to provide POLR service, but this obligation would be met through procurement of supply subject to competitive wholesale auctions. EDCs would directly procure POLR supply only in the event of a supplier default.

Met-Ed, Penelec and Penn Power thank the Commission for an opportunity to present comments in these proceedings and look forward to continued participation as this important issue moves forward.

APPENDIX A

Education and Work Experience
of
Richard A. D'Angelo

Mr. D'Angelo's business address is FirstEnergy, P.O. Box 16001, Reading, Pennsylvania 19640-0001; Phone (610-921-6498); Email: rdangelo@firstenergycorp.com.

Mr. D'Angelo is employed as Manager -- Rates and Regulatory Affairs – Pennsylvania for the Pennsylvania Rate Department of FirstEnergy Corp., the registered holding company under which Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec") and Pennsylvania Power Company ("Penn Power") conduct business in Pennsylvania. He is responsible to the Director of Rates & Regulatory Affairs for the development, coordination, preparation and presentation of Met-Ed's, Penelec's and Penn Power's accounting and financial data in all its rate-related matters before the Pennsylvania Public Utility Commission ("PUC" or "Commission") and the Federal Energy Regulatory Commission ("FERC"), as well as the preparation of statements and reports addressing, among other things, stranded cost recovery, energy costs, non-utility generation ("NUG") costs, quarterly earnings, and other financial matters. He is also responsible for the administration of the Companies' tariffs, development of retail electric rates and rules and regulations ensuring uniform administration and interpretation.

Mr. D'Angelo graduated from Brooklyn College in 1972 with a Bachelor of Science degree in Economics and Pace University in 1976 with a Masters in Business Administration degree in Finance. He has over twenty-seven years of experience with Met-Ed/GPU Energy/FirstEnergy Corp.

Mr. D'Angelo's most recent work experience has included the preparation and presentation of accounting and ratemaking testimony before the PUC in the GPU Energy restructuring proceedings at Docket Nos. R-00974008 and R-00974009. He also participated actively in the negotiation and completion of the GPU Energy restructuring settlement ("Settlement"), which the PUC approved in October of 1998. Thereafter, I supervised the preparation and filing of the ratemaking and accounting report to the PUC as part of Phase 2 of GPU Energy's approved restructuring plan, which incorporated the actual results of the completed generation asset divestiture transactions that had been approved previously by the PUC. He also prepared and submitted accounting and ratemaking testimony as part of the Phase 2 proceeding, which was concluded by a PUC order entered in December 2000.

As part of his continuing responsibilities as Manager-Rate Activity for GPU Energy, he prepared and submitted accounting and ratemaking testimony in proceedings held before the PUC in 2001 at Docket Nos. P-00001860 and P-00001861, concerning the impact of escalating competitive electricity market costs on Met-Ed and Penelec in their role as provider of last resort ("POLR") and Docket Nos. A-110300F.0095 and A-110400F.0040, concerning the joint application for approval of the merger of GPU, Inc. and FirstEnergy Corp.