

Pennsylvania Public Utility Commission POLR Roundtable

May 3, 2004



Definition of PA POLR Service:

- PA POLR refers to electric supply for customers who do not choose a competitive supplier or who cannot secure a willing competitive supplier.

AND

- POLR can mean the backstop provider in cases of generation provider bankruptcy or exit from the market.

Nature of Commission Effort

- The Commission's POLR regulations and implementation requirements will determine the ultimate success of Pennsylvania's retail choice plan.
- Assure that POLR customers have access to reliable electric generation at prevailing market prices.

POLR Model

- Strategic Energy has written a paper on the Optimal design for Default Electricity Service.
- Paper establishes guidelines to achieve robust competitive markets for POLR service, and for all retail customers.

POLR Model

- PA Legislation constrains some of the ideas in the paper
 - Separation of Default Service from POLR service.
 - Completely unregulated default service pricing.
 - Utility affiliate required if utility is to serve POLR load.
- Focus of Strategic Energy Presentation is based on existing statute.
- Commission and Market Participants should work to get to optimal end-state.
- Could require legislative change(s).

Guiding Principles for POLR Market Design

- Adhere to requirements of the “Choice Act”.
- Market forces are superior to government regulation in setting retail prices of any commodity.
- Retail prices for POLR service should not be regulated or administratively determined.
- POLR service should rely on short-term markets to determine prices.
- POLR service should be competitively bid and awarded to the most qualified bidder(s).

Principles for POLR Market Design (Cont.)

- POLR suppliers must be structurally and legally separated from the jurisdictional EDC.
 - To compete for Retail Load, an EDC must have retail affiliate.
 - Wires Company must be stand-alone company with no cross-subsidization of retail costs.

Principles for POLR Market Design (Cont.)

- Suppliers should be compensated for assuming the POLR obligation:
 - Competitive market offers will determine the amount of compensation.
 - An integrated generation utility affiliate should not be allowed to earn a return unless POLR service is competitively bid. (statutory requirement)
 - An integrated generation utility earning a profit in a non-competitive process will eventually re-monopolize the market.

Principles for POLR Market Design (Cont.)

- Customers should be permitted to move on and off POLR without restrictions or penalties.
 - Switching freedom is the fundamental premise in any market.
 - Customers “vote with their feet”
 - NJ BGS and MD SOS generation offers demonstrate that fair supply prices are provided under a no-switching restriction model.

Principles for POLR Market Design (Cont.)

- Bid-based POLR pricing should start with large and medium business customers.
- Establish a phase-in process and timeline for all customers.

Implementation

1. Establish POLR pricing mechanisms that:
 - Determine prevailing market price for full requirements using RFP, auction, or hourly market.
 - Set (re-set) prices frequently to recognize seasonal variations or market movements.
 - Allow providers to earn a return that is embedded in the competitively bid POLR rate.
2. Eliminate Switching Restrictions
 - Require customers to request the switch from the proposed (new supplier).
 - Use seasonal rates to preclude gain from market timing.
3. Ensure structural and legal separation of the EDC wires business from the POLR supply business. Establish Code of Conduct.

Implementation

4. Establish pro-competitive business rules relating to:
 - POLR provider creditworthiness standards.
 - Availability of ECL with 12 rolling months of customer account demand and usage.
 - Require all EDC/POLR data interchange through EDI, XML or the current industry technology.
5. Review customer protection regulations. Revise as required.
6. Promote DSR by requiring all large and medium size business customers (>60 kW) be provided hourly metering.

Implementation

7. Encourage and facilitate customer education.
8. In the initial years of POLR service start the market-based POLR process with large and medium (>60 Kw) business customers first.
9. Begin T&D COSS that will lead to determination of customer account services costs and ultimately lead to separation or divestiture of the retail generation business.

Implementation

10. Establish regulations requiring:

- Transition from wholesale POLR supply to retail POLR supply.
- Availability of EGS consolidated billing.
- Customer and EGS access to Real-Time usage information.
- POLR-based renewable portfolio standard compliance.
- POLR-based Demand Side Response