

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Provider of Last Resort Roundtable
Docket No. M-00041792**

**Reply Comments
On behalf of FirstEnergy Solutions Corp**

June 17, 2004

First Energy Solution's Corp (FES) submits these reply comments pursuant to the invitation extended by the Commission in its March 18th Secretarial Letter addressing the Provider of Last Resort (POLR) Roundtable. FES' reply comments discuss other parties' comments with respect to FES' key recommendations made in its original comments and serve to re-emphasize these key recommendations.

- **There is only one entity, the EDC, that can be relied upon to fulfill Provider of Last Resort obligations.**

FES agrees with the majority of the parties that the EDC as a practical matter, at this point in time, should remain the true POLR. Since an assignee can fail to perform, and the EDC cannot choose to exit the business as other entities can, the EDC should remain the POLR. The EDC has invested in the infrastructure, and has the appropriate means to provide customer care functions, including those defined in Chapter 56. There are very few suppliers that currently could take on all of the customer care, metering and Chapter 56 functions of the POLR customers. Therefore, to require these functions to be performed by the supplier would in all likelihood limit supplier participation. As PPL Electric points out "one of the benefits of having the EDC perform the POLR function is that it avoids the consumer confusion and administrative complexity that arise from the sharing of these functions" (PPL Electric Comments, p. 4 point 3). As the Commission is well aware, it is indeed a substantial additional obligation to undertake, the implementation of which would add significant complexity to this process and would necessarily create redundant customer care functionality, added expense, and stranded cost considerations for this Commission

- **Rules governing POLR generation service should promote uniformity and consistency across the EDCs in the State.**

FES believes that POLR generation service needs to be identically defined for all EDCs. There should be no confusion for competitive generation suppliers that POLR generation service means something different depending on what EDC you are serving. As pointed out in its original comments, FES states that the generation service component of the POLR obligation be defined to include the provision of energy, capacity and generation or market supplied ancillary services (FES Comments, p. 6, POLR Service Definition). FES agrees with Select Energy (Presentation slide 6) and PSEG Energy Resources and Trade LLC (Presentation slide 5) in that transmission costs should be a pass through to the customers. The OCA points out that “any regulations should also accommodate the development of a renewable or advanced energy portfolio standard at the state level” (OCA Presentation Slide 6). Any costs relating to a mandatory renewable portfolio standard must be fully recoverable by the EDC as a presumptive reasonable cost.

- **Each customer should have only one option for POLR service based on their rate schedule.**

FES agrees with Amerada Hess that the “POLR provider should not market POLR service” and there should be “only one pricing option” for POLR (Amerada Hess Presentation slide 2). Allowing a customer to have more than one POLR option is anti-competitive and stifles competition from competitive electric generation suppliers.

- **Residential and small commercial customers should receive POLR generation service at fixed seasonal prices while large commercial and industrial customers should receive POLR generation service at prices reflecting hourly wholesale market prices.**

Most parties agree that the residential and small commercial customers need the protection of a fixed price, not the volatility of an hourly market based price. Not only does it represent stability, but also a benchmark to use when considering competitive generation offers. In order to make the competitive retail market work however, some customers must be exposed to hourly wholesale prices. Arguably, not all customers are ready to take on this arrangement. Large commercial and industrial customers are generally more sophisticated and able to make more informed decisions regarding generation supply than smaller customers and therefore should see POLR generation service prices that reflect the hourly wholesale market. The difference between the parties is in determining the threshold level that distinguishes a small and large commercial customer. FES feels this threshold should be around 500 KW.

- **A single statewide auction process with mandatory participation by all EDCs within the same RTO should be used to procure the generation-related products needed to offer POLR generation service.**

FES agrees with the parties that support a statewide auction as the process to procure POLR generation service. As DTE Energy points out, the “NJ-BGS Auction approach has worked well in providing a high level of competition” (DTE Energy Presentation slide 3). It’s a proven process that effectively links POLR generation service prices to wholesale prices resulting in reasonable cost to consumers. FES also agrees with the annual auction approach that procures a portion of the requirements for a

fixed term. This approach dampens the impact of any one-year's market prices. The Commission should endorse the statewide wholesale auction as the preferred POLR procurement process and cause EDCs to justify any alternatives to this approach. Allowing each of the EDCs in the state to choose their own type of POLR procurement process, as recommended by some of the parties, would be detrimental to competition as suppliers wouldn't want to have to learn multiple rules per EDC, and decide accordingly which one to participate in.

- **There should be no switching rules/restrictions under a statewide auction procurement process.**

FES agrees with Constellation NewEnergy (Constellation NewEnergy Presentation slide 9), Amerada Hess Corporation (Amerada Hess Presentation, slide 5) and Strategic Energy (Strategic Energy Presentation slide 9) that there should be no switching rules/restrictions with a statewide auction process. With seasonal rates mandated, the need for switching rules is diminished. New Jersey has successfully implemented an auction without switching restrictions.

- **A retail adder, recovered by the EDC, for costs and risks associated with administering POLR service is appropriate.**

FES disagrees with PSEG Energy Resources and Trade LLC (Presentation slide 7) and others who believe a retail adder is not appropriate. FES believes the EDC should be able to charge an appropriate retail adder to compensate it for actual costs and risks associated with the provision of POLR service.

FirstEnergy Solutions thanks the Commission for this opportunity to share their reply comments on these important issues.