BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Provider of Last Resort (POLR)	**:**	
Roundtable	**:**	**Docket No. M-00041792**
	:	

REPLY COMMENTS OF RELIANT ENERGY, INC.

I. Introduction

Reliant Energy, Inc. ("Reliant") submits these reply comments in response to the Pennsylvania Public Utility Commission ("Commission")'s March 18, 2004 Secretarial Letter establishing a Provider of Last Resort ("POLR") Roundtable to address POLR service. Reliant appreciates the opportunity to provide responses to the Commission's POLR Roundtable Issues List and the comments and presentations filed by parties during the POLR Roundtable meetings. Reliant wishes to offer a framework for the Pennsylvania market that will allow robust, sustainable competition to benefit Pennsylvania consumers. In order to present the framework in a concise manner, a brief description of the framework will be given prior to the answers to the POLR Roundtable Issues List and responses to the comments and presentations filed by parties during the POLR Roundtable meetings.

In addition, please find attached, ***Reliant Energy's POLR Framework for the Pennsylvania Market,*** that was made available at the May 19, 2004 POLR Roundtable meeting.

II. A Robust, Sustainable Framework for the Pennsylvania Market

For robust, sustainable retail competition to flourish and provide meaningful benefits to customers, fundamental economic principles should be considered, primary of which is that competitive market forces are more effective than economic regulation in arriving at efficient prices. Therefore, care must be exercised in formulating the POLR product that incumbent utilities will offer. POLR service should be limited to service available for customers who do not choose a competitive provider and service for customers whose retail provider ceases to provide service (e.g., bankruptcy). POLR service should be fairly priced including consideration of the risks associated with providing the service, and should be adjustable to reflect changes in market prices (e.g., changes in power prices or fuel prices). While the methodology for determining POLR prices may be, in part, administrative, the provider should be free to procure supply in a manner that best meets the individual risk profile and load obligations of the provider. Available procurement methods the POLR provider could, at its own discretion, utilize include (1) an auction, (2) a request for proposals, (3) bilateral agreements, and (4) an affiliate agreement, among other methods.

The POLR services should be established in a manner that does not inhibit competition and provides the benefits of such competition to customers. POLR prices will establish the ceiling against which competitors must compete to enter the market; therefore, these prices must be adjustable to changes in market prices. Customers should be free to switch from POLR service to competitive service at any time without restrictions.

Large customers have a great deal of market sophistication and have the ability and a strong desire to shop for products and services that meet their specific needs. The technology exists for these customers to monitor usage on an hourly basis and the financial benefits of saving even a few mils per kilowatt-hour can be significant due to the volume these customers consume, thus their incentive to navigate the market for the best deal is high. Likewise, these customers' have high volume usage that provides economies of scale which are attractive to retail suppliers. Accordingly, retail suppliers have an incentive to design products to address individual customer desires in order to attract their business. As such, these customers have been the first to choose alternative providers and take advantage of hourly-priced products in other markets in other states.

POLR service must not be allowed to serve as a substitute for competitive choice. There is no need for the utility to offer an array of POLR services to these customers and indeed such a design will stifle the competitive market. Instead, the only POLR service for large customers should be a basic, hourly-priced product; this design will result in the largest number of retail suppliers offering competitive products to customers. There should be no switching restrictions for large customers. Customers not selecting a provider would be placed on hourly POLR service. This market design will allow robust, sustainable competition to develop for this customer class.

Large customer POLR prices should include a retail adder to appropriately reflect retail market prices. The retail adder should only be applied to those customers taking POLR service as it is meant to be, at a minimum, fully compensatory of providing POLR service.

Small commercial and residential customers may face slower transition to competitive offers than the large customers because of less financial incentive due to lower consumption, and the technological inability to respond to usage on an hourly basis. Therefore, compared to large customers, a less frequently adjustable POLR price should be designed. The Commission should establish an initial commodity price that allows for sufficient headroom when compared to market prices at the end of the transition period. To allow for adjustment to wholesale price changes, a transparent adjustment mechanism should be established based on a known market index that can be determined through a stakeholder process. In order to allow competitive retail providers to enter the market and remain in the market, the POLR provider should have the opportunity to adjust the POLR price twice per year. Allowing retail prices to change with wholesale price changes will ensure all parties that the POLR price will not become below market, thus providing confidence to new market entrants that robust, sustainable retail competition will develop.

This framework outlined above will ensure that the POLR price appropriately reflects changes in wholesale prices and will be conducive to the development of robust, sustainable retail competition for all customer classes.

In the interest of providing consumer opinions on deregulation of the electric market in Pennsylvania, Reliant conducted a consumer survey in May of 2004 and has included the results of the survey with our comments. Please see the attached final report titled, ***Pennsylvania Electricity Deregulation – Residential Consumer Awareness and Perceptions*****.** The survey shows that residential consumers prefer a more competitive electricity deregulation model than that of a utility-based provider model. Residential consumers prefer prices be set by competition. Consumers believe that a more competitive deregulation electricity model will bring about more rate plans and providers. The framework for a competitive market outlined in these comments is consistent with the desires expressed by residential consumers throughout the state of Pennsylvania.

While consumers expressed a desire for more choice and competition, a significant amount of consumers currently feel that competition, as it exists now, has not benefited them. Thus, changes to the current electricity deregulation model are needed. If these changes result in robust, sustainable competition, then customers will achieve the benefits they are seeking. This would result in a higher percentage of customers indicating that competition has been beneficial relative to the benefits being provided in today's market model. The framework outlined in these comments will allow for market model changes that will result in robust, sustainable competition so that the benefits that consumers seek can be realized.

III. Responses to Issues List

I. <u>Scope of POLR Service</u>: "[T]he commission shall promulgate regulations to define the electric distribution company's obligation to connect and deliver and acquire electricity." 66 Pa. C.S. §2807(e)(2) (emphasis added).

Please address the nature and scope of POLR obligation in regards to each of the following topics. Further, parties may suggest priorities and policy goals for the Commission in regards to these topics.

- **Connection and Delivery: Including local transmission, distribution, interconnection and metering.**

  Reliant believes that these functions related to connection and delivery should remain with the electric distribution company ("EDC") at tariffed rates.

- **Generation Acquisition/Supply Obligation**

  Pennsylvania's goals for the electricity market will best be achieved by designing a market that fosters a workably competitive wholesale market and robust, sustainable retail competition. A workably competitive wholesale market includes an independent system operator, a resource adequacy mechanism that allows forward market forces to work (including demand response), and a level playing field (i.e., in the end state, no cost-of-service generation). Price, load, and other retail risks are best managed by allowing providers to freely procure power from a competitive wholesale marketplace. Each retail provider, including the POLR provider, should purchase supply based on its own risk profile.

  As will be discussed further, the POLR rate should be tied to the market rather than the POLR provider's procurement strategy. As a result, the POLR provider has every incentive to procure its supply in the most prudent manner as it bears the risk with respect to its supply procurement strategies. As such, it should be free to pursue the procurement strategy it deems in its best interest.

  As competition develops in the Pennsylvania electric market and customer switch off POLR service this question becomes largely moot since very little load will remain on POLR service. This results in POLR service living up to its name as the "Provider of Last Resort" not the "Provider of First Resort" or "Provider of Only Resort".

- **Reliability**

  Responsibility for transmission and distribution reliability is best maintained by the EDCs. Designing a market structure wherein the utility manages the operation and maintenance of the distribution and transmission systems under a regulated structure that requires compliance with National Electric Reliability Council (NERC) requirements will result in the most efficient manner of maintaining these systems. Encouraging utilities to join a Regional Transmission Organization ("RTO") will allow for access to wholesale markets in the most efficient and reliable manner possible. Some benefits of joining an RTO include independent grid operation; regional transmission planning; market monitoring and market power mitigation; and spot markets and congestion management. A sufficiently forward-looking resource adequacy mechanism must be implemented (including demand response) to maintain the long-term viability of the wholesale market.

- **Retail Market Support Functions: All activities currently required of electric distribution companies to support the function of competitive markets, including Demand Side Response and the maintenance of customer lists.**

Demand side response, including load reduction based on price response and energy efficiency, should result from a robust, sustainable retail market. Price responsive load provides benefits to the entire market by creating efficiencies that get passed on to all participants. Administratively determined demand response programs can inadvertently result in sending perverse incentives and can hinder competitive-based demand response offerings. Competition will result in the most efficient use of resources, including the use of demand side response.

- **Customer Care Functions: All retail customer care obligations currently assigned to electric distribution companies, including those found at Chapter 56 of the regulations.**

Reliant recommends that customer protections as defined in Chapter 56 of the Pennsylvania code addressing the standards and billing practices for residential utility service, including billing frequency, meter reading, transfer of accounts, late payments charges, partial payments, termination, and deposits should remain the responsibility of the EDC.

While billing for large customers is currently done through consolidated utility billing, the current structure also allows for dual-billing. Reliant believes that both options should remain available to EGSs.

- **Environmental and Conservation: Including any potential Renewable Portfolio Standard requirements and Demand Side Response.**

Competition itself will be the best provider of renewable energy. Mandates serve to distort, rather than enhance market needs. The best market design for renewable energy is to allow market structures where consumers have the choice to procure renewable products. However, if policy makers should choose to include “mandated” renewable energy percentages, it should be done through market-based mechanisms that create an obligation on all retail providers so that a level playing field is ensured. Pricing transparency and electricity pricing should be reflected in mandated renewable portfolio standards.

The POLR product is not the place to offer demand side management (“DSM”). While demand response is a key component of customer choice and an efficient competitive wholesale and retail market, the wholesale market/RTO rules are critical to fostering DSM. Supply procurement should be fair and offer consistent treatment for all market participants. Demand response should be selected in a competitive market-based process as opposed to an administrative method. Allowing demand response or generation to set the market-clearing price will provide a transparent mechanism that will allow retail providers to make the supply decision that best meets their needs.

- **Customer Participation: Does POLR service extend to all customer classes?**

POLR service should be extended to all customer classes as discussed in the framework in the Introduction. It is imperative that the POLR service be designed to reflect the differences between customer classes. As discussed in the Introduction, large customers, metered hourly, should be priced on an hourly basis with a retail adder. Small customers, on the other hand, should be offered a more stable price, designed to reflect changes in wholesale prices, but limited to no more than two changes per year. It is important to note that both customer designs reflect changing market conditions, otherwise competition and the benefits thereof will not result.

- **EDC Participation: Should the nature of POLR obligation be uniform for all existing EDCs?**

Reliant supports more consistent rules across existing EDCs so that competitive POLR suppliers can take advantage of economies of scale across the Commonwealth. Rule uniformity will benefit EDCs and customers of all sizes. Rule consistency will also make it easier for customers to reap the benefits of competition.

While not all Pennsylvania EDCs reside within the same RTO, Reliant’s proposed framework removes any concern about rule uniformity since the POLR provider is free to procure supply in any manner it chooses.

<u>II. Qualifications for POLR:</u> A POLR may be either an "electric distribution company or commission-approved alternative supplier." 66 Pa. C.S. §2807(e)(3)

Please address the financial and other qualification standards for the POLR provider:

A. Reserved for Incumbent EDC

- **What should the requirements be for an EDC to qualify as a POLR provider?**

  Should the Commission choose a market design wherein the incumbent EDC serves as the POLR provider no additional requirements would be necessary since EDCs currently serve as the POLR provider

- **What are the risks and benefits of reserving this role to the incumbent EDC?**

  Assigning existing POLR customers to a POLR provider other than the EDC could potentially result in customers being switched to a new provider without their consent or "slammed". Allowing the incumbent EDC to serve as the POLR provider prevents customers from being slammed. Customers should have the ability to choose their provider rather than being administratively placed with a provider not of their own choosing.

- **Do any EDCs wish to be relieved from the obligation?**

  Reliant has no knowledge about EDCs' desires to not serve as the POLR provider.

B. Alternative Suppliers that may serve as POLR

Should the Commission choose to implement a market structure wherein non-EDCs serve the role of POLR providers, Reliant supports the adoption of the Competitive Selection Model such as that used in Texas and discussed below in Section III. (B). POLR Provider qualifications should be the same as those for qualifying Electric Generating Suppliers in the Commonwealth. Current market rules may have to be altered to allow for this type of POLR provider structure. Reliant does not support a retail auction whereby customers are switched to a new POLR provider without their consent.

- **What should the requirements be for a non-EDC to qualify as a POLR provider?**

As noted above, the entity must meet the qualifications on an EGS in order for a non-EDC to qualify as a POLR provider.

- **What should the process be for an alternative supplier to qualify?**

Since the POLR provider should be a certified EGS in the Commonwealth, the same procedures should be sued to qualify the POLR provider.

- **Are there unreasonable barriers to this role, regulatory or otherwise, that the Commission should address?**

Reliant is not aware of any reasons why this type of POLR selection process could not be adopted in Pennsylvania, although some changes may be necessary to incorporate such a design into Commission rules.

III. POLR Service Models

Please comment upon the form POLR Service should take. Please consider the following models and associated issues:

A. Direct Assignment to EDC or Alternative Supplier - The Commission selects the POLR from applications of one or more EDCs and/or alternative suppliers.

In a market structure wherein the EDC acts as the POLR provider Reliant supports the market structure outlined in the framework in the Introduction. Should the Commission adopt a market structure wherein non-EDCs can act as the POLR provider, Reliant supports the Competitive Assignment Model wherein a competitive affiliate of the EDC serves the role of POLR.[1] This model is discussed in detail below in Section III B.

- **What process should be used for reviewing assignment proposals?**

Any process to determine the choice of POLR provider should include the policy objectives of the Choice Act, customer protection and competition. Reliant believes that it is important that customers not be

[1] In Texas a distinction is made between default service and POLR service. Default service is offered by the affiliated retail electric provider ("REP") to customers that do not choose another provider. POLR service is available to those customers who's REP ceases to provide service or who voluntarily select POLR service. Customers that are dropped by their current REP are eligible for POLR service from a provider determined through the Competition Selection process.

slammed and switched to a new POLR provider without their consent and thus does not support assigning customers to alternate suppliers.

- **What should be the standard for evaluating POLR proposals as to "the prevailing market price" of generation supply?**

The Competitive Selections model discussed in Section III(B) utilizes either a bid selection process or the POLR provider is appointed by lottery.

- **What should be the standard of evaluating the POLR proposals as to the procurement strategy for their generation supply? For example, should there be limits or minimum requirements on self-generation, spot market purchases, bilateral contracts, etc?**

In a competitive marketplace, there is no need for regulatory oversight of POLR provider procurement strategies. A fundamental tenet of a competitive marketplace is that procurement decisions are best left to the entity offering the service taking into account the risk profile of such service. Prudence type hearings, while critical in a regulated model, lead to market distortions and untenable encumbrances in competitive market models. Under the proposed POLR construct in the Introduction, the retail POLR price is tied to wholesale market indices or real-time prices, not the POLR provider's supply portfolio. Accordingly, if the POLR provider does not procure its supply in manner that minimizes risk and thus prices, the POLR customer is not penalized. As such, there is no need for regulatory oversight.

- **If this model is used, should the EDC be required to make use of competitive processes, such as wholesale energy auctions, for example, to obtain generation supply?**

As discussed in the question above, procurement decisions in a competitive marketplace are best left up to the entity providing the service.

- **How could this model impact the competitive retail market and customer choice, and if negative, what steps should be taken to mitigate any such effects?**

This market design will impact the success or failure of the competitive retail marketplace and customer choice, not necessarily who is charged with offering POLR service.

- **How would this model vary depending on the identity of the (EDC vs. Alternative provider)**

The model need not vary based on the provider.

B. Competitive Assignment – The POLR is determined as the result of a competitive process which is open to incumbent EDCs and/or alternative suppliers.

- **What process should be implemented for a competitive assignment model?**

  The Texas market is structured with a competitive assignment for POLR service. However, it should be noted that in Texas POLR service and default service are different products. Default service, or the Price to Beat, is offered by the affiliated retail electric provider (REP), and serves as a tool to transition from a regulated environment to a competitive environment. This transition is largely complete for large commercial and industrial customers in Texas as very few customers remain on default service.[2] For residential and small commercial customers, default service ends on January 1, 2007.

  POLR service in Texas is meant to provide service for either customers whose REP no longer provides service or those who voluntarily elect POLR service. POLR service is not meant to be a long-term product, but rather meant to provide continuation of the customer's electric service until such time as the customer can choose another provider. Therefore, customers are not slammed under this market design. POLR service does not serve a large portion of customers in the Texas market, nor is it meant to do so. The incumbent is not required to maintain POLR responsibility, but may serve in that role should it be a winner of the competitive bid processor should it be selected through the lottery process discussed below. A summary of the POLR selection methodology in Texas follows:

  A POLR provider is either selected by bid or appointed via lottery to serve a two-year term.[3]

  - Appointments or selections are made for each customer class in each service territory participating in competition. A single service territory can have a different provider for each customer class.

  - As long as the Price to Beat ("PTB") is in effect, the affiliate retail electric provider ("AREP") cannot be required to provide POLR service in-territory for the residential and small non-residential classes. However, the AREP is eligible to provide POLR service to these

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[2] In the Centerpoint Energy (Houston area) service territory where Reliant provides default service, almost 99% of large commercial and industrial customers have chosen competitive offers.
[3] Per Texas Substantive Rule 25.43

classes in-territory if it agrees to provide POLR service at the PTB price, which is typically lower than the POLR service.

- Selection via retail price bid:

  Every two years, the Commission will hold a competitive bid-process for each customer class in each territory.
  - The commission will evaluate the bids and ensure they fall within bid floor/ceiling. The low bid will be appointed to serve as the POLR.

  - Where the bid process fails to result in a POLR provider, the Commission will conduct a lottery of eligible REPs to appoint a POLR. The REPs need not be an affiliated REP. There are certain exclusions that apply in the lottery (i.e. if a REP is already serving as POLR in two or more service territories for a given customer class), it has the option of being excluded from any lotteries for that given customer class. Also, an AREP cannot be appointed via lottery to a PTB customer class in-territory as long as the PTB is in effect.

- POLRs provided via the lottery will be required to provide service at market-based prices.

- **What would be the standard for determining the winner?**

  Selection is done on the basis of the price bid, and where no qualified bids exist, then a lottery process is utilized as discussed in the question above.

- **Would the competitive process capture all related POLR costs? For example, would the bid prices include both the "prevailing market price of supply" and all "reasonable costs" of POLR service?**

  Yes. The competitive process discussed above would capture all the related POLR costs. However, should the market design discussed in the framework in the Introduction be chosen, it is necessary for the POLR price to include a retail adder. This is necessary under this market structure to adequately cover POLR service risk above the prevailing wholesale price.

- **Would valid bids have to meet certain requirements as to procurement strategy for generation supply? For example, should there be limits or minimum requirements on self-generation, spot market purchases, bilateral contracts, etc?**

The POLR provider should be able to procure supply for meeting the POLR load obligations in a manner that best fits its own risk profile. There should not be limits or minimum requirements on self-generation, spot market purchases, bilateral block or full-requirements contracts or any other contractual arrangements to serve the POLR load.

- **What lessons can the Commission apply from the CDS and MST programs when considering a competitively assigned POLR service model?**

PECO's CDS program, approved by the Commission in February, 2001 allows Green Mountain to provide default service to a specified number of randomly chosen non-shopping customers. Green Mountain will provide no less than 2% of its offered energy from renewable sources. Customers on CDS may switch suppliers at any time.

PECO's MST program, approved by the Commission in May, 2003, is a requirement of PECO's 1998 restructuring settlement. Under this program, PECO must randomly assign customers to EGSs if less than 50% of its customers had selected another supplier as of January 1, 2003. Since only 7.6% of PECO's residential customers were being served by another supplier, PECO's customer's went through a random assignment process. Through two phases, a reverse auction bidding process assigned 80% of customers to the supplier with the lowest price for electricity. The bids for these customers must offer a discount from PECO's price to compare of at least 0.5% for residential heating accounts. The remaining 20% were assigned to suppliers offering a renewable resource component. The renewable suppliers did not have to offer a discount.

While Reliant is not familiar with the actual market impact these two programs had, both programs result in customers being slammed, i.e., customers having to opt-out of being served by an alternative supplier rather than choosing their supplier based on the electric service attributes offered by the alternative supplier. Therefore, Reliant does not support either of these types of programs.

- **How could this model impact the competitive retail market and customer choice, and if negative, what steps should be taken to mitigate any such effects?**

The competitive assignment model has been used in Texas in 2002. Reliant was the only bidder for most territories. The Public Utility Commission ("PUC") of Texas subsequently conducted a lottery process to choose the POLR provider for territories in which no bids had been received.

C. Other POLR Service Models

Please discuss existing models in states with similar regulatory frameworks that have been successful, with emphasis on rates, reliability, consumer protections, and administrative efficiency.

Please see the framework provided in the Introduction. This model has been successful in Texas with 99% of large commercial and industrial customers, 49% of small commercial customer load, and 17% of residential customer load no longer taking default service. Please see Appendix A for more detailed switching statistics in Texas and Appendix B for a list of suppliers by service territory.

- **Please identify any relevant POLR service models that have not been attempted that are worthy of consideration**

  The default model in the Texas market for large commercial and industrial customers allows default providers to provide this class of customers service using a product and price of its own choosing (whether fixed, hourly, etc). While this has been workable in Texas, Reliant supports the hourly priced model that has been successfully used in New Jersey and Maryland. Adoption of the New Jersey/Maryland hourly-priced model provides large customers a transition from being served by the incumbent provider to procuring service directly from the competitive market. The advantage of the framework advocated by Reliant is that the Large C&I model has been successful in Maryland and New Jersey and the small customer model has been successful in Texas.

- **Please identify any models that you deem a failure, and why.**

  Fixed Price/Rate Capped market structures have not been, and by its very nature cannot be, successful in supporting competitive retail markets. These market structures fail to incorporate market responsive pricing, which in turn results in an unstable, non-competitive market. The fixed price/rate capped market structures allow customers to arbitrage the fixed-price POLR service unless switching restrictions are put into place. However, the switching restrictions impede the customer's ability to take advantage of offers made by alternative suppliers. Neither of these conditions results in a stable, robust competitive market structure that EGSs would commit to enter.

  The auction procurement models utilized in New Jersey and Maryland for small customers have not been and, by design, cannot be successful as long as they continue to have long-term, non-market responsive auction structures. While this type of auction structure may be market responsive at a single point in time, within days/weeks/months the going-forward market prices will either create or, more significantly and just as likely, destroy headroom and distort the marketplace. Not all electric shoppers switch off their current service on “the auction day”.The lack of success with this structure puts it in the same category as the fixed-price models. They result in non-competitive, monopolistic buyers that do not allow for robust, sustainable competition.

IV. Terms and Conditions of POLR Service: A POLR shall treat a shopping customer who returns to POLR service “exactly as it would any new applicant for energy service.” 66 Pa. C.S. §2807(e)(4).

Please comment on the following items:

A. Length of POLR Service term: Is there a recommended length? Must it be uniform across service territories?

Reliant does not believe that there should be a standard POLR service contract term. Creating a market design wherein retail prices are responsive to changes in wholesale prices and allowing the POLR provider to procure supply in any manner it chooses will negate the need for a standard POLR service term. Hourly pricing for large customers will prevent the arbitrage game and obviates the need for any switching restrictions. Switching restrictions harm competitions because customers are not free to choose a supplier at any time. Allowing the POLR provider to procure supply in any manner it chooses provides the opportunity to mitigate the risk associated with switching.

B. Customer Migration: How should the Commission address issues surrounding customer switching, and what is the effect of the statutory language of Section 2807(4)?

Customers should be free to switch off POLR service at anytime which would be in compliance with the language of Section 2807(4) noted above.

C. Customer Rate Classes and Design

- **What should they be?**
- **Fixed Rates- Available to all, none or some?**
- **Variable Rates – Available to all, none or some. If available, what kinds?**

See the pricing and structure for POLR service outlined in the framework in the Introduction.

D. Miscellaneous

- **Termination - May alternative suppliers terminate service to customers for nonpayment where it is acting as the POLR?**

First, all EGSs should be subject to the same customer protection standards regarding customer credit, customer deposits, and deferred payment requirements that now apply to EDCs. Second, EGSs should have disconnect rights to terminate service of non-paying customers. Incorporating these tenets into a standard market practice will promote understanding throughout the competitive market and eliminates surprises to unsuspecting customers.

- **Information Disclosure- What changes to Commission regulations are needed?**

Current Commission regulations require that Customer information not be divulged without the consent of the customer, therefore no change is needed.

- **Universal Service/Customer Assistance- How is this incorporated?**

All universal service/customer assistance programs should be funded via non-bypassable fees applied to all customers and available only to electric customers whose income level falls below a specified threshold. For example, in Texas, any electric customer whose household income is not more than 125% of federal poverty guidelines may self-enroll to receive assistance via a discount funded through a system benefit fund.

V. Full Recovery of Reasonable Costs: A POLR shall "recover fully all reasonable costs" for its POLR related service. 66 Pa. C.S. §2807(e)(3)

- **POLR Cost Categories: Categories for consideration include energy, capacity, congestion, transmission, balancing, scheduling, administrative, bad debt, ancillary, POLR assignment process costs. Others?**

Under the framework outlined in the Introduction POLR cost categories are not necessary. The POLR prices, established in the manner set forth in the Introduction, are market-based and meant to appropriate reflect retail market prices.

- **Cost Category Definitions**

The framework outlined in the Introduction for POLR service does not call for Commission review of POLR provider costs.

- **Standards and mechanisms for evaluating cost recovery.**

POLR pricing, other than the retail adder, under the framework in the Introduction is not an administratively determined and thus cost recovery is not necessary.

- **Universal Service and Energy Conservation costs: If these are part of the POLR obligation, does the statutory language of Sections 2804(4) and 2804(9), regarding the mechanisms for recovering such costs, present any problems/issues?**

As noted above in response to Question IV(D)(3), Reliant believes that a non-bypassable rider charged to all customers to cover universal service and energy conservation costs would be in accordance with Sections 2804(4) and 2804(9) of the Choice Act.

- **How can the Commission prevent the POLR rate from disrupting the competitive retail market?**

The POLR price needs to be market-based as outlined in the framework in the Introduction for different types of customers. Hourly pricing with a retail adder for large customers and a market adjustable price for small customers will provide a market design that supports robust, sustainable retail markets. Market responsive pricing will prevent POLR service from disrupting the competitive retail market. .

VI. Adjustment and Reconciliation of POLR Rates

A. POLR Rate Adjustment – Please address whether a POLR provider can request adjustment in its rates, and if so, the following issues.

- **Grounds for Adjustment**

Please see the framework in the Introduction. POLR providers for large customers will not need to make price adjustments. POLR prices for large customers will be based on hourly wholesale prices with a fixed retail adder. The retail adder should be approved by the Commission and be adequate to cover the risk of providing POLR service.

POLR providers for small customers may request an adjustment to the POLR price based on a transparent adjustment mechanism no more than twice per year. The adjustment mechanism for small customers should be established through a stakeholder process and approved by the Commission. The adjustment should be only at the POLR provider's discretion in order to allow the POLR provider to manage its risk (i.e. through a hedging strategy).

- **Frequency of Requests**

Reliant's proposed framework requires that the Commission initially establish a retail adder for large customers, but no further adjustments for these customers are necessary since the pricing is hourly. For small customers, Reliant's proposed framework allows the POLR provider to adjust prices, either up or down, up to two times per year at the POLR provider's discretion

- **Procedure for requests and standard of Commission review**

The Commission should review the POLR provider's filing to adjust rates for small commercial customers to ensure that the POLR provider has correctly applied the Commission-approved adjustment mechanism. The review should be limited to the application of the adjustment mechanism to ensure price adjustments are implemented in a timely manner based upon an expedited procedural schedule.

B. Reconciliation of POLR rates- Please address whether the POLR rate should be reconciled at the conclusion of the term of a POLR service plan, and if so, the following issues.

- **Grounds for Reconciliation – Is it automatic or triggered at certain levels?**

Reconciliation of POLR rates is not necessary. As previously discussed, the retail POLR price under Reliant's proposed framework is tied to market indices or hourly pricing, not the actual procurement strategy of the POLR provider.

Reconciliation of POLR prices lead to market uncertainties and will lead to prices not being representative of market prices, but rather reflective of the procurement strategies of the entity seeking the reconciliation. Administratively determined proxy will hinder the development of a sustainable, robust competitive retail market. A true competitive market needs no substitutes – buyers and sellers should be able to meet their needs through market-based solutions, not administrative solutions. Therefore, RRI does not recommend that the utility procure supply through either an administratively determined auction process or an administratively determined competitive bidding process, nor should their procurement strategies be subject to reconciliation.

- **Reconciliation Process and Outcome – Should there be limits on transfers resulting from over or under-collection?**

Under Reliant's proposed framework there is no need to reconcile costs and therefore, over or under-collection is not an issue. The POLR provider bears supply risk in accordance with their own risk profile.

VII. Default of POLR Service Provider

- **Default Risk: What is the risk for potential default by alternative suppliers and EDCs?**

Proper certification of potential POLR providers, i.e. certification similar to that of EGS certification, along with a properly designed market structure should be effective to mitigate the risk of a POLR provider default. Throughout the course of electricity deregulation in the United States, incumbent utilities, such as PG&E, failed due to improper market design. When retail prices are not linked to wholesale prices, the potential for such failure results. Texas, designing the market with hindsight of the California situation, chose to adopt a market structure that allowed retail prices to adjust with changes in wholesale prices. This market structure has not seen a POLR provider default on their service obligations.

- **Preventing Default: What extra steps, if any, should be taken to avoid this, especially where alternative provider is the POLR?**

Properly structuring the POLR service will greatly mitigate the risk of POLR provider default for either alternative suppliers or EDCs.

- **Reacting to Default: What process should be followed in the event of a default to ensure continued provision of service? Who is the replacement provider and what costs may be recovered?**

In such an instance, the Commission should appoint a replacement POLR provider from the certified EGSs in the Commonwealth.

VIII. Implementing POLR Rules/ Transition Issues

- **Timing and Phase-in: Given the staggered schedule for the expiration of generation rate caps, should the Commission issue POLR regulations, issue interim guidelines that would be effective until the conclusion of every transition period, or address POLR plans on an EDC by EDC basis?**

Reliant believes that it would be best for the Commission to adopt POLR regulations, in accordance with the framework in the Introduction as soon as possible. As generation rate caps expire for the various EDCs adherence to the newly adopted POLR rules should be required.

- **Market Power: What are the potentials for market power concentration as well as market abuse and should they be addressed by the Commission in the implementation of POLR service?**

  Adoption of Reliant's proposed framework will result in a market structure that will mitigate any retail market power concerns because it will result in a robust, sustainable retail market where competitors will enter and remain in the market to offer products that best meet customer needs. The Commission should expand the Code of Conduct to ensure that only an affiliate of the EDC may provide POLR service – no the EDC itself. A Code of Conduct should strictly govern all interactions between the affiliate and the EDC.

- **Consumer Education: What efforts should the Commission or others undertake in regards to POLR prior to implementation of regulations?**

  Reliant believes that the Commission should adopt the POLR framework outlined in the Introduction, and upon adoption, but prior to implementation, embark on a customer education campaign that fully explains customer choices and the benefits to the customer of the adopted market structure.

- **Existing/Pending POLR Plans: How should the Commission address POLR plans that may be in operation at the time regulations go into effect?**

  POLR Plans adopted prior to the Commission's adoption of POLR rules should be allowed to continue until the expiration of such plans. However, if it is possible to implement the new POLR plans prior to the expiration of the existing POLR plan, such an implementation should take place (i.e. if stranded cost recovery is complete or long-term procurement plans have terminated or are not in place). At the time the existing POLR plans expire, adherence to the new POLR rules should be required.

- **Other Commission Action: To what extent do existing tariffs, orders and regulations need to be changed, withdrawn, etc. as a part of any POLR rulemaking?**

  Reliant believes that following adoption of a POLR design, such as that discussed in the Introduction, existing tariffs, orders and regulations will need to be evaluated for possible change to coincide with the POLR market design implemented by the Commission.