Reliant Energy’s POLR Framework for the Pennsylvania Market

POLR Design Principles

- Competitive market forces are more effective than economic regulation in arriving at efficient prices
- Customer choice will lead to products and services that match customer desires and should be priced by the market, not administratively.
- 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 price for POLR service may be administratively determined, the provider should be free to procure supply in a manner that best meets the risk profile and load obligations of the provider.
- The POLR services should be established in a manner that fosters competition.
    - POLR prices will establish the ceiling against which other competitors must compete to enter the market;
    - POLR prices must be adjustable to changes in market prices.
- Customers should be free to switch off of POLR service at any time.

Large Customer Design

- Large customers have a great deal of market sophistication and have the ability 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, due to these customers’ high volume usage, retail suppliers have an incentive to design products to address individual customer desires.
    - As such, these customers need little to no safety net and have been the first to take advantage of hourly-priced products in markets outside of Pennsylvania.
    - Once market limiting factors such as below market rates expire, 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.
- The only POLR service for large customers should be an 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 should be placed on hourly POLR service.

Retail Adder

- The large customer POLR price 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 Customer Design

- Small commercial and residential customers may face slower transition to robust competitive offers than the large customers due to lower consumption patterns, less financial incentive due to lower consumption, and the technological inability to respond to usage hourly.
- 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 used based on a known market index.
  - In order to allow alternative 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 allowing needed confidence for new market entrants, which will lead to robust, sustainable retail competition.

This framework 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.

Concepts That Fail to Create A Robust, Sustainable Retail Market

- Different plans for different utilities could create barriers to entry due to economy of scale issues
- Multiple retail purchasers lead to more competitive wholesale prices than one purchaser buying through an administrative auction
  - Inserting regulatory and administrative choices for risk management will lead to higher prices
  - An auction's term structure distorts the market by regressing the flaws of regulation via administratively determined risk and portfolio management for consumers instead of competitively determined risk and portfolio management

    - Long-term auction terms are simply a proxy for and a path to a return to integrated resource planning
- Risk management is best left up to the POLR providers in accordance with their own risk tolerance – not done through an administrative auction or bid process
- If Commission approved procurement-related costs are passed on to customers, it decouples customer price from prevailing market prices
- The historical disconnect between market prices and Commission approved procurement (IRP techniques) prices was one reason for the move to competitive markets
- Resource adequacy is best handled by PJM via a Regional Reliability Commitment process. Reliant supports a comprehensive capacity market structure (Resource Reliability Commitment) to handle resource adequacy