BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

POLR ROUNDTABLE	:
	: Docket No. M-00041792
	:

REPLY COMMENTS OF STRATEGIC ENERGY L.L.C.

Strategic Energy L.L.C. ("Strategic") submits these comments to assist the Pennsylvania Public Utility Commission in developing regulations for Provider of Last Resort ("POLR") service. These comments will supplement and clarify the views expressed in Strategic's presentation to the Commission on May 3, 2004. Our comments are grounded on our seven years of experience as competitive electric services providers with over 55,000 customers in twelve states. These comments will focus on identifying policies and processes that will lead to meaningful customer choice and vigorous, sustainable competition yet assure generation service to customers that do not choose an energy supplier or otherwise are left without a supplier. Strategic strongly believes that the policies and processes applied to provide POLR service will be key to the continued development of a robust competitive marketplace in Pennsylvania. We outline essential principles for effective retail POLR markets as follows:

1. Assure That Customers See the True Cost of the electricity.

Under the current Pennsylvania electric supply regimen most customers are seeing cost averaging and price caps. When wholesale generation providers are supplying full requirements to a slice of the system they have no customer relationship and no incentive to have customers respond to price signals. Connecting customers to the true cost of the service and the supplier of their generation service will provide both an incentive and an opportunity to respond to price.

2. **Shift Market Risk Away From End-Users and to the Electric Suppliers.**

When the generation supplier has the market risk and a direct relationship with the customer, the supplier will have the incentive to work with the customers to lower risks and costs through demand response and other risk management mechanisms.

3. **The Electric Distribution Company (EDC) Should Not Take POLR Supply Risks.**

POLR rates are not designed to properly allocate risks. Under such risk conditions, the combined wires as the POLR supplier is, lead to imposing switching restrictions and other anti-competitive risk mitigation techniques.

4. **Properly Allocate Retail Market Function Costs Into The POLR Rate.**

Currently, almost all utilities that act as the POLR supplier provide retail services to both POLR customers and delivery-only customers (i.e., customers that have switched to a competitive retail generation provider). Thus, the costs associated with call centers, billing, choice implementation, and all other customer transactions and interactions are recovered under regulated rates. While both the wires company and the competitive supplier have retail responsibilities, the wires company's rates recover the retailing costs of the POLR supplier, but not the retailing costs of the competitive supplier.

To address this misalignment, many states have imposed retail administrative charges (adders) that are generally set through negotiation. These charges are somewhat arbitrary and not based on embedded costs derived through a cost of service study. New York has started proceedings to determine embedded costs and are expecting to use the results to set competitive service customer credits that will be used to discount the competitive service customers (distribution) rate.

Texas has separated the retail wires service from the POLR customer service function. As a result, most retail service costs are determined through market forces for POLR. Thus, complex and contentious customer account service cost unbundling proceedings are avoided and easily solved by market forces. Strategic highly recommends the Pennsylvania Commission give strong consideration to the Texas model, the most successful competitive retail model in the country.

5. POLR Supply Should be Provided at Prevailing Market Prices and Should Include All Reasonable Costs.

It is Strategic's position that POLR service should rely on short-term markets to determine price. For large C&I customers (greater than 50 kW) energy should ultimately be hourly priced, although we recognize a transition period from short-term fixed rates to variable hourly rates may be appropriate. For small C&I customers (50 kW and less) and residential customers, the full-requirements generation service should ultimately be priced for six months or one year maximum intervals. POLR service for customers should be based on an RFP solicitation or an auction.

All risks, including migration, and all competitive, retail customer service costs should be priced in the POLR offers.

6. There Should Be No Switching Restrictions.

There should be no switching restrictions, fees, or other barriers for customer switching from the POLR supplier to a competitive retail supplier. When appropriate, seasonal rates or frequent POLR procurement intervals should be utilized to offset seasonally-timed switching initiated for short-term market price advantage.

7. POLR Suppliers Must Be Structurally and Legally Separated from the Jurisdictional EDC.

The wires company should not assume the risks associated with POLR supply and should be a stand-alone company with no opportunity for cross-subsidization of retail POLR costs. To provide protection from anti-competitive behaviors and cross-subsidies only an EDC generation supply affiliate could compete with other generation service providers for POLR service opportunities.

8. The POLR Process Should Support Demand Response.

POLR suppliers must serve and be connected with individual customers in order to implement and manage demand response processes. Connecting POLR customers to the true cost of supply and to the POLR supplier will provide both the incentives and the opportunities to adjust consumption in response to price signals.

Respectfully submitted,

/s/ James P. McCormick_____
James P. McCormick
Manager, Market Development
Strategic Energy, L.L.C.
1940 Robert Road
Meadowbrook, PA 19046
(215) 938-6568

Date: June 17, 2004