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March 8, 2006

VIA OVERNIGHT UNITED PARCEL SERVICEJames J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120**Re: *Implementation of the Alternative Energy Portfolio Standards
Act of 2004, Docket No. M-00051865******Rulemaking Re Electric Distribution Companies' Obligation to
Serve Retail Customers at the Conclusion of the Transition
Period Pursuant to 66 Pa.C.S. § 2807(e)(2), Docket No. L-00040169***

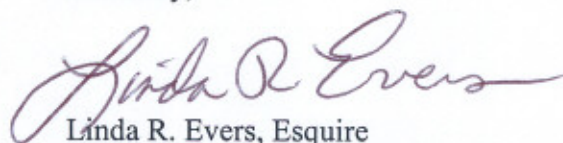
Dear Secretary McNulty:

Enclosed for filing are an original and sixteen (16) copies of Comments of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company (collectively, "FirstEnergy") in the above-referenced dockets. Please date stamp the additional copy and return in the enclosed postage-prepaid envelope.

FirstEnergy greatly appreciates the opportunity to provide comments regarding the important and timely subject of the Implementation of the Alternative Energy Portfolio Standards Act of 2004 and the recovery of compliance costs by electric distribution companies.

Please contact me at the above phone number should you have any questions.

Sincerely,


Linda R. Evers, Esquiredlm
Enclosures

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Implementation of the Alternative Energy Portfolio Standards Act of 2004	:	Docket No. M-00051865
	:	
Rulemaking Re Electric Distribution Companies' Obligations to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2)	:	Docket No. L-00040169

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

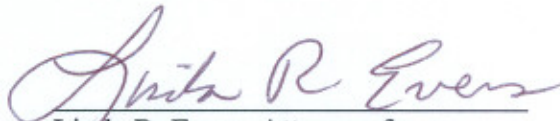
Service by United Parcel Service, postage prepaid, as follows:

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17105-3265

Service by electronic mail, as follows:

Carrie Beale at:
cbeale@state.pa.us

Dated: March 8, 2006



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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Implementation of the Alternative Energy Portfolio Standards Act of 2004	:	Docket No. M-00051865
	:	
Rulemaking Re Electric Distribution Companies' Obligations to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2)	:	Docket No. L-00040169

**COMMENTS OF METROPOLITAN EDISON COMPANY,
PENNSYLVANIA ELECTRIC COMPANY AND
PENNSYLVANIA POWER COMPANY TO THE COMMISSION'S
FEBRUARY 8, 2006 ISSUES LIST**

I. INTRODUCTION

The Alternative Energy Portfolio Standards Act of 2004 ("AEPS") provides for the full recovery of compliance costs by Electric Distribution Companies ("EDC"). The Pennsylvania Public Utility Commission ("Commission") announced through an order entered in the above-referenced dockets on November 18, 2005 that it would be reopening the comment period for its default service rulemaking in order to consider this issue. On February 8, 2006, the Commission issued a Secretarial Letter requesting comments on various issues regarding the above docket. Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec") and Pennsylvania Power Company ("Penn Power"), collectively referred to as "FirstEnergy" or "Companies", submits these comments to address the questions and issues listed in the Secretarial Letter.

1. Should Act 213 cost recovery be addressed in the Default Service regulations as opposed to a separate rulemaking? Is it necessary to consider Act 213 cost recovery

regulations on a different time frame in order to encourage development of alternative energy resources during the “cost recovery period”?

Response

FirstEnergy believes that AEPS cost recovery issues need to be addressed now. Although many EDCs are still in their cost recovery period and, therefore, do not have to comply with AEPS regulations, the compliance period for AEPS has already begun. There are EDCs such as Penn Power and UGI Utilities, Inc. who have to begin complying with AEPS as early as February 28, 2007. As a result, important issues such as cost recovery for AEPS compliance cannot be delayed until default service regulations are finalized. Preparation to comply with AEPS occurs well before compliance begins. Therefore, it is necessary for EDCs to have guidance on the appropriate method for cost recovery. FirstEnergy believes that companies should be allowed to fully recover the cost of compliance pursuant to the automatic energy adjustment clause as a cost of generation supply as stated in the Act.

2. Do the prevailing market conditions require long-term contracts to initiate development of alternative energy resources? May Default Service Providers employ long-term fixed price contracts to acquire alternative energy resources? What competitive procurement process may be employed if the Default Service Provider acquires alternative energy resources through a long-term fixed price contact?

Response

Met-Ed, Penelec and Penn Power believe that it is too soon to determine whether or not market conditions will require long-term contracts to develop alternative energy projects. However, the Companies do believe that long-term contracts should remain an option for the Default Service Provider (“DSP”). The Companies emphasize that long-term contracts should

not be mandated via regulation. Furthermore, if DSPs decide to enter into long-term contracts for renewable resources, a separate non-bypassable cost recovery mechanism back-stopped by a Commission Order would be necessary to support full rate recovery. This obviously would be separate and distinct from the recovery mechanism for non-AEPS costs.

In general, the Commission should remain flexible and allow the EDCs to utilize competitive procurement method(s) they find acceptable as long as it is transparent and fair to all stakeholders. However, the Commission should issue rules in advance so that the EDCs can steer clear of after-the-fact prudence reviews. Based on Met-Ed and Penelec's experience with PURPA and Non-Utility Generation ("NUG") agreements that are currently at above market costs, what appears economical by today's standards may be uneconomical in 10 or 20 years. Long-term renewable agreements could result in a second round of stranded costs.

3. Should the force majeure provisions of Act 213 be integrated into the Default Service procurement process? Should Default Service Providers be required to make force majeure claims in their Default Service implementation filing? What criteria should the Commission consider in evaluating a force majeure claim? How may the Commission resolve a claim of force majeure by an electric generation supplier?

Response

As stated in our response to Issue 1, FirstEnergy believes that issues regarding AEPS must be resolved as soon as possible and not delayed for final DSP regulations. This includes the force majeure provisions of Act 213. There are companies who will have to meet Act 213 requirements as early as February 2007. Issues as important as the application of force majeure should be resolved now. At a minimum the Commission should consider the conditions

of the market including market capacity. Since market conditions can change unexpectedly, EDCs should have the flexibility to petition for a force majeure exemption at any time.

4. Given that Act 213 includes a minimum solar photovoltaic requirement as part of Tier I, should these resources be treated differently from other alternative energy resources in terms of procurement and cost recovery?

Response

FirstEnergy believes there may be a need to treat solar photovoltaic resources differently in terms of procurement from other alternative energy resources. However, procurement cost of solar photovoltaic resources should be recoverable on a full and current basis.

5. Should the Commission integrate the costs determined through a §1307 process for alternative energy resources with the energy costs identified through the Default Service Provider regulations? How could these costs be blended into the Default Service Providers Tariff rate schedules?

Response

FirstEnergy believes the process for AEPS cost recovery will depend on the method an EDC utilizes to comply with AEPS. For example, some EDCs may choose to have a separate procurement process solely for AEPS, while others may integrate the AEPS requirement into their default service procurement process. These two approaches can lend themselves to different methods of cost recovery. A procurement process solely for AEPS requirements could have AEPS costs being identified separately. On the other hand, if an auction or request for proposal regarding default service incorporated AEPS requirements, it would make sense to have

a blended rate. For this reason, the Commission should remain flexible on the method, as long as it allows for dollar-for-dollar current cost recovery.

6. May a Default Service Provider enter into a long-term fixed price contract for the energy supplies produced by coal gasification based generation if the resulting energy costs reflected in the tariff rate schedules are limited to the prevailing market prices determined through a competitive procurement process approved by the Commission?

Response

As discussed above in the response to question number 2, the Companies do not believe that a DSP should be mandated through regulation to enter into a long-term contract for any other alternative energy resource. Any potential agreement for renewable resources must be evaluated using the appropriate financial tools in order to determine the benefits to both customers and shareholders. In the event, a DSP chooses to enter into a long-term contract for alternative energy credits, the Commission must guarantee cost-recovery through a Commission Order in advance for the entire term of the agreement. The Commission's regulations must be clear and allow for full cost recovery.

7. Should the Commission delay the promulgation of default service regulations until a time nearer the end of the transition period, as suggested by the Independent Regulatory Review Commission in its comments on the proposed regulations?

Response

No. FirstEnergy believes these important rules should be finalized as soon as possible. There are several EDCs currently on interim plans and a few others will be soon. Companies at or near the end of their transition period should not have the annual expense of

litigating a new plan and the uncertainty of plan approval on such an important issue. If necessary, the Commission can always revise the regulations at a later time.

8. Does the Commission need to make any revisions to its proposed default service regulations to reflect the mandates of the Energy Policy Act of 2005?

Response

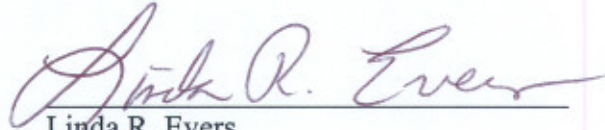
The Energy Policy Act of 2005 (“EPAAct 2005”) does not, based on our review, contain any provision that directly relates to default service. Section 1233 of EPAAct 2005 Native Load Service Obligation creates firm transmission rights for Load Serving Entities (LSE) with Native Load Obligations. In the event that the Native Load Obligation is transferred to another entity, that entity acquires the right to firm transmission service, including equivalent tradable or financial transmission rights. The Commission’s proposed default service regulations reflect the cost of transmission service in the default service rates. EPAAct 2005 amended the Public Utility Regulatory Policies Act of 1978 (“PURPA”) and set forth new standards that states must meet within a specified timeframe. The standards apply to areas of regulation such as net metering, interconnection, energy-efficiency and time-based metering. EPAAct 2005 also includes a “prior state action” provision that exempts states from further action if it can be demonstrated that the state implemented or initiated a proceeding to consider a comparable standard. The Pennsylvania Commission through its rulemakings in both the DSP and AEPS dockets have clearly complied with this mandate.

II. CONCLUSION

The FirstEnergy Companies thank the Commission for the opportunity to comment on this important issue.

Respectfully submitted,

Dated: March 8, 2006



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