Reliant Energy

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January 9, 2009

VIA MESSENGER

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
Harrisburg, PA 17120

Re: Reply Comments for the Pennsylvania Public Utility Commission's Third En Banc Public Hearing on the Current and Future Wholesale Electricity Markets, Docket No. M-2008-2066901

Dear Secretary McNulty

Enclosed for filing in the above referenced docket are an original and ten (10) copies of Reply Comments of Reliant Energy, Inc., as well as an electronic version on disk. Please contact me if you have any questions.

Very truly yours,

Stanley Wolf
Stanley Wolf
For Reliant Energy, Inc.

Enclosures

Reply Comments

Of

Reliant Energy, Inc.

for the

PENNSYLVANIA PUBLIC UTILITY COMMISSION'S

***En Banc* Third Public Hearing on**

"Current and Future Wholesale Electricity Markets"

Docket No. M-2008-2066901

January 9, 2009

Reliant Energy, Inc. (Reliant) appreciates the opportunity to participate in the Pennsylvania Public Utility Commission's (Commission) third *en banc* public hearing regarding "Current and Future Wholesale Electricity Markets." The purpose of these reply comments is to respond to certain statements made by Consumer Advocate of Pennsylvania, Sonny Popowsky (Consumer Advocate), in his December 18, 2008 testimony concerning activities in other states.

The Consumer Advocate states that several restructured states such as Connecticut and Maryland have ordered their utilities to build or buy new generation plants or enter into long-term generation contracts. It is important to describe more fully the recent activities in these states and place them in their proper context.

In Connecticut, in 2008, at the conclusion of a Request for Proposals (RFP) process it established, the Connecticut Department of Public Utility Control (CT DPUC) approved the construction of three new peaking facilities to be purchased by the state's utilities and charged to customers on a cost of service basis. However, the peaking generation required to be purchased is for use in a load pocket that has had high congestion charges, and the CT DPUC has by no means adopted this approach on a broad basis. Rather, this peaking generation purchase addresses the need for capacity in the load pocket but refrains from intruding into market decisions over fuel choice for energy production. The Connecticut structure continues to allow the market to make fuel choice decisions for the production of energy.

Any state by state solicitation beyond the narrow purpose utilized in Connecticut runs the substantial risk of not obtaining the most efficient generation for the region as a whole since such solicitations ignore or undervalue efficient generation, demand side and energy efficiency solutions that can address needs in more than one state. Further, when generation service is purchased in this manner there is nothing the state can do to ensure that the generation will benefit only that state even though only that state's ratepayers will be required to pay the full cost of the generation.

With regard to Maryland, the December 10, 2008 Final Report of the Public Service Commission of Maryland to the Maryland General Assembly unambiguously determined that "full State-wide re-regulation [of generation assets located in Maryland] is not the best option for Maryland's energy future."[1] In addition, the Maryland utilities' October 1, 2008 analyses of Integrated Resource Plans (IRPs) unanimously and unambiguously found that an IRP approach to procurement would be more expensive than the existing Standard Offer Service (SOS) procurement process. In short, although Maryland has not yet decided whether to alter the current method by which its utilities obtain supplies to support their SOS services, there is much irrefutable information in the record there, as there is in this proceeding, that does not support resorting to long-term contracts,[2] IRPs or utility-build generation to support default service for retail customers.

[1] Final Report of the Public Service Commission of Maryland to the Maryland General Assembly, December 10, 2008, at p. 3, listing eight major considerations that supported their finding at pp. 3-4. Many of these same considerations, such as impact on merchant generation, also weigh heavily against any form of "partial" re-regulation including such mechanisms as long-term contracts, IRPs, and utility-build generation.

[2] See also, Contracting and Investment: A Cross-Industry Assessment, prepared by CRA International, December 15, 2008, which examines in detail the use of long-term contracts in various capital intensive industries and finds (at p. 2) that

In conclusion, Reliant respectfully request that the Commission consider these comments in its review of Pennsylvania's wholesale electricity markets.

Neither the economics literature on long-term contracting nor the experience of the six industries we examine in the paper provide support for the view that long-term contracts with end-users are essential to assuring orderly investment in industries that resemble electric power generation.

The six industries examined were hotels, aircraft and airlines, auto and auto components manufacturing, petroleum refining, the natural gas industry, and coal mines and coal-fired power plants.