PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105-3265

Re: Petition of West Penn Power Company d/b/a Allegheny Power for the Additional Acceleration of its Competitive Procurement Plan for Residential Customers for Service at the Conclusion of Restructuring Transition Period.	**Public Meeting: May 14, 2009** **1332812-OSA** **Docket No. P-00072342**

DISSENTING STATEMENT OF CHAIRMAN CAWLEY

Before this Commission is the application of West Penn Power Company (WPP) to accelerate its procurement of full-requirements supply for residential default service customers. Specifically, WPP is requesting authorization to increase the number of 50MW blocks procured of full-requirements supply in June 2009 for this class from 5 to 11. Thereafter, WPP, absent any additional modifications, would procure only 2 blocks of power each subsequent procurement period in October 2009, January 2010, June 2010 and October 2010, for default service supply with flow commencing January 1, 2011.

Based on the current future prices of electricity and natural gas, I do not believe the record in this case justifies the departure from the sound Commission decision rendered in this default service proceeding in Docket P-00072342. Specifically, this case acknowledged the premiums associated with purchasing power further out in the future. Specifically (Recommended Decision at 68), the Administrative Law Judge recognized:

> The large lead times between designating the winning bids and the time for performance would add uncertainty to the bid formula and increase the risk premiums in the bids.

It is essential to maintain a balance between hedging strategy and cost of supply. The changes proposed here do not maintain this balance. Hedges procured through electricity procurements, spaced out over regular time periods, help consumers avoid electricity price volatility to those customers that may not be able to acquire such hedged products initially as the retail electricity market is developing. If the vast majority of supply is acquired in the first two procurements, risk premiums are substantially increased, while the disciplined hedges incorporated in the initial procurement schedule are lost.

This petition is essentially placing a bet that current forward market prices, with embedded market risk premiums, will be less than procurements later in time that will have lesser embedded risk premiums, because they would have been acquired closer to delivery. Many would argue that the current market price of natural gas justifies this risk taking. However, an examination of current forward prices of natural gas reveals that future prices are already well above the current spot market prices for gas. Natural Gas prices averaged only $3.62/mmbtu this past April, while the futures prices for natural gas are $7.14, $7.30, and $7.31/mmbtu for 2011, 2012 and 2013, respectively, as of trading date May 13, 2009. Similarly, future prices for power at PJM's Western Hub in 2011 relative to 2010 are trading approximately 8-10% higher for on-peak energy, and 12-15% higher for off-peak energy. Premiums for 2012 delivery are even greater.

In summary, the record in this case is not sufficient to justify our departure from the disciplined approach to residential customer procurement previously approved. Future prices already reflect increasing prices for 2011-2013. Risk premiums, however, will most certainly be paid by residential customers for this market bet. Although I respect my colleagues' different views on this subject, I believe that we should stick with our disciplined procurement strategy approved in this original filing.

May 14, 2009
Date

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James H. Cawley, Chairman