BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105

Petition of Duquesne Light Company For Approval of Plan for Post-Transition Period Provider of Last Resort (POLR) Service	**PUBLIC MEETING** **August 19, 2004** **AUG-2004-OSA-0203** **DOCKET NO. P-00032071**

STATEMENT OF COMMISSIONER GLEN R. THOMAS

Today represents a significant milestone in the evolution of Duquesne Light Company's ("Duquesne") obligation to offer provider of last resort ("POLR") service. With the exclusion of one issue, the Commission adopts the recommendation from the Office of Special Assistants ("OSA"), which grants in part and denies in part the Exceptions filed to the Recommended Decision of Administrative Law Judge ("ALJ") Michael A. Nemec.

The Commission decision today represents the next step in the evolution of POLR service in the Duquesne territory. The Commission sets forth a POLR III Plan that is consistent with the intent of the Electricity Generation Customer Choice and Competition Act ("Electric Choice Act"). The Plan also aligns with Commission policy to promote the advancement of retail competition while successfully striking a reasonable balance among the many interests represented in this case.

The purpose of POLR service, as contemplated by the Electric Choice Act, is to ensure the availability of generation to customers who do not select an alternative supplier. Most importantly, the design and pricing of default service will have a significant impact on the development of retail competition. The Act requires the electric distribution companies ("EDCs") to offer customers POLR service during the transition period of electric restructuring – the period during which a competitive transition charge ("CTC") is collected. Following the transition period for the EDCs, the Commission is responsible for promulgating regulations that define the EDCs' obligation to connect and deliver and acquire electricity. 66 Pa.C.S. §2807(e)(2). The Commission recognized that there are a host of issues surrounding POLR service, and as a result initiated the POLR Roundtable Proceedings on March 4, 2004. The Commission is currently reviewing these issues and is in the process of drafting proposed regulations.

Duquesne is the first major utility in the Commonwealth to address post-transition period POLR service. The success of Duquesne's divestiture during "POLR I" had the effect of shortening the transition period from 2007 to 2002 for most rate classes.[1] To address the end of

[1] The only exceptions are customers in the HVPS rate schedule that are expected to continue to pay stranded costs until some time in 2005. Duquesne MB at 1.

the transition period through December 31, 2004, the Commission approved the Duquesne POLR II Plan, as modified in a settlement ("the POLR II Settlement"), on November 30, 2000.[2]

The principal objective of Duquesne's POLR II Plan was to lock in a substantial portion of the generation rate savings to be realized by customers from earlier termination of CTC payments. Due to the elimination of the CTC, total rates to POLR customers were reduced by 17% on a system average basis compared with POLR I total rates.[3] Some consumers found additional savings from shopping for power from another provider. Moreover, with the POLR II rates in place, Duquesne's service territory has the highest level of shopping among small customers in the Commonwealth.[4]

The Commission has many interests to balance in this case. Foremost, the Commission is guided by the original intent of the Act – that is, markets are superior to economic regulation in determining the cost of electricity generation. Section §2802(5) of the Electric Choice Act states, "competitive market forces are more effective than economic regulation in controlling the costs of generating electricity." In the long-term, the adoption of the right policies to foster competition will enable consumers, utilities, and competitive suppliers alike to benefit from the marketplace.

While the Commission moves forward with developing regulations to address POLR service for the Commonwealth, I believe the decision today is an important and appropriate step toward the long-term viability of the retail market in the Duquesne territory. The decision today achieves the following significant results:

For small customers, which include Residential, Small Commercial and Industrial ("C&I") customers, the Commission approves a three-year fixed price at the prevailing market price. Although the rate approved today increases the current generation rate by 11.5%, POLR customers on the Small Customer Plan will pay overall rates through 2007 that are 15% lower than rates in effect prior to the Electric Choice Act. Residential customers will also have free and direct access to the retail marketplace, absent stringent switching restrictions that serve as a barrier to choice. Small C&I customers will also have direct access to the retail marketplace without being subject to minimum stay periods or onerous exit fees.

Large C&I customers will default to Hourly Price Service ("HPS") for POLR service. HPS sends accurate price signals so that benefits from demand response and demand side management can be maximized for both customers and suppliers. HPS will also encourage Large C&I customers to maximize the benefits available from the retail marketplace. Over the short-term, Large C&I customers will have the option of choosing a fixed price POLR service for the first seventeen months of the plan. In effect, this POLR option serves as a time "cushion" for Large C&I customers and suppliers to prepare for HPS POLR service on a long-term basis.

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[2] Petition for Approval of Plan for Post-Transition Period POLR Service, *Pennsylvania Public Utility Commission v. Duquesne Light Company*, Commission Docket No. R-00974104. Duq. St. 1, p. 3.
[3] Duq. St. 1, p. 4.
[4] Tr. at 226, lines 4-5.

Additionally, the Commission adopts measures to ameliorate the impact of seasonal gaming on Duquesne. The Commission approves two retail adders – a risk adder to compensate Duquesne for the risk involved in providing Large C&I customers POLR service and an administrative adder to compensate Duquesne for the costs associated with providing POLR service.[5] Additionally, we have approved Duquesne's membership into PJM West, which will allow Duquesne to maintain high levels of reliability and provide access to PJM's liquid energy markets for both POLR and switching customers. We approve the PJM Surcharge that will pass-through to Duquesne's POLR customers to recover the costs of PJM West services, including the administration of markets for energy, capacity, and ancillary services; planning; load management; and market monitoring.

The plan approved today represents a balanced and reasonable approach to move Duquesne, its customers, and competitive suppliers into the next phase of restructuring. The parties who participated in this case did a remarkable job in advancing arguments that were well presented and effectively argued. The Commission benefited greatly from the efforts of these parties and, as a result, was able to make a well-informed decision. Thank you to all who participated.

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DATE	**GLEN R. THOMAS** **COMMISSIONER**

[5] The Commission rejects the universal application of the administrative adder.