



PaPUC's Experience with Deregulated Markets: Provider of Last Resort – Regulated Generation Supply Service in a Competitive Marketplace

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Electric Restructuring in Pennsylvania



- ❑ The Electricity Generation Customer Choice and Competition Act (the “Act”) took effect January 1, 1997. 66 Pa. C.S. §§2801-2812.
- ❑ The Act unbundled electric utility service into generation, distribution and transmission components.
- ❑ Electric utilities were reclassified as “electric distribution companies” (“EDCs”), and retained their monopoly on local distribution and transmission service within their territories. Prices for these services would remain regulated through traditional ratemaking principles.
- ❑ Retail customers may choose an alternative electric generation supplier (“EGS”) for generation service using the EDC’s distribution and transmission system. EGS prices are not regulated by the Commission.



The Transition Period: 1998 - 2010



- ❑ An EDC was required to offer generation service to all retail customers for as long as the EDC was recovering stranded costs. 66 Pa. C.S. §2807(e)(1).
- ❑ The Act capped the rates that EDCs could charge for these generation services during the stranded cost recovery period. 66 Pa. C.S. §2804(4).
- ❑ The Commission approved stranded costs recovery schedules for each EDC that varied in duration. About 85% of customer load is served under rate caps through December 31, 2009. All rate caps will expire by December 31, 2010.



Pennsylvania EDC Service Territory Status




















Electric Distribution Company	Number of Ratepayers as of 2004	Generation Rate Cap status
Citizens Electric Company	6534	Expired. Interim POLR plan in effect.
Duquesne Light Company	587,664	Expired. Interim POLR plan in effect.
Metropolitan Edison Company	520,687	Expires 12/31/10
Pennsylvania Electric Company	585,658	Expires 12/31/10
Pennsylvania Power Company	157,412	Expires 12/31/06
PECO Energy Company	1,536,754	Expires 12/31/10
Pike County Power & Light Company	4200	Expired. Interim POLR plan in effect.
PPL Electric Utilities, Inc.	1,351,170	Expires 12/31/09
UGI Utilities, Inc.	61, 922	Expired. Interim POLR plan in effect.
Wellsboro Electric Company	5787	Expired. Interim POLR plan in effect.
West Penn Power Company	700,630	Expires 12/31/10



Regional EDC Service Territories



 Allegheny Power Systems	 Jersey Central Power and Light Company
 American Electric Power Co., Inc.	 Metropolitan Edison Company
 Atlantic Electric Company	 PPL Electric Utilities
 Baltimore Gas and Electric Company	 PECO Energy
 ComEd	 Pennsylvania Electric Company
 Dayton Power and Light Co.	 Potomac Electric Power Company
 Delmarva Power and Light Company	 Public Service Electric and Gas Company
 Dominion	 Rockland Electric Company
 Duquesne Light	



Post-Transition Period: 2011 -



- ❑ The Commission is to promulgate regulations defining the obligation of EDCs towards retail customers not receiving generation service from an EGS. 66 Pa. C.S. §2807(e)(2)
- ❑ The incumbent EDC or a Commission approved, alternative supplier shall provide generation service to those retail customers who have not contracted for service with an EGS. 66 Pa. C.S. §2807(e)(3).
- ❑ Generation supply for these customers will be acquired at “prevailing market prices.” 66 Pa. C.S. §2807(e)(3).
- ❑ This provider of last resort (“POLR”) shall recover “all reasonable costs” of providing this service. 66 Pa. C.S. §2807(e)(3).



Pennsylvania POLR Rule Development Process



- ❑ The Commission convened a staff led POLR Working Group in August of 2000.
- ❑ The POLR Working Group solicited comments from interested parties on the scope of POLR regulations.
- ❑ The POLR Working Group met periodically through late 2003 to consider the appropriate regulatory framework for the post-transition period.



POLR Roundtable



- ❑ The Commission presided over five public meetings in early 2004 in order to offer interested parties one final opportunity to provide comments prior to the issuance of proposed rules.
- ❑ Written comments were filed in response to an issues list released by the Commission.
- ❑ The meetings were attended by representatives from FERC, PJM, other state utility commissions, EDCs, EGSs, wholesale energy suppliers, consumer groups, and other state agencies.



Summary of Roundtable Comments



- ❑ Large majority recommended that the incumbent EDC within each territory be required to continue to serve as the POLR.
- ❑ Large majority supported some type of competitive procurement process for the needed energy supply in the wholesale markets.
- ❑ Little consensus on other issues.



POLR Service Models Examined by the Commission



- ❑ Statewide Competitive Procurement of Wholesale Supply: New Jersey
- ❑ Separate Competitive Procurement of Wholesale Supply in each EDC territory: Maryland
- ❑ Competitive Assignment of Retail Customer Accounts to EGSs: Texas



Pennsylvania PUC's Proposed Rule



- ❑ On December 16, 2004, the Commission issued a Notice of Proposed Rulemaking on POLR rules. 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)*; L-00040169.
- ❑ Public comment period concluded on June 27, 2005.
- ❑ Commission will review comments and consider needed changes to the proposed rules.
- ❑ The Commission will then issue a final rulemaking order, which must be approved by both the Pennsylvania Office of Attorney General and the Independent Regulatory Review Commission.



Policy Considerations



- ❑ Ensure reliable provision of electric generation service to retail customers.
- ❑ Ensure that customers' right to choose their own electricity supplier is protected.
- ❑ Ensure that electricity prices are set by the market, and not by the Commission.
- ❑ Ensure that protections for low-income customers are continued.
- ❑ See 66 Pa. C.S. §2802 for complete list of policy findings by the Pennsylvania General Assembly.



Main Elements of Proposed Rule



- ❑ Regulated generation service provided to customers not contracted with an EGS is identified as “default service.”
- ❑ Incumbent EDC shall continue to act as the “Default Service Provider” (“DSP”) within its historic service area for now.
- ❑ All of the DSPs load shall be procured competitively using a bid-based approach.
- ❑ EDCs may propose procurement process for their own territory or may propose a joint procurement process involving more than one EDC.
- ❑ The Commission has the discretion to order a statewide procurement process similar to New Jersey’s.
- ❑ Procurement process may be subject to independent, third-party monitoring.



Default Service Provider Selection



- ❑ As a general rule, the EDC shall continue to serve as the DSP for all retail customers within its service territory.
- ❑ An EDC may petition the Commission to be relieved of the DSP obligation.
- ❑ In that event, a competitive process will be held to determine alternative DSP.
- ❑ If no alternative DSP can satisfy technical and financial fitness requirements, EDC must continue to act as DSP.



DSP Obligations



- ❑ DSP shall procure sufficient load to meet full requirements of all distribution customers within the EDC territory that it is responsible for.
- ❑ DSP shall adhere to all applicable Commission rules and regulations
- ❑ DSP shall offer same or similar universal service program that was offered by the EDC of that service territory.



DSP Implementation Plans



- ❑ Plan will be for a minimum twelve month period, or a multiple twelve month period.
- ❑ Plan will identify fair, transparent, non-discriminatory procurement mechanism.
- ❑ Plan will include terms of service for customers.
- ❑ Plan will identify a replacement procurement process in the event a supplier defaults.
- ❑ Plan will identify the method for complying with Alternative Energy Portfolio Standards Act of 2004.
- ❑ Plan will identify credit requirements for suppliers.



Default Service Supply Procurement



- ❑ All load must be procured through a competitive process. No bilateral contracts.
- ❑ DSP's wholesale energy affiliates may be a supplier. Affiliated supplier may not receive any advantage over nonaffiliated suppliers.
- ❑ Commission will review procurement process to ensure compliance with plan.



Commission Review Process



- ❑ DSP implementation plans may be subject to an evidentiary hearing process.
- ❑ Commission will evaluate plans to ensure they are fair, transparent, and non-discriminatory.
- ❑ DSPs will implement procurement process upon Commission approval of their plan.
- ❑ DSP will report results of procurement process to the Commission. Prices that result from compliance with the implementation plan will be deemed the “prevailing market price.”



Customer Migration



- ❑ A DSP will accept all new applicants for service, or customers who switch from an EGS, as long as they comply with regulations for applications for service.
- ❑ A new applicant for service and an old customer returning to the DSP from an EGS shall be treated the same.
- ❑ A default service customer may leave the DSP for an EGS at any time, provided they comply with regulations on changing service.
- ❑ A DSP may not charge a fee to a customer that changes service provider in a manner consistent with Commission regulations.



Competitive Safeguards



- An EGS may not switch a retail customer to a DSP without DSP's consent except for nonpayment of service, to correct an unauthorized or inadvertent switch, upon the cancellation/revocation of its EGS license, or upon the conclusion of a normal service contract.
- An EGS may not encourage its customers to return to a DSP as part of a strategy to exploit seasonal market price variations.



Further Information



- ❑ Pennsylvania PUC POLR Rulemaking Process:
www.puc.state.pa.us/electric/electric_last_resort.aspx
- ❑ Pennsylvania's Electric Competition Law:
www.puc.state.pa.us/electric/pdf/HB1509P4282.pdf
- ❑ New Jersey BGS Auction: www.bgs-auction.com
- ❑ Maryland SOS Service:
www.psc.state.md.us/psc/Electric/SOSrates.htm
- ❑ Texas Electricity Regulations:
www.puc.state.tx.us/rules/subrules/electric/index.cfm