

**PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, PA 17105-3265**

**Policies to Mitigate Potential Electricity  
Price Increases**

**Docket No. M-00061957**

**COMMENTS OF RELIANT ENERGY, INC.**

At the Pennsylvania Public Utility Commission's ("Commission") Open Meeting on May 19, 2006, Commissioner Terrance J. Fitzpatrick entered a motion to hold an *en banc* hearing on June 22, 2006 on policies to mitigate potential electricity price increases, and offered interested parties the ability to file comments by June 15, 2006. The motion was adopted and Commissioner Bill Shane issued a statement asking for ways in which higher costs could be avoided. Reliant Energy, Inc., ("Reliant") is pleased to have the opportunity to comment on issues raised by both Commissioner Shane and Commissioner Fitzpatrick regarding policies to mitigate potential price increases that customers may be faced with as the Electric Distribution Companies ("EDC") rate cap periods expire in Pennsylvania. Reliant will offer comments on the following specific topics:

1. Price mitigation;
2. The use of staged-multi-year long-term contracts for default service;
3. Hourly pricing and customer energy usage;
4. Purpose of default service;
5. The idea that deregulation would result in lower prices;

6. The use of long-term contracts to provide incentives for innovative base load facilities;
7. Impacts of LMP on consumer prices;
8. Impacts of Transmission congestion on consumer prices; and
9. Impacts of Reliability Pricing Model (“RPM”) on consumer prices.

### **Introduction**

As Commissioner Fitzpatrick notes, default service customers in some competitive areas have recently faced significant price increases. Reliant believes that these situations, a product of price regulation, will continue to exist in the future due to the structure of default service in those areas. The potential especially exists for Pennsylvania customers at the time generation rate caps expire. However, any increase in default prices that may occur will largely depend on commodity prices at that time.

The significant price increases in the States mention by Commissioner Fitzpatrick occurred not just as a result of the expiration of rate caps, but also due to the default service designs utilized by each of those States. Thus, the potential for significant price increases in default service also exists in the post-rate cap period as well. Consumers will be subject to future price increases, or decreases, based upon the structure of default service in Pennsylvania going forward.

When default service is based on long-term fixed prices, as they are in the examples cited by Commissioner Fitzpatrick, prices can and will become significantly disconnected from current prices in the wholesale market. As a

result, when these long-term contracts roll off and are replaced with newly priced contracts, the potential for wide disparities between the previous default price and the new default price exists. Not only are consumers then exposed to significant price increases, but in those areas where the market design impedes the development of retail competition, consumers are left with little or no choice.

To assist Pennsylvania consumers if significant price increases occur when the rate caps expire, Reliant believes the Commission is wise to consider price mitigation measures, should such mitigation be needed. In order to synchronize the capped rates to current market prices at the time the price caps expire, the Electric Distribution Companies (“EDCs”) could begin phasing in estimated price increases as the situation warrants. Reliant believes while possible to institute prior to the expiration of rate caps and not harm the competitive market, the Commission should not institute a price mitigation plan based on assessments of what wholesale prices may be when rate caps expire in the 2009-2011 timeframe. Market prices may in fact turn out to be lower or only slightly higher than the capped prices. Thus, any price mitigation plan should be triggered only if wholesale price increases are significant enough to warrant any mitigation as the rate caps expire.

Reliant believes that the goals of any price mitigation plan adopted by the Commission should be to benefit all customers for whom the plan is instituted; not disrupt the development of a competitive retail market; and not harm the EDCs. To that end, Reliant proposes a price mitigation plan be comprised of the

following elements: 1) allow the price increase to be spread over a one to five year period based on the magnitude of the increase; 2) recover the phased-in price increases through a non-bypassable charge applicable to all affected customers; and 3) consider allowing the EDC to issue securitization bonds over a long period of time (e.g. 15 years) to fund the credit extended to customers. Reliant believes that such a plan would both alleviate customer concerns and hold other market participants harmless. Reliant believes this plan should not be implemented until it is deemed necessary as the rate cap periods end.

To protect Pennsylvania consumers from an ongoing need for price mitigation, default service prices must be allowed to reflect changes in wholesale electric prices in a timely manner. Reliant has continued to advocate, both within Pennsylvania as well as other states that have opened up their electric markets to competition, a default service that reflects changes in wholesale prices on a frequent basis and a market design that allows for robust, sustainable retail competition.

Recognizing that electric consumption, market awareness and other factors affect different customer classes' abilities to gain insight and shop for competitive products, Reliant has put forth proposals for default service that recognize those differences. Reliant believes that hourly priced default service is best for larger customers, while smaller customers' needs are best met with a default service product that changes less frequently than hourly, but certainly more

frequently than once a year.<sup>1</sup> If default service is structured in such a manner, customers will benefit from the ability to choose an electric service provider that best meets their individual needs.<sup>2</sup> Should customers choose to remain on default service under Reliant's proposals; consumers get a market-responsive price that reduces exposure to significant price increases since customers are not artificially shielded from the realities in the wholesale energy market for long periods of time.<sup>3</sup> Designing default service as a backstop service, with customer appropriate, timely price adjustments will neither jeopardize the development of competitive retail markets nor the goals of the Electric Choice Act and will more efficiently mitigate price volatility.

Reliant will now address the individual issues listed above that are of concern to the Commissioners.

### ***1. Price Mitigation***

Reliant understands the desire to help customers transition from the prices they pay under generation rate caps or those based on long-term fixed price default service, if the situation warrants, to current market prices. However, Reliant recommends that any price mitigation plan 1) not be prematurely implemented; 2)

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<sup>1</sup> See Reliant's Comments and Reply Comments in Docket L-0040169.

<sup>2</sup> For example, customers in Texas (ERCOT), including the residential class, have various offers to choose from including offers that focus on price, length of term, renewable attributes, etc. In the 77002 zip code (Houston area), there are 27 different offers listed for residential customers on the Texas PUC's "Power to Choose" website. In the 78410 zip code (Corpus Christi area), there are 25 different offers for residential customers. (See Attachment I) Texas' default service for residential customers adjusts periodically for changes in market prices.

<sup>3</sup> Long-term contracting only gives the appearance of shielding customers from price increases. If long-term contracts are the basis of default service prices, wholesale suppliers do not take on commodity price risks without pricing them into their bids. Also, any price deviation is fairly symmetrical. Prices will roughly be higher half the time and lower half the time.

benefit all customers for which the plan would be put into place; 3) not cause disruptions to the development of a competitive retail market; and 4) not harm the EDCs. A price mitigation plan should be implemented only when it is deemed necessary. In other words, Reliant sees no reason for a price mitigation plan to be implemented on the basis that a significant price increase *might* exist at the time of the generation rate caps expire.

In order to ensure that all customers benefit, the Commission should allow a phase in of the price increase over a one to five year period depending upon the magnitude of the rate increase. While a price mitigation plan can be developed now, Reliant believes it wise to wait until the generation rate caps or interim POLR plans expire so the Commission can assess the overall price mitigation level needed, if any, and determine the appropriate time period over which to spread the price increases.

The price mitigation mechanism should be a non-bypassable wires credit applicable to all affected customers. Reliant believes the plan should be designed such that all applicable customers participate in the price mitigation plan. Developing a price mitigation plan that requires customers to either opt-in or opt-out of the plan simply places undue uncertainty in the market, requires customer education that can be avoided, and does not allow for easy implementation. Using a non-bypassable wires credit applicable to all customers is a simple solution that does not require customer education to implement nor sophisticated systems to track each and every customer's opt-in/opt-out decision.

Finally, Reliant recommends that consideration be given to allow the EDC to issue securitization bonds over a long-period of time (e.g. 15 years) to fund the credit extended to customers.<sup>4</sup> Since utilities are able to issue securitization bonds with lower interest rates, customers can benefit from those lower costs. If securitization is not allowed, then the Commission should consider an appropriate allowed rate of return for the EDC.

To provide assurance to customers and market stakeholders, Reliant believes it prudent to establish a plan at this time to mitigate prices, but not execute any plan until market conditions warrant. As mentioned above and summarized in Attachment II, Reliant proposes that a price mitigation plan comprised of the following elements: 1) allow the price increase to be spread over a one to five year period based on the magnitude of the increase; 2) recover the phased-in price increases through a non-bypassable credit applicable to all affected customers and 3) consider allowing the EDC to issue securitization bonds over a long period of time (e.g. 15 years) to fund the credit extended to customers.

## ***2. The Use of Staged Multi-Year Long-Term Contracts for Default Service***

Long-term contracting should not be a component of default service and in fact is a mechanism that by its very nature creates price disparities like those created by the existence of generation rate caps. Long-term contracting may create the illusion of mitigating prices, especially when viewed over the last several years because commodity prices have consistently risen. However, long-

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<sup>4</sup> Reliant would be willing to participate in a stakeholder process to address the securitization issue.

term contracts will not and cannot shield customers from experiencing default service price changes due to wholesale price changes.

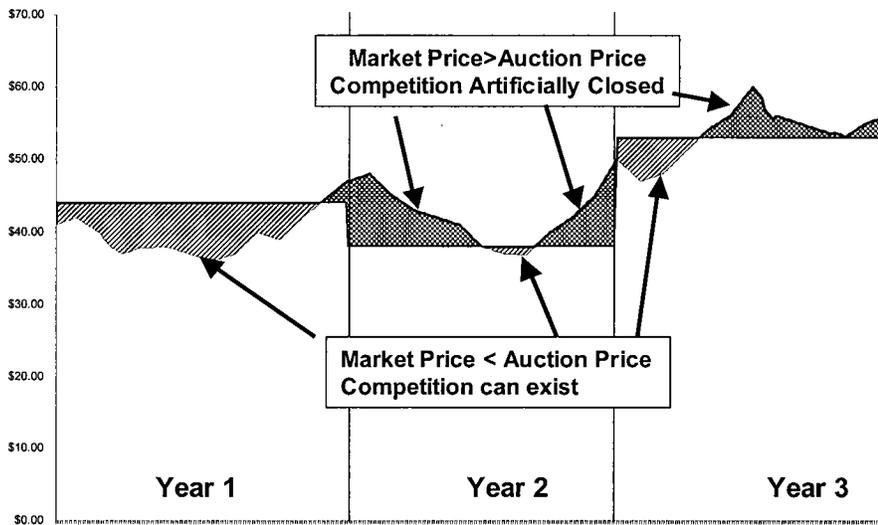
An example of this is New Jersey. Even there, the long-term wholesale auctions have resulted in customers seeing an average price increase of 12% - 14% this year, depending upon utility supplier on June 1, 2006. If commodity prices remain at their current level, New Jersey rates, although delayed, will increase to current market prices. However, when commodity prices fall, New Jersey citizens will be left with a design that locked in high market prices for as long as three years. Thus, there is no avoiding the consequences of change wholesale electric prices.

Eventually a default model that relies on long-term contracting and a default model that is more market responsive will reflect both wholesale price increases and decreases. While the long-term contracting delays the price increases in times of rising prices, a more market responsive model more quickly reduces prices in times of falling prices. Neither model shields customers from wholesale prices, but there is a major difference between the impacts of the two default service models on the competitive market. Where long-term contracting is used for default service, such as New Jersey, competition will not exist and consumers will be left with no competitive choices. As of March 2006 only 26 residential customers out of 3,270,928 total residential customers in New Jersey

were served by competitive suppliers.<sup>5</sup> Denying customers choice in electric suppliers is neither good public policy nor consistent with the goals of the Electric Choice Act.

Administratively-determined procurement processes, especially those that utilize long-term and multi-year contracts, inhibit the development of a competitive market because the resulting default service price is not reflective of prevailing market conditions. These models act as barriers to competition since competitive retailers find it difficult to enter markets that only afford intermittent opportunities to compete. This denies customers significant benefits of a competition market, two of which are risk management and product innovation. The chart below, illustrates the difficulties of sustaining competitive retail markets with long-term fixed-priced default structures:

**Auction Prices vs. Market Prices – Barriers to New Entry**



**Price uncertainty creates too much risk for new entrants to commit to market.**

<sup>5</sup> New Jersey Electric Statistics, March, 2006. <http://www.state.nj.us/bpu/energy/elecSwitchData.shtml>

A long-term fixed price default product substitutes a regulated product for competitive products. Since a market design that is not responsive to changing market conditions is not sustainable, the resulting market structure will be one of economic regulation. This is counter to the Electric Choice Act directive that calls for competitive market forces to replace economic regulation.

The auction procurement models utilized in New Jersey, Maryland, and Delaware, among others, for small customers have not been and, by design, cannot be successful in creating a competitive market nor will they shield customers from wholesale market prices. Ironically, they actually may create the need for an ongoing price mitigation plan. Such auction structures may be market responsive at a single point in time, but within days/weeks/months the going-forward market prices will result in deviations between the default price and the prevailing market price. If these deviations are allowed to occur for a sustained period of time, when the existing contracts are replaced with newly priced contracts, the result may be akin to the consequences experienced by long-term generation rate caps.

For these reasons, the Commission should avoid designing long-term fixed price default service.

### ***3. Hourly Pricing and Customer Energy Usage***

Markets that utilize hourly priced default service for larger commercial and industrial customers have been extremely successful at creating consumer-oriented choice and vibrant competition among numerous retail suppliers to gain consumer

business. In those markets, some customers chose to remain on hourly priced default service. After all, for consumers who do not require or desire risk management services or innovative products, hourly priced service is a pure market priced service. Customers who remain on HPS service have clear, immediate feedback on what their electric usage is costing and can adjust their usage if they desire. It is their choice.

Additionally, not all customers who leave hourly-priced default service are on fixed price contracts. Some customers choose hybrid products in which a portion of their usage is billed at fixed prices and a portion varies with hourly market prices. Here too, consumers have clear, immediate feedback on what their electric usage is costing and can adjust their usage if they desire. It is their choice

In competitive markets, customers on HPS chose that product based on their own decision-making process. Customers have the ability; whether they exercise it or not, to shift their load due to hourly price signals and Reliant has seen such behavior occur. However, that behavior is a result of the customer seeing the competitive market prices and responding accordingly, which would not occur if fixed price service were the default service for large commercial and industrial consumers. This a fundamental tenet of the market design Reliant proposes in the POLR Rulemaking, Docket L-00040169. Economically efficient demand response will be an outcome of a competitive market design.

Commissioner Fitzpatrick suggests that adopting more market responsive pricing such as hourly priced default service for larger customers and seasonal,

monthly, or time of day pricing for smaller customers would be a way to encourage demand response. Not only does Reliant agree with Commissioner Fitzpatrick that market responsive default service will encourage demand response, another aspect of such pricing is that it will allow for a robust, sustainable competitive market to develop. This will unleash the innovation and technology improvements for demand response programs due to competitive market forces, leading to more effective and efficient demand responsiveness than a centralized planning model would provide.

While it is in everyone's best interest to manage their individual usage as efficiently as possible, an efficient marketplace does not require demand response from all customers. Small amounts of demand response at peak times can have significant benefits.<sup>6</sup> Since small amounts of demand response are all that is needed to achieve significant savings, the emphasis should not be on the "average" customer or those that are not likely to respond, but on those that can respond.

ERCOT, located in Texas, has a demand response program that allows competitive retailers, in concert with willing customers to respond to market-based price signals. The Load Acting As a Resource Program ("LAAR") allows customers to bid demand response into ERCOT's ancillary services market for responsive reserve through their scheduling agent. The load is then paid the

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<sup>6</sup> Pre-filed Direct Testimony of ISO New England, Inc., Henry V. Yoshimura, Docket No. 05-10-03, The State of Connecticut before the Department of Public Utility Control, Page 9. "Reducing electricity demand by even a modest amount at times of high wholesale prices can help lower the LMP for all customers in the Load Zone. In certain hours – particularly during supply shortages and/or peak demand – the steeply sloping wholesale supply curve creates tremendous leverage for a small reduction in demand to significantly reduce LMP."

market clearing price for responsive reserve if needed by ERCOT. The LAAR program is fully subscribed at 1,150 MWs. It is important to note that it is the competitive retailers in the market that handle administration of ERCOT's demand response products.

#### ***4. Purpose of Default Service***

Reliant has consistently advocated a default service that is reflective of market prices on a timely basis in Pennsylvania, Maryland, New Jersey, and other states. Choice is the key to a competitive marketplace and the Choice Act calls for both wholesale and retail competition. The Commission must take great care in establishing default service as it will either enable or hinder competition. If the default service is established in a manner that hinders and restricts competition, then competition will surely fail. Hindering competition will harm all market participants, but especially end-use customers who, having paid for stranded costs would essentially be denied the benefits for which they paid. It would be adding insult to injury to customers, if after having already paid for stranded costs due to long-term utility commitments, to turn around and institute default service that returns to long-term commitments for electric supply.

In competitive markets, choice allows individuals to be the final arbiter of their provider and electric service product. Customers hold the ultimate advantage so long as they have the ability to freely switch providers in a competitive market. A provider that does not act in the best interests of its customers will lose its customers to a provider that does provide the electric service attributes sought by

individual customers. Any attempt to design default service to shield customers from wholesale market price increases by requiring long-term contractual commitments will not accomplish that goal. In times of rising wholesale prices, default service based on long-term contracts will rise as the contracts are renewed. This has been evidenced in those states that procure based on long-term contracts, like New Jersey. Also, during times of falling prices, consumers will be forced to pay higher prices for a longer period of time than they would have had long-term contracts not been mandated. Thus, despite any attempt to mitigate prices through the default service design, customers are still left with situations like that in Pike County.

The Commission should not attempt to define any specific criteria that customers must use when deciding on an electricity provider or product. Competition is about choice and as such, once a well structured competitive market is available in Pennsylvania, consumers will be able to choose from a portfolio of products from a wide array of suppliers. Individual choices can best be made based on the criteria an individual consumer personally deems important. Some customers want service where the price changes as the market changes on an hourly, monthly, quarterly, annual, or longer-term basis where price is the main criteria. Others seek electric service for reasons other than price, such as environmentally friendly products, the ability to bundle electric service with other services such as home security, or a host of other innovative products. Customer service, billing capabilities, company reputation and issue resolution are also

attributes customers have cited as criteria consumers consider when selecting an electric provider. It should be the customer that determines the electric service attributes they desire.

The April 2006 Electric Choice Enrollment Report, published on the Maryland Public Service Commission's website, shows that over 79% of the large commercial and industrial load in Maryland is served by competitive electric suppliers. In the CIEP class in New Jersey, which has only an hourly default option, 84.99% of the load was being served by competitive electric suppliers as of March 31, 2006<sup>7</sup>. In the CenterPoint Energy service territory in Texas where Reliant serves as the default provider, default service is not price regulated for commercial and industrial customers with loads greater than 1,000 kilowatts and nearly 100% of the customers have chosen retail electric service other than default service. When the default service is structured to both reflect market prices and enable competitive markets, many competitive suppliers will enter and make offers to customers. Maryland currently has 18 competitive retailers registered for large C&I customers, New Jersey has 17 competitive suppliers listed for C&I customers in the Conectiv, JCP&L, and PSE&G service territories, and there are over two dozen competitive suppliers registered in Texas for C&I customers.<sup>8</sup>

Reliant believes that the focus first needs to be on getting the market design right. Only when the rules allow for robust, sustainable competition to exist will

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<sup>7</sup> The CIEP class in New Jersey consists of commercial and industrial customers with peak load obligations of 1,250 kW or greater.

<sup>8</sup> There are only 6 active suppliers making offers to C&I customers in the Rockland Service Territory. Supplier information from the following website: <http://www.state.nj.us/bpu/home/supplierlist.shtml>

customers be able to pick the criteria, and ultimately the supplier and product that best meets their needs. Reliant agrees with Commissioner Shane that “manipulated competition” is not in anyone’s best interest, especially consumers. The Commission itself, in Docket L-0040169, stated that “to foster a competitive market, any POLR service model must be carefully designed to avoid distortions to the market. POLR service, as the name suggests, should primarily serve as a backstop to the competitive retail market.”<sup>9</sup> Thus, default service should not be the product of first and only choice. To allow a default structure that impedes the development of a competitive retail market creates just the scenario Commissioner Shane fears – a market structure with managed competition where consumers are denied the benefits of competition that were envisioned for them in the Electric Choice Act.

##### ***5. The Idea that Deregulation will Result in Lower Prices<sup>10</sup>***

Commissioner Shane believes that “customers may have thought that Electric Restructuring (Deregulation) would result in lower prices.” Lower prices or reduced rates may have been an expected outcome of the Choice Act, but they are not a prerequisite for a competitive market. Competitive markets will provide the most efficient price for electricity and the Choice Act recognized this economic posit. However, in markets that more efficiently and effectively reflect

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<sup>9</sup> Proposed Rulemaking Order, Docket L-00040169, December 16, 2004, Page 5.

<sup>10</sup> Statement of Commission Bill Shane, May 19, 2006, Page 2. “I believe that customers may have thought that Electric Restructuring (Deregulation) would result in lower prices.”

the fundamental principles of supply and demand, no promise was made nor can such a promise be made that a competitive market will always yield lower prices than economic regulation every single hour of every single day. Competition must be viewed by long-run outcomes rather than on short-run events that drive competitive market behavior and efficiency.<sup>11</sup>

Larger customers in the Duquesne service territory, Maryland, New Jersey, and all customers in the competitive markets within ERCOT (the ISO for much of Texas) have seen the benefits that competitive retail markets can bring even during times of rising wholesale prices. These customers have been able to negotiate or select from an array of contracts with competitive suppliers that have the electric service attributes they desire, including price, and have not been forced to remain with one supplier that attempts to offer a one-size-fits-all product, which inevitably results in a one-size-fits-few product that all are forced to take.

#### ***6. The Use of Long-Term Contracts to Provide Incentives for Innovative Base Load Facilities***

Long-term contracting by default service providers is not required to initiate development of innovative base load facilities. In competitive markets, invested capital enters to build assets as they become economical. If default service providers, like EGSs, procure supply in a manner that best meets their

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<sup>11</sup> Other industries that have a deregulated market structure, including the airline and natural gas industries, have not attempted to return to a more regulated structure simply because, at times, short-term events have resulted in temporal price increases. Competitive market response to higher natural gas prices, for instance, is demonstrated by the spate of LNG (liquefied natural gas) investment.

individual company's objectives, long-term contracting is certainly not precluded, and may well be desired. The disruption to a competitive market comes when mandated long-term contracts establish the default service price as explained above.

There have been several instances where baseload generation has been or is planned to be constructed without long-term contracts. Reliant built the 521 MW waste coal Seward facility in the Pennsylvania Electric Company's service territory. This plant went into commercial operation in the fall of 2004 and sells electricity into the PJM market. Reliant did not prior to construction, nor currently has, any long-term contracts in place for the output of this facility. Texas does not dictate how retailers (utilities are prohibited from selling electricity) procure supply, yet TXU Energy, an unregulated power generation company, recently announced plans to invest over \$10 billion to build over 9,000 MWs of lignite/coal-fired generation.

It is a competitive market that will deliver fuel diversity and innovative products based on sound, competitive-based economic decisions. Therefore, since competition provides the incentives for innovative base load facilities, those decisions should be left to a competitive marketplace. Regulatory mandates that preempt market-driven decision making only results in customers bearing the burden for poor investment decisions, not shareholders. This was a prime reason that the Electric Choice Act was passed in the first place.

## 7. *Impacts of LMP on Consumer Prices*<sup>12</sup>

PJM implemented bid-based Locational Marginal Pricing (“LMP”) on April 1, 1998. The introduction of LMP has provided a level of market transparency and efficiency that heretofore was unavailable to consumers, market sellers, and regulatory bodies and has significantly advanced the maturation of wholesale electricity markets. In general, Pennsylvania’s consumers are better off as a result of LMP implementation and PJM’s Market Monitoring Unit concluded that the market was reasonably competitive in 2005.<sup>13</sup>

Recent increased attention to LMP is largely driven by increases in underlying fuel prices used to generate electricity. Of note, the PJM 2005 State of the Market Report states that from 2001 to 2005, the on-peak load-weighted average LMP of the PJM system grew from \$48.36 to \$78.04.<sup>14</sup> It is vital that the Commission, consumers, and other interested parties understand that the underlying prices of fuel used to produce electricity were the largest driver in the price differential. By contrast, natural gas prices, which are often—though not always—the marginal fuel used in PJM, increased 102% over the same time frame.<sup>15</sup>

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<sup>12</sup> Statement of Commissioner Bill Shane, May 19, 2006, Page 1, “There are other elements at work in the wholesale energy market which will cause “competitive” wholesale electric charges to be even higher than they are at the present time. The impacts of Locational Marginal Pricing (LMP) are being recognized and questioned by many early advocates of Electric Competition.”

<sup>13</sup> PJM 2005 State of the Market Report. PJM Market Monitoring Unit. April 1, 2006 at 28.

<sup>14</sup> *Id.* at 406.

<sup>15</sup> NYMEX natural gas prices, 2001-2005.

## ***8. Impacts of Transmission Congestion on Consumer Prices***

Transmission congestion exists when low-cost power cannot be delivered to all load for a period of time because the transmission system is incapable of serving all load without constraints. That does not mean load will not be served, but that it will be served by higher cost resources dispatched within the constrained zone. As a result of this redispatch, transmission congestion can cause differences in LMPs. LMPs reflect the lowest cost resources available to serve load based on given transmission constraints at any given time. As the PJM State of the Market Report states: “Congestion is neither a negative nor a positive but is a direct measure of the extent to which there are differences in the cost of generation that cannot be equalized through the capability of the transmission system to deliver the cheapest energy to all parts of the system in every hour.”

A number of tools are in place to address transmission congestion. Most prevalent in the PJM market are Financial Transmission Rights and Annual Revenue Rights. These fungible financial products represent one way LSEs can hedge congestion costs.

Transmission congestion can also be reduced via the expansion of resources in the market, whether they be generation, transmission, or demand response. To that end, PJM has taken on a number of initiatives that address congestion-related issues. RPM also provides opportunities for transmission and demand response investment to be selected to provide capacity and potentially address congestion as well.

On the transmission front, PJM has announced billions of dollars worth of transmission upgrades that will be in place in the future. These include merchant-based transmission facilities where the investor is taking on the risks associated with the expansion. Also, several significant high voltage transmission lines have been proposed from the western and southern portions of PJM to the more-constrained eastern load centers. Added to all of this are significant changes to PJM's planning process that will improve and better integrate generation and transmission expansion across the PJM system to the benefit of consumers. Of course, transmission upgrades take time as many represent significant financial investments that can take years to complete.

### ***9. Impacts of RPM on Consumer Prices<sup>16</sup>***

As the Commission is aware, the Federal Energy Regulatory Commission ("FERC") is considering a redesign to the current PJM capacity market after lengthy debate at the PJM stakeholder level. If approved, the Reliability Pricing Model ("RPM") will significantly improve the capacity market by using forward-looking price signals to ensure resource adequacy. More accurate price signals will help ensure a reliable system.

The long-term impact on consumer prices is unknown. While PJM has provided some "indicative" capacity market prices in certain studies, these studies are not designed to presuppose actual outcomes. Instead, the simulations are

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<sup>16</sup> Statement of Commissioner Bill Shane, May 19, 2006, Page 1. "Additionally, proposals to provide economic incentives for the installation of electric generation "capacity" through a new administratively determined pricing methodology, the Reliability Pricing Model (RPM), will result in significantly increased "competitive" market prices.

illustrative examples of how the RPM process will work using the proposed, not final, rules and with the current set of known assets using PJM derived cost assumptions. What is known is that properly designed capacity markets will result in less volatile energy prices while providing greater assurance of reliability.

### **Summary**

Reliant commends the Commission for looking at these issues now and encourages it to carefully consider the impact its decisions regarding default service and price mitigation will have on direct access for all customers in the Commonwealth. While price mitigation is certainly something to be concerned about, care must be given so as to not produce a price mitigation plan that would be a detriment to a competitive market. Pennsylvania has the benefit of observing the various market models in place in other states and as a result, can learn from both the positive and negative aspects of those plans to pursue a path towards competition. The Choice Act clearly states in Section 2802(5) that “competitive market forces are more effective than economic regulation in controlling the cost of generating electricity” and the Commission is tasked in Section 2802 (13) with establishing the procedures for an “orderly transition from [the] current regulated structure to a structure under which retail customers will have direct access to a competitive market for the generation and sale or purchase of electricity.”

Many variables beyond the Commission’s purview affect electric markets. Natural gas prices and national energy policies, for example, are beyond the Commission’s control. The Commission is however tasked with carrying forth the

directives given by the Legislature in the Choice Act. It is to that end that the Commission must weigh the movement towards competitive electric markets with customer concerns. As long as the Commission establishes default service rules that will allow for development of competitive retail markets in Pennsylvania and develops reasonable price mitigation plans to be used if needed as rate caps expire, then customers will realize the benefits of a competitive markets.

Customer education is of the utmost importance. It is incumbent upon the Commission, EDCs, EGSs and others in the industry to help customers understand that default service is not their only option, but rather a backstop mechanism to a competitive market; that lower prices are not the sole reason that electric deregulation was and is being pursued; that competition will bring innovative products and services such as those seen in other previously regulated industries (e.g., packaged internet, phone and cable service in the telecommunications industry); and that due to previous political and regulatory decisions that allowed for capped generation rates, the continued transition towards competition, may mean increased or decreased prices, but in either case, consumers see the most efficient price as the result of a competitive market as called for by the Electric Choice Act.

To conclude, Reliant believes it is very important that Pennsylvania electric customers receive the benefits specified in the Choice Act and that will only occur if the Commission institutes policies that allow for full, robust competition for all

Pennsylvanians. Reliant is committed to working with all stakeholders to continue the move towards competitive markets in a manner that is beneficial to all.

# Attachment I

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Cost per Month estimates are based on electricity usage of 1,000 kWh per month and are inclusive of fixed and variable charges

YOUR AFFILIATE REP IS:		\$163	0	1		\$0.163/kWh
<b>Reliant Energy</b>		This is the basis for comparison.				
<b>Price to Beat</b>						
<b>Amigo Energy</b>		\$142	13%	1		\$0.1424/kWh
Discount Contract Program					<u>Terms of Service ; Facts Label</u>	
<b>Cirro Energy</b>		\$144	12%	12		\$0.144/kWh
Residential Electric Service					<u>Terms of Service ; Facts Label</u>	
<b>Commerce Energy</b>		\$142	13%	12		\$0.142/kWh
Residential Price Stopper					<u>Terms of Service ; Facts Label</u>	
<b>Commerce Energy</b>		\$145	11%	1		\$0.1445/kWh
Residential Variable Product					<u>Terms of Service ; Facts Label</u>	
<b>Direct Energy, LP</b>		\$151	7%	12		\$0.151/kWh
Price Protection Plan					<u>Terms of Service ; Facts Label</u>	
<b>Dynowatt</b>		\$138	15%	1		\$0.138/kWh
Residential Service					<u>Terms of Service ; Facts Label</u>	
<b>ECONergy Energy Company, Inc.</b>		\$143	12%	0		\$0.143/kWh
Tex Flex Plan					<u>Terms of Service ; Facts Label</u>	
<b>First Choice Power, Inc.</b>		\$145	11%	12		\$0.145/kWh
Easy Price Plan					<u>Terms of Service ; Facts Label</u>	
<b>Gexa Energy</b>		\$159	2%	0	☑	\$0.159/kWh
Gexa Green - 100% Pollution Free					<u>Terms of Service ; Facts Label</u>	
<b>Gexa Energy</b>		\$143	12%	0		\$0.143/kWh
Power Plan					<u>Terms of Service ; Facts Label</u>	
<b>Green Mountain Energy Company</b>		\$178	None	0	☑	\$0.1776/kWh
100% Wind			(-9%)		<u>Terms of Service ; Facts Label</u>	
<b>Green Mountain Energy Company</b>		\$163	0%	0	☑	\$0.1633/kWh
Pollution Free					<u>Terms of Service ; Facts Label</u>	
<b>Green Mountain Energy Company</b>		\$160	2%	9	☑	\$0.16/kWh
Pollution Free - Reliable Rate					<u>Terms of Service ; Facts Label</u>	
<b>Reliant Energy</b>		\$0	100%	8		\$0/kWh
2006 Secure Plan					<u>Terms of Service ; Facts Label</u>	
<b>Reliant Energy</b>		\$159	4%	19		\$0.159/kWh
					<u>Terms of Service ; Facts Label</u>	



AEP Texas Central

If this is not your current wires company, select the correct one and hit 'Update.'

Cost per Month estimates are based on electricity usage of 1,000 kWh per month and are inclusive of fixed and variable charges



YOUR AFFILIATE REP IS:  
CPL Retail Energy  
Price to Beat

\$177 0 1

This is the basis for comparison.

\$0.177/kWh

<b>Amigo Energy</b> Discount Contract Program	<b>\$144</b>	19%	1	<u>Terms of Service ; Facts Label</u>	\$0.1444/kWh
<b>Cirro Energy</b> Residential Electric Service	<b>\$151</b>	15%	12	<u>Terms of Service ; Facts Label</u>	\$0.151/kWh
<b>Commerce Energy</b> Residential Price Stopper	<b>\$131</b>	26%	12	<u>Terms of Service ; Facts Label</u>	\$0.131/kWh
<b>Commerce Energy</b> Residential Variable Product	<b>\$158</b>	11%	1	<u>Terms of Service ; Facts Label</u>	\$0.1581/kWh
<b>CPL Retail Energy</b> Price to Beat	<b>\$177</b>	0%	1	<u>Terms of Service ; Facts Label</u>	\$0.177/kWh
<b>Dynowatt</b> Residential Service	<b>\$138</b>	22%	1	<u>Terms of Service ; Facts Label</u>	\$0.138/kWh
<b>ECONenergy Energy Company, Inc.</b> Tex Flex Plan	<b>\$145</b>	18%	0	<u>Terms of Service ; Facts Label</u>	\$0.145/kWh
<b>First Choice Power, Inc.</b> Easy Price Plan	<b>\$148</b>	16%	12	<u>Terms of Service ; Facts Label</u>	\$0.148/kWh
<b>Gexa Energy</b> Gexa Green - 100% Pollution Free Power Plan	<b>\$173</b>	2%	0	<u>Terms of Service ; Facts Label</u>	\$0.173/kWh
<b>Gexa Energy</b> Power Plan	<b>\$155</b>	12%	0	<u>Terms of Service ; Facts Label</u>	\$0.155/kWh
<b>Green Mountain Energy Company</b> 100% Wind	<b>\$191</b>	None (-8%)	0	<u>Terms of Service ; Facts Label</u>	\$0.1914/kWh
<b>Green Mountain Energy Company</b> Pollution Free	<b>\$176</b>	1%	0	<u>Terms of Service ; Facts Label</u>	\$0.1764/kWh
<b>Green Mountain Energy Company</b> Pollution Free - Reliable Rate	<b>\$175</b>	1%	9	<u>Terms of Service ; Facts Label</u>	\$0.175/kWh
<b>Nueces Electric Co-op Retail Division</b> Residential Electricity	<b>\$136</b>	23%	1	<u>Terms of Service ; Facts Label</u>	\$0.136/kWh
<b>Reliant Energy</b>	<b>\$157</b>	11%	1	<u>Terms of Service ; Facts Label</u>	\$0.157/kWh



## Attachment II

### A Potential Measure to Mitigate Increases in Electric Prices

- A. Goals:
- a. Provide all residential customers the benefits of the mitigation measure through creation of a non-bypassable wires credit.
  - b. Do no harm to electric utilities
  - c. Do no harm to Electric Choice and Competition Act of 1999 (“Electric Choice Act”)
- B. Increases in commodity prices are not the result of Maryland’s Electric Choice Act
- a. Increases are due to underlying fuel costs; customers in fully regulated states are also seeing price increases
  - b. Competition will lead to more efficient prices than regulation
    - i. However, for an orderly transition, a commodity rate mitigation credit can alleviate the impact of increased commodity costs
- C. Commodity Rate Mitigation Credit
- a. Mechanism
    - i. Provide a credit to all residential customers determined by:
      1. the amount of mitigation desired
      2. the length of time the credit is available
    - ii. The Electric Distribution Utility would fund the credit and would be able to securitize the total dollar amount of the credit over a long period of time, e.g. 15-years.

Illustrative Example:

### Commodity Rate Mitigation Credit

**Credit Dollar Amount** \$53,604,998

Total Amount Issued	\$ 53,604,998
Total Amount Securitized	\$ 53,604,998
Interest Rate	5.00%
Periods (Years)	14

Residential Credit (# of Years)	2
BGE 2004 10-K Residential Sales (kWh)	13,313,000,000
BGE 2004 10-K Residential Customers	1,072,100
Typical Residential Customer Sales kWh Sales per Year	12,418

Avg. Monthly Credit Amount \$25.00 ← CRMC