Remarks of Charles V. Fullem, Director – Rates & Regulatory Affairs – Pennsylvania, FirstEnergy Service Company
March 21, 2011 En Banc re: Long-Range Work Plan

Good afternoon. My name is Chuck Fullem, and I am the Director - Rates & Regulatory Affairs - Pennsylvania, for FirstEnergy. I am appearing today on behalf of Met-Ed, Penelec, Penn Power and West Penn Power.

The Companies share the Commission's objective to enhance retail competition throughout the Companies' service territories and the Commonwealth, and we commend the Commission for initiating this Retail Markets Investigation. The Companies continue to actively participate in the RMI process and have incorporated many of the Commission's suggested competitive enhancements and other recent recommendations into the pending proposed default service plans that will be implemented from June 2013 through May 2015.

The Commission has raised important policy questions regarding the framework for providing default service to non-shopping customers and customers that may return to default service after May 31, 2015. While the Companies stand ready to continue to fulfill that function, we recognize that alternative market structures with electric generation suppliers serving in the default service role – if appropriately structured – may also work well, if that is ultimately the policy that Pennsylvania chooses to adopt.

While the Staff's discussion document identifies certain high-level issues that should be considered, it lacks the specifics necessary to fully understand how the potential pricing models would be implemented. However, I will generally offer the Companies initial view on several of the categories listed in the discussion document.

First, it is the Companies position that, there is no need for EDCs to perform a back-stop service to default service providers. If EGSs are selected to perform the role of providing default service, then adequate credit and protection should be put in place to assure that they will fulfill their obligations, and similar to Texas any back-stop obligations should be placed on all other

EGSs that are active in the market. It simply does not make economic sense for EDCs to maintain resources and incur costs that will provide no economic benefit to customers. Two layers of default or provider-of-last-resort service is unnecessary and would be costly to implement.

Second, the Companies' existing or pending default service plans do not make any special provisions to procure generation for either Universal Service customers or Net-Metering customers, and there is no reason to make special provisions to procure generation for those groups under an alternative market model. Universal Service programs should be managed by the EDC and must be completely portable, meaning the customer recieves the same benefit regardless of supplier. The Companies' Universal Service programs are portable today, and there is no reason to require an EDC to secure generation supply separately for this group of customers in the future. In addition, EGSs can serve Net-Metering customers as well as EDCs can serve them.

Third, Met-Ed, Penelec, and Penn Power currently have mechanisms in place that allow EDCs to continue to purchase long-term solar contracts to meet AEPS obligations, regardless of whether or not they provide default service. These mechanisms ensure cost recovery for the utility, as well as competitive neutrality between the default service provider and competitive EGSs. If it is the State's policy to promote long-term AEPS contracts, then the mechanisms currently utilized by the Companies will work and can easily be adopted under any of the Staff's proposed models.

Fourth, if the Commission adopts Staff's proposed Model A with monthly pricing changes, and the alternative default service provider would elect for the EDC to provide consolidated billing, the alternative default service supplier would need to do so using bill-ready

EDC consolidated billing. The Companies do not believe that rate-ready EDC consolidated billing can be cost effectively utilized for variable-priced products.

Fifth, if the supplier consolidated billing model or third-party billing is adopted, the Companies would require significantly more credit requirements from the suppliers that elect to collect EDC charges from customers than are currently required under the Companies' Supplier Tariffs.

The Companies commend the Commission and Staff's efforts and work done thus far on possible end-state default service models with EGSs serving in the default service role. However, if it is ultimately the policy of Pennsylvania to pursue this market model, there is a significant amount of work that needs to be completed. Finally, I would like to thank the Commission for the opportunity for Met-Ed, Penelec, Penn Power and West Penn Power to present the Companies' initial views on the three models proposed.