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November 17, 2008

PA PUC
SECRETARY'S BUREAU

Mr. James J. McNulty
Secretary
Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

ML-2008-2066901

Re: Public Hearing on the Current and Future Wholesale Electricity Markets

Dear Mr. McNulty:

Pursuant to the procedure set forth by the Commission, AARP submits the following reply comments regarding the November 6 Public Hearing on the Current and Future Wholesale Electricity Markets. AARP is a nonprofit, nonpartisan membership organization with nearly 2 million members in Pennsylvania. AARP is dedicated to making life better for people 50 and over. We provide information and resources and engage in legislative, regulatory and legal advocacy. AARP has been active before the Pennsylvania General Assembly and the Public Utility Commission in advocating on behalf of our members who are concerned about rising energy bills.

AARP appreciates the Commission's interest in examining the state's wholesale energy market ("PJM"). Residential customers are experiencing the same fall-out from dysfunctional wholesale markets as the witnesses at the hearing, such as the large industrial customers represented by ELCON and Alcoa, and public power entities represented by the American Public Power Association (APPA). AARP members and other older consumers are hit especially hard. That is because older Americans devote a higher percentage of total spending on residential energy costs than do younger consumers. Furthermore, electric service is crucial to health and personal welfare, especially for older persons. For older consumers and other vulnerable groups, the loss of heat in the winter and cooling in the summer could have devastating consequences.

Witnesses at the November 6 hearing brought forth strong evidence of the failure of RTO markets such as PJM. According to their testimony, this failure has resulted in higher electricity prices for consumers in RTO-run markets than prices in non-RTO markets. Reasons given for excessive prices in RTOs include the use of a single clearing price auction, locational marginal pricing, market power by generators, a complete lack of transparency regarding market transactions, and the additional costs of the RTO structure itself (referred to by Dr. Rose as "the sum of the parts is greater than the whole"). As these and other analyses show, deregulated markets are not working, competition is non-existent and consumers are paying higher prices as a result. Proponents of the status quo are most

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often those who benefit from it, while consumers, both large and small, struggle under the burden of unreasonably high prices for electricity.

As witnesses at the hearing stated, much of this problem is under the jurisdiction of the Federal Energy Regulatory Commission (FERC). AARP has also called on FERC to investigate and address the dysfunction in wholesale markets, including as a signatory to the "41 Party Motion" asking FERC to expand its rulemaking to examine the justness and reasonableness of the rates charged in RTO –run markets. Several witnesses at the November 6 hearing, as well as groups representing Pennsylvania manufactures were also parties. This motion was denied by FERC.

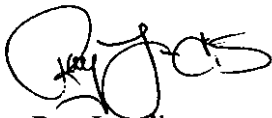
However, there is action the Commission can and should take with regard to these wholesale market issues. First, HB 2200 recently passed by the General Assembly and signed by the Governor, included a requirement for utilities to provide default service under comprehensive portfolio planning approach designed to ensure long-term price stability and the long-term lowest reasonable price for essential electricity service, reflecting a diversity of supply-side and demand-side resources, a diversity of fuel types and a prudent mix of long and short term prices. This provision of HB 2200 was strongly supported by AARP. In implementing the law, the Commission should ensure that the utilities do not overly rely on the spot market or contracts linked to RTO pricing, but rather procure the types of bilateral and longer term contracts provide lower cost and reliable power for customers.

Second, AARP agrees with those witnesses who call on the Commission to continue advocacy before FERC to address market failures which ultimately lead to unjust and unreasonable rates for Pennsylvania consumers. Further, as recommended by Dr. Rose, the Commission should seek cooperation from FERC in requiring the RTOs provide the necessary information necessary for analysis.

Finally, the state must ensure that Pennsylvanians have access to safe and reliable power at reasonable prices. It has become clear that RTOs cannot deliver on this goal. Unless RTO markets are fundamentally reformed, the state should reduce its reliance on such markets, including by allowing utilities to own their own generation under cost of service ratemaking and through the creation of a state power authority. Both of these measures would provide a type of check and balance to the dysfunction of the PJM and other RTOs.

AARP appreciates the opportunity to comment on these important issues. AARP will continue our efforts to ensure Pennsylvania consumers are able to obtain electric service at reasonable and affordable rates.

Sincerely,



Ray Landis
Manager of Advocacy
AARP Pennsylvania