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**Policies to Mitigate Potential Electricity
Price Increases**

Docket No. M-00061957

REPLY COMMENTS OF RELIANT ENERGY, INC.

In these Reply Comments, Reliant Energy, Inc. ("Reliant") will discuss issues raised by parties in their initial comments filed on June 15, 2006 and those made at the *en banc* hearing held on June 22, 2006. First, Reliant notes that it was the only party to propose a specific price mitigation plan to be utilized, if needed, at the time the rate caps expire, or if the default service design adopted by the Pennsylvania Public Utility Commission ("Commission") results in large price differentials at some point in the future. RESA provided the Commission with principles for a price mitigation plan. Certain other parties' comments, both filed and those given at the hearing, attempted to promote long-term default service models as price mitigation plans. The Commission should not be persuaded by attempts to characterize these models as price mitigation plans. They are not, nor will they eliminate the need for possible price mitigation in the future.

Reliant will briefly reiterate its price mitigation proposal and then focus on the structure of default service and the impacts such structure will have on competition and customer pricing. Specifically, Reliant will address the following:

1. Reliant's price mitigation proposal;
2. The purpose of default service;
3. The use of long-term contracts for default service;
4. The use of long-term contracts to provide incentives for base load facilities;
and
5. Mischaracterizations of the Texas competitive market.

Introduction

Since customers in Pennsylvania may be facing significant price increases as the individual electric distribution companies' ("EDC") generation rate caps expire, Reliant puts forth a price mitigation plan that would accomplish the Commission's objectives of helping customers transition to prevailing market prices, yet not disrupt the development of a robust, sustainable competitive market. Reliant also noted in its initial comments that the potential for significant price increases will continue to exist if the Commission chooses a default service structure that relies on long-term contracts (e.g., such as the New Jersey Basic Generation Service fixed price default structure).

When default service is based on long-term fixed prices, as they are in New Jersey for smaller commercial and residential customers, the price paid by retail customers can and will become disconnected from wholesale market prices over time.¹ As a result, when the price paid by retail customers is updated based on the

¹ This is in reference to BGS-FP service for all residential and most commercial and industrial customers below 1,250 kW.

annual auction results, wide disparities between the previous default price and the new default price can exist. Thus, in addition to consumers being exposed to significant price increases, this type of market design impedes the development of retail competition, leaving consumers with little or no choice.

Reliant put forth a default service design, the Market Responsive Pricing Model in the POLR Rulemaking Docket, L-00040169, that leads to a robust, competitive retail market and avoids significant price increases to customers due to long-term contracting. Reliant believes that hourly priced default service is best for larger customers (i.e. those with peak demands of 100 kW and above), 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.² 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. 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. 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 risks without including those risks in their bids. Designing default service as a backstop service, with customer appropriate, timely price adjustments

² See Reliant's Comments and Reply Comments in Docket L-00040169.

will promote the development of competitive retail markets and is consistent with the goals of the Electric Choice Act. Implementing a market responsive default service design will also more efficiently mitigate price volatility.

Reliant will now address the individual issues listed above.

1. Reliant's Price Mitigation Proposal

Reliant recommends that any price mitigation plan 1) not be prematurely implemented; 2) benefit all customers for whom 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.

Reliant's price mitigation plan, discussed in detail in its Initial Comments filed on June 15, 2006, consists 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 by creation of a non-bypassable credit; 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 it would be in the best interests of all market participants to adopt this plan in the event that it is needed in the future. This will provide certainty to all market participants that there will be a mechanism in place to help customers manage significant price increases, yet not disrupt the development of a competitive market going forward.

2. The Purpose of Default Service

In order to establish default service that meets the goals of the Choice Act, the Commission must first recognize the purpose of default service, which it has done in Docket L-00040169 (“POLR Rulemaking”). In that proceeding, the Commission 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.”³ Thus, the Commission has properly recognized that default service should not be a substitute for competition, nor should it be designed in a manner that prevents competition from developing. Contrary to the purpose of default service however, parties to both the POLR Rulemaking and this proceeding have continued to advocate default service models that restrict the development of a competitive market and result in default service becoming, in essence, the only choice available to customers. Moreover, these default service models will also put the Commission in the position of having to continually evaluate the need for price mitigation.

Constellation Energy Group Companies, PECO Energy, PPL Electric Utilities, Corporation, and the Office of Consumer Advocate, among others, continue to advocate default service designs similar to those in Maryland and New Jersey for smaller commercial and residential customers. As will be discussed in detail below, these default service designs have both hindered competition *and*

³ Proposed Rulemaking Order, Docket L-00040169, December 16, 2004, Page 5.

resulted in customers seeing significant price increases. Denying customers the benefits of a competitive retail market and subjecting them to the potential for significant price increases on a continued basis is not why the Choice Act was enacted.⁴ These proposals should be rejected.

3. The Use of Long-Term Contracts for Default Service

The auction procurement models utilized in New Jersey, Maryland, and Delaware, among others, have not been and, by design, cannot be successful in creating a competitive market nor will they shield customers from wholesale market prices. Furthermore, 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.

The reason so many parties believe the long-term auction models are attractive is because wholesale prices have steadily risen over the last several years. Given this fact, the default service prices that result from these models

⁴ In fact, in both the New York and Texas competitive markets, residential customers can choose among a variety of products and services and providers. Offers that exist include a 5-yr product, 3-yr product, one year products, month to month products, among various other terms and products, such as renewable energy based products. www.powertochooseny.com reports a 5-yr Price Protection Program offer (New York) and www.powertochoose.com reports a 3-yr fixed rate plan (Texas). A 5-yr fixed rate plan is also being offered to customers in the Dallas area.

appear attractive for a period of time, but then customers may be faced with significant increases when the existing long-term contracts expire and are replaced with updated long-term contracts that use the current market price. Moreover, should wholesale prices decline, customers are left paying higher fixed prices for longer periods of time. Compounding the problem with these models is the fact that due to significant barriers to entry, competitive retail suppliers find it difficult to enter and remain in the market to offer customers alternatives. Thus, customers are left with the default service product as the only choice and customers have no ability to choose products more in line with their own risk tolerance.⁵ This is clearly not what was intended by the Legislators when they passed the Choice Act.

As noted in Reliant's initial comments, the New Jersey market for residential customers provides a prime example of the shortcomings of a long-term auction procurement model for default service. 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. And, as of March 2006 only 26 residential customers out of 3,270,928 total residential customers in New Jersey were served by competitive suppliers.⁶

What proponents of the long-term auction models also fail to point out is that when commodity prices fall, customers will be left with a design that locks in high market prices for as long as three years and with no alternative supplier as

⁵ Residential and commercial customers in Texas have many service terms to choose from including monthly, fixed priced products of one, two, three or five years duration, commodity indexed, etc.

⁶ New Jersey Electric Statistics, March, 2006. <http://www.state.nj.us/bpu/energy/elecSwitchData.shtml>

competitive retailers will not enter a market where competition cannot be sustained. The Commissions in these states will then encounter a situation where customers will be left paying for out-of-market contracts. This model basically creates yet another stranded cost situation that customers are left to bear. In addition, these models place the Commission in the role of portfolio manager and market timer, which is not consistent with the Choice Act directives.

One can simply not design default service to escape the realities of changing wholesale commodity prices. Where long-term contracting is mandated for default service, such as New Jersey, competition will not exist and consumers will be left with no competitive choices. Denying customers the ability to choose their electric supplier is neither good public policy nor consistent with the goals of the Electric Choice Act.

Even PECO's witness, Mr. Schnitzer, who supports the New Jersey BGS design, concedes its failings. He states at the June 22nd hearing, "it is certainly the case that if you adopt a one-third, one-third, one-third rolling approach for small customers during a period of increasing prices, that that one-third, one-third, one-third will have you lagging what a spot price type of approach would be and to that extent, during that period, there might be diminished shopping credits relative to another approach. But it is also the case that when prices go back the other way, the one-third, one-third, one-third will lag going down."⁷ Additionally, while

⁷ Transcript of the June 22, 2006 Hearing, Page 100.

artfully dodging the significant barriers to market entry that exists in his client's proposal, which will not result in a on-going competitive retail market, he admits that with respect to choosing a product to provide, "...a sensible one seems to be one that is market responsive, but not unnecessarily volatile for those customers, and retail competition can and will take place around that product."⁸ New Jersey has been open for competition long enough to know that 26 residential consumers out of 3,270,928 is enough evidence to make a determination that retail competition does not truly exist for these customers in New Jersey.

The same states that have adopted default service approaches based on long-term contracts for their smaller customers have seen first hand the benefits large customers have been able to achieve given default service that more closely aligns to changing wholesale market prices. Both Maryland and New Jersey have adopted hourly priced default service models for their larger customers. Over 90% of the large commercial and industrial load in Maryland is served by competitive electric suppliers.⁹ There are currently over 17 competitive electric suppliers offering products to these customers, with at least three of the suppliers offering a variety of product choices. The CIEP class in New Jersey, which has only an hourly default option, 84.99% of the load was being served by competitive

⁸ Ibid, Page 101.

⁹ Month ending March 2006 Electric Choice Enrollment Monthly Report <http://www.psc.state.md.us/psc/electric/enrollmentrpt.htm>. Reliant's Initial Comments cited Maryland's April 2006 Enrollment Report for Large C&I switching statistics. However, the Maryland Commission website states that the Large C&I switching statistics for the April and May enrollment reports have now been identified as incorrect. Therefore, Reliant has used March information to capture the most current accurate information available.

electric suppliers as of March 31, 2006¹⁰. Commissions in these states can see that robust, sustainable competition has developed and provides their larger customers the benefits of competition (i.e. several supplier choices, various product offerings, etc.) and should look toward a similar design to bring their smaller customers those same benefits.

Other markets that have chosen market responsive pricing for larger customers have seen similar results. In the CenterPoint Energy service territory in Texas where Reliant serves as the default provider, default service is not price regulated for the 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. Additionally, market responsive pricing in Duquesne Light's service territory here in Pennsylvania has 92.8% of large customer load being served by EGSs.¹¹

Reliant has continued to support default service that reflects changing market prices on a timely basis. Reliant put forth its market responsive pricing model in its POLR Rulemaking comments. A summary of that proposal is given below:

¹⁰ The CIEP class in New Jersey consists of commercial and industrial customers with peak load obligations of 1,250 kW or greater. New Jersey Electric Statistics CIEP Switching as of March 31, 2006 <http://www.bpu.state.nj.us/wwwroot/energy/CIEP.pdf>

¹¹ See Petition of Duquesne Light Company for Approval of Its Plan for Post-Transition Period POLR Service, Pennsylvania Public Utility Commission Docket No. P-00032071 (Jan. 9, 2006). Large Customers in Duquesne are defined as those with peak demands above 300 kW.

Default Service Design Principles

- Competitive market forces are more effective than economic regulation in arriving at efficient prices
- Customer choice through direct access will lead to products and services that match customer desires and should be priced by the market, not administratively.
- Default service should be fairly priced including consideration of the risks associated with providing the service, and should be adjustable to reflect changes in market prices (i.e. changes in power prices).
- The default services should be established in a manner that fosters competition.
 - Default service prices will establish the ceiling against which other competitors must compete to enter the market.
 - Default service prices must be adjustable to changes in market conditions (i.e., market prices).
- Customers should be free to switch off of default service at any time without incurring penalties or fees.

Large Customer Design

- Large customers have a great deal of market sophistication and have the ability to shop for products and services that meet their specific needs.
 - The technology exists for these customers to monitor usage on an hourly basis and the financial benefits of saving even a few mils per kilowatt-hour can be significant due to the volume these customers consume, thus their incentive to navigate the market for the best deal is high.
 - Likewise, due to these customers' high volume usage, retail suppliers have an incentive to design products to address individual customer desires.
 - As such, these customers need little to no safety net and have been the first to take advantage of hourly-priced products in markets outside of Pennsylvania, and in the Duquesne Light service territory within Pennsylvania.
 - Once market-limiting factors such as fixed, transitional rate caps expire, there is no need for the default provider to offer an array of default services to these customers and indeed such a design will stifle the competitive market.
- The only default service for large customers should be an hourly-priced product offered by a competitive affiliate of the Electric Delivery Company,

("EDC"). This design will result in the largest number of retail suppliers offering competitive products to customers.

- There should be no switching restrictions or fees for large customers.
- Customers not selecting a provider should receive hourly default service.

Administrative Services Fee

- The large customer default price should include an administrative services fee to appropriately cover all costs associated with such service.
- The administrative service fee should only be applied to those customers taking default service.

Residential/Small Business Customer Market Design

- Residential and small business customers may face slower transition to robust competitive offers than the large customers due to lower consumption patterns, less financial incentive due to lower consumption, and the technological inability to respond to usage hourly.
- Therefore, compared to large customers, a less frequently adjustable default price should be designed and offered by a competitive affiliate of the EDC. Such a default product provides a safe harbor price for customers.
- The Commission should establish an initial commodity price that recognizes the inherent risks of providing default service. In order to have a direct access program that provides customers the benefits of a fully competitive marketplace, the initial price must be compared to then current market prices and a one-time adjustment made if necessary, to ensure that direct access for customers is provided by competitive EGSs. Any further adjustment to the default price should be in accordance with the following:
 - In order to allow alternative retail providers to enter the market and remain in the market, the default provider should have the opportunity to adjust the default price a limited number of times per year (for example 2-3 times).
 - To allow for adjustment to prevailing market price changes, a transparent adjustment mechanism should be established based on a known market index.
- The initial commodity price, adjustable to changes in prevailing market prices, can be established through a number of different methodologies, including but not limited to, discounting the utility rate at the end of the transition period by a fixed amount; conducting a one-time competitive solicitation in each service territory allowing competitive EGSs to offer a one-time standard retail electric

product which would then form the basis for the default product initial price; allowing the utility to propose a price that its competitive affiliate will use in its default service implementation plan with the Commission ascertaining the appropriateness of the price and the ability for EGSs to compete; or allowing the Commission to establish a price and/or methodology for one or all default service providers through a rulemaking proceeding.

- Of prime importance in establishing the initial price, regardless of the methodology through which it is chosen, is that for each service territory, the default price is fully reflective of the retail market price. This will provide an opportunity for competitive retailers to enter the market by offering products different than the default service product.
- Allowing retail prices to change with prevailing market price changes will ensure all parties that the default price will not become below market, thus allowing needed confidence for new market entrants, which will lead to robust, sustainable retail competition.
- If the default provider retains most of the customers upon implementation of the MRPM, the default provider must not be allowed to prohibit EGSs to enter the market by offering competing products. Therefore, the default provider cannot offer anything other than the default product (i.e. a competitive offering) until three (3) years after implementation of this default product design or the date on which 30% of the power consumed by the relevant class is served by other EGSs.
- If the default provider remains a regulated entity (i.e. a utility), rather than being an affiliate of the utility as Reliant recommends, then the default provider cannot make offers that compete with the default product.

4. The Use of Long-Term Contracts to Provide Incentives for Base Load Facilities

In well-functioning competitive markets, utilities should only be responsible for the transmission and distribution functions of electric service connecting the generator with the end-use customer. Utility generation is not a component of a well-functioning competitive retail market. Reliant is aware that significant investment in solid-fuel base load generation has not occurred in recent years, and the Commission has expressed concern in that regard.

There are a number of factors that have contributed to the predominate investment in natural gas-fired generation, rather than solid-fuel fired generation facilities. These include lower capital cost, shorter construction time, and lower operating costs. However, given rising natural gas prices in recent years, the advantage of natural-gas fired generation has diminished. Given appropriate market signals to construct new generation based on the supply/demand situation of the region and the ability to recover investment cost through an appropriately designed competitive market, the investment community, which consists of a broad array of entities, some of which may or may not participate at any given time during the business cycle, has demonstrated a willingness to fund construction of solid-fuel generation. In fact, there is evidence that competitive markets are responding to current market conditions; including high gas prices, increased electricity demand, and the reduction of excess supply.

TXU recently announced that it has secured a commitment for \$11 billion of non-recourse financing at favorable rates to fund construction of 11 coal powered generating facilities providing nearly 9,000 MWs of capacity in ERCOT.¹² TXU also plans to expand its business outside of Texas by filing for environmental permits for three to five GWs of new solid-fuel power generation capacity in PJM and the Northeast power markets before the end of 2006.¹³ NRG Energy, Inc. recently purchased a significant amount of baseload generation in

¹² <http://www.txucorp.com/media/newsrel/detail.aspx?prid=941>

<http://www.txucorp.com/media/newsrel/detail.aspx?prid=956>

¹³ <http://www.txucorp.com/pdf/060806PowertheFutureProgressUpdate.pdf>, Page 12.

Texas.¹⁴ Finally, Reliant built the 521 MW clean-coal project in Pennsylvania, which was recognized as POWER magazine's Plant of the Year.¹⁵

As noted in Reliant's initial comments, it is a competitive market that will deliver fuel diversity and innovative products based on sound, competitive-based economic decisions. Regulatory mandates such as ring-fencing, integrated resource planning and performance based-ratemaking 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.

5. Mischaracterizations of the Texas Competitive Market

The Office of Consumer Advocate ("OCA") implies that retail choice for residential customers has been slow to develop and notes that even in Texas, the state with the most shopping by customers, only about 30% of residential customers have chosen an alternative supplier.¹⁶ In fact, 40.9% of residential load has chosen an alternative supplier and many customer take service other than the PTB from the affiliated supplier.¹⁷ Reliant would first note that while OCA's

¹⁴ The final purchase price consisted of \$4.4 billion in cash, \$2.7 billion in assumed Texas Genco debt and 35.4 million shares of NRG common stock. NRG partially funded the acquisition with the net proceeds from its public offerings of common stock (\$1.0 billion), which closed on January 31, 2006, and mandatory convertible preferred stock (\$500 million) and unsecured senior notes (\$3.6 billion). In addition, NRG entered into a senior secured credit facility consisting of \$3.58 billion term loan facility, a \$1.0 billion revolving credit facility and a \$1.0 billion synthetic letter of credit facility.

<http://www.snl.com/irweblinkx/file.aspx?IID=4057436&FID=2090512>

¹⁵ <http://www.reliant.com/corporate/news/detail/1,1004,CID450159,00.html?2id=&ckst=true&REID=8E548874-547C-FF56-02B6-D5ADBDB6E2C3>

¹⁶ Comments of the Office of Consumer Advocate, Dated June 15, 2006, Page 33.

¹⁷ ERCOT Number of Premises Switched and Estimated Load Report as of June 30, 2006

reference to the 90% increase in electric prices is accurate, it does not tell the whole story. Unlike Pennsylvania, most of the generating facilities in Texas are natural gas-fired and gas is the marginal fuel that impacts electric prices. Since 2002, natural gas prices have risen 267%, compared to the PTB price increase of only 90%.

More importantly, a robust, sustainable competitive retail market in Texas has developed due to the structure of default service. As noted in Reliant's initial comments, in the 77002 zip code (Houston area), there are 26 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 24 different offers for residential customers. Rural areas in Texas have numerous offers as well. Looking at the "Power to Choose" website for Wink, TX (79789 zip code) shows that residential customers there can select from 31 different offers with varied pricing and terms.

OCA contends that increasing default service rates like Texas has done "just in order to permit competitors to offer a slight discount offers no purpose."¹⁸ Reliant would first note that default service rates were not "increased" to permit "slight discounts." The fact of the matter is that when the Texas restructuring legislation was enacted, default rates (called "price to beat" or "PTB") were lowered by 6% giving consumers an immediate savings over then current rates.

http://www.ercot.com/mktinfo/retail/trans_rpt/Number_Premises_Switched_EOM_2006_06.ppt

¹⁸ Comments of the Office of Consumer Advocate, Dated June 15, 2006, Page 33.

Secondly, a quick review of the Texas Public Utility Commission's competitive website snapshots provided by Reliant in its initial comments shows that in the Corpus Christi area there are 18 offers being made to residential customers that provide at least a 10% savings, with four of those providing a discount over 20% from the default service price. Of the 26 different offers in the Houston area, 10 of the offers provide discounts greater than 10%, with the highest one being a 15% discount off the default service price. Even OCA can not contend that these savings are "slight," nor that the number of competitors in the market is insignificant. Clearly, the price to beat has served a purpose, which is coming to an end on December 31, 2006, and that purpose is to spur the development of a robust, sustainable competitive retail market.

In a recently completed study, the Public Utility Commission reached the following conclusions about Texas' competitive retail markets:

- Service options are available to residential customers in many areas of Texas, including the Houston and Dallas-Fort Worth areas, at prices that are significantly below the estimated rates that would have been in effect if regulation had continued.
- A residential customer in the Houston area who switched to a competitive Retail Electric Provider in January 2002 and switched annually thereafter to the lowest-cost provider would have saved about \$1440, compared to the estimated regulated rate, over the four-year period retail competition has been in effect.
- Similarly, a residential customer in the Dallas area would have saved over \$800 in the last four years by switching annually to the lowest-cost provider.

- There are benefits of competition beyond lower prices for electricity, such as a variety of service and pricing options and efficient mechanisms for promoting renewable energy and energy efficiency.
- Competitive forces resulted in the replacement of older power plants with new, efficient plants, making a major contribution to the reduction of emissions from the electric industry and progress in meeting national air-quality standards in the Houston-Galveston and Dallas-Fort Worth areas.
- Rates charged by other utilities in Texas that do not provide retail competition to their customers are not an appropriate proxy for the regulated rates that would have been in effect if competition had not been introduced.¹⁹

Clearly, the Texas Public Utility Commission considers retail competition to be beneficial to customers in Texas. It is the market responsive pricing nature of default service in Texas that has resulted in customers seeing these benefits and it is for this reason that Reliant supports default service being more market responsive than that being proposed by the proponents of the long-term contracting models.

Summary

This proceeding was opened to address price mitigation at the end of the rate cap periods, not default service. Many parties simply reiterated the default service plans they supported in the POLR Rulemaking, Docket L-00040169, touting such plans as price mitigation mechanisms. The structure of default service going forward is very important in moving forward with the directives expressed in the Choice Act, but default service designs are not price mitigation plans. Reliant has put forth a reasonable price mitigation plan that focuses on the

¹⁹ Legislative Report, Project No. 32198, March 2, 3006, Page 1.

customer, yet does not disrupt the development of a competitive market nor harm the utilities. Also, if the Commission adopts market responsive default service there will not be an on-going need for price mitigation following the end of the rate cap periods. Reliant believes it is wise to adopt a price mitigation plan at this time in the event significant price disparities exist between the capped prices and prevailing market prices at the end of the transition periods, but that plan should focus exclusively on price mitigation and not the default service design.

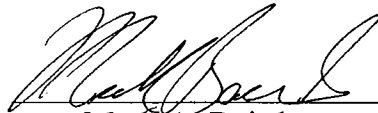
The structure of default service will determine whether competition succeeds or fails in Pennsylvania and one which is being addressed by the Commission in another proceeding. Reliant thoroughly agrees with the statement made at the June 22nd hearing that the Commission is tasked with carrying out the directives of the Choice Act and implementation of the Choice Act should not be done in a “way that you end up with no customer choice and no actual retail competition.”²⁰ Reliant also agrees with Commissioner Fitzpatrick that the proposals for default service put forth by many participants in this proceeding “sound like a return to regulated concepts.”²¹ Specifically, those proposals that advocate long-term contracts for default service; EDCs providing multiple default service products; and allowing the EDCs to build and rate-base generation assets are clearly desirous of a market that is the antithesis of a competitive market. It is ironic, as Commission Fitzpatrick stated at the hearing, that the entities that once

²⁰ Transcript of the June 22, 2006 Hearing, Pages 43-44.

²¹ Ibid.

championed competition are now looking for a return to the traditional, regulated utility structure.²² It seems that none of these entities believe that the Choice Act has any meaning. The default service proposals that are now being proffered in the guise of price mitigation plans should be rejected because they fail to eliminate the need for price mitigation going forward and more importantly inhibit the development of a competitive market. Reliant believes that a price mitigation plan can be adopted by the Commission now, but not employed unless warranted at the end of the transition periods. The structure of default service is a separate issue and should continue to be evaluated by the Commission. Since most transition periods in Pennsylvania do not end for several more years, the Commission has the ability to evaluate market designs currently in place in other states and adopt a default service structure that will bring the goals of the Choice Act to fruition. Reliant believes in competitive markets and will continue to work towards that end in Pennsylvania so that consumers will see the benefits envisioned by the Choice Act.

Respectfully submitted,



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²² Ibid.