

PUC POLR SERVICE ROUNDTABLE

Duquesne Light
Company

April 21, 2004

Electric Restructuring for Duquesne Light – POLR I

- Asset swap with FirstEnergy
- Auction of fossil generation
- Shortened CTC recovery period from 2007 to 2002 for most rate classes
- All-requirements contract from Orion to serve POLR I at fixed prices until CTC collected

Locking in Customer Rate

Reductions – POLR II

- Fixed price POLR II proposal to preserve customer savings
 - 21% savings for residential
 - Annual savings for customers of
\$250 million
- Encouraged competition
 - Higher shopping credits
 - Highest switching rates in PA
- POLR II contract ends 2004

Transitioning to Statewide Competition – POLR III

- POLR III proposal builds on our success
 - Rate certainty for small customers
 - Competitive alternatives for large customers
 - Careful balancing of customer protections and competitive markets
- Not a blueprint for general POLR Regulations
 - Tailored for Duquesne's customers and circumstances
 - Appropriate for a transition period while other utilities operate under rate caps

General Principles for POLR Regulation

- Respond to customer needs for product reliability and service continuity
- Provide a safety net to customers, consistent with the customer's level of sophistication and tolerance for risk
- Market-based pricing with full cost recovery for POLR provider
- Encourage development of competitive retail markets

Who Should Provide POLR Service?

- Incumbent EDC should provide POLR generation acquisition and supply functions
- Responsibility of customer care functions should remain with incumbent EDC
- Customers should not be “slammed” to an alternative POLR retail supplier
- POLR provider must be regulated

Full Recovery of Reasonable Costs

- POLR pricing should reflect costs and risks imposed on POLR provider
- POLR pricing should be sufficient to allow customers to choose competitive suppliers
- Costs of providing POLR include:
 - Cost to acquire power at “prevailing market prices”
 - Risk compensation
 - Administrative costs
 - Government imposed costs

Implementing POLR Rules/Transition Issues

- Post-transition period POLR service should be resolved in a statewide process
- Existing POLR plans and Duquesne's POLR III proposal should be:
 - Allowed to continue to end of their terms
 - Exempted from new statewide regulations

Implementing POLR Rules/Transition Issues

- Transition plans must be implemented prudently and carefully to protect customers and preserve our accomplishments