



April 21, 2004

Pennsylvania Public Utility Commission Provider of Last Resort (POLR) Roundtable

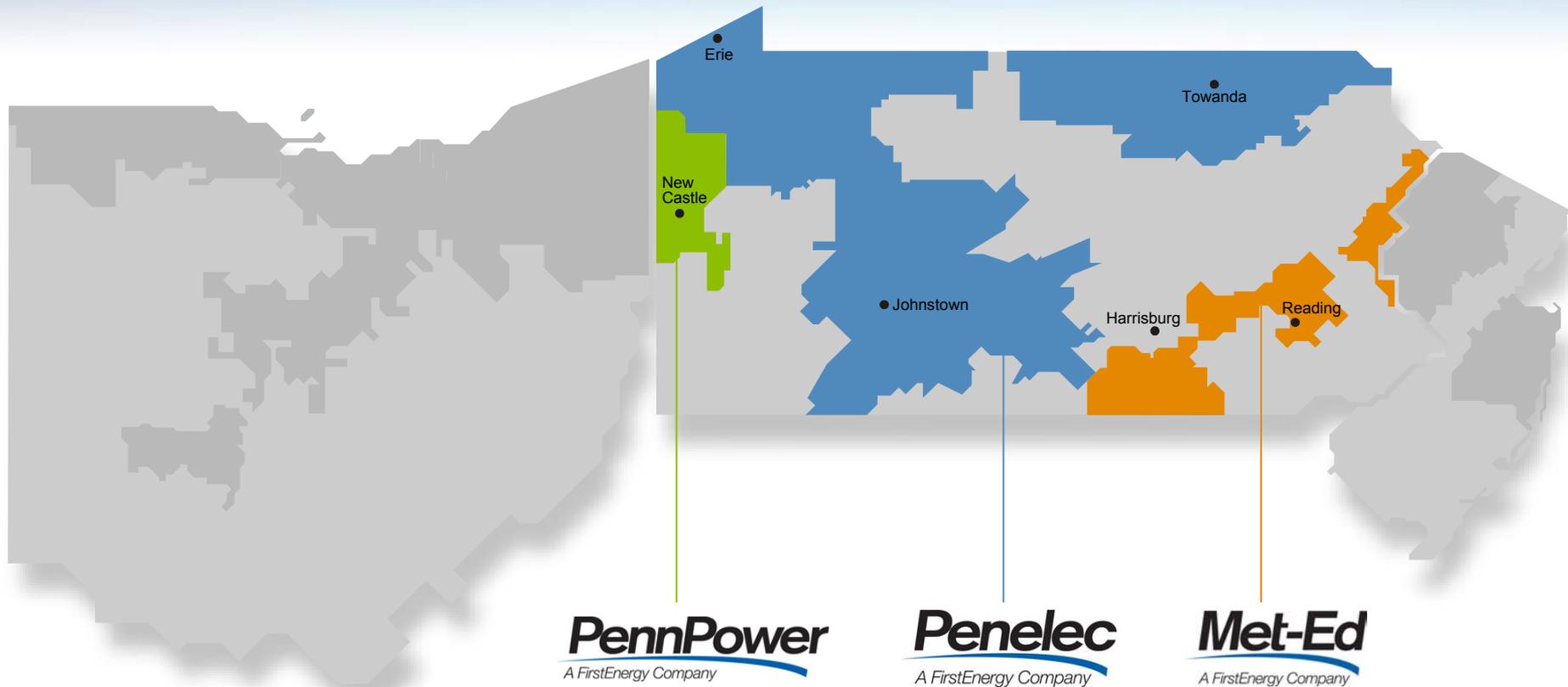
Presentation by Richard A. D'Angelo

On Behalf of Metropolitan Edison Company,
Pennsylvania Electric Company and
Pennsylvania Power Company – The FirstEnergy Operating Companies

Restructuring Settlement Agreements (RSAs)

- RSAs are roadmaps through the transition
- Similar yet unique provisions
- Variety of rate cap end points
- POLR regulations should apply when generation rate cap ends
- Chapter 28 requires EDCs to acquire electricity at prevailing market prices

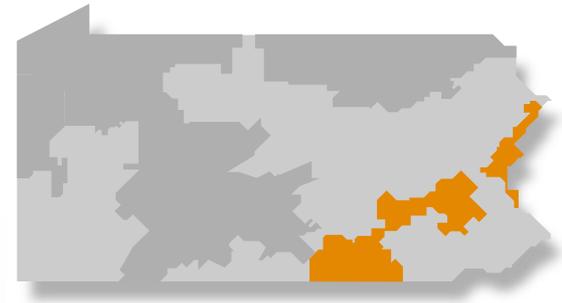
FirstEnergy System



Metropolitan Edison

- Service to 510,000 eastern and south central Pennsylvania customers
- Transmission owner in PJM Interconnection, LLC (PJM)
- Generation rate cap ends December 31, 2010

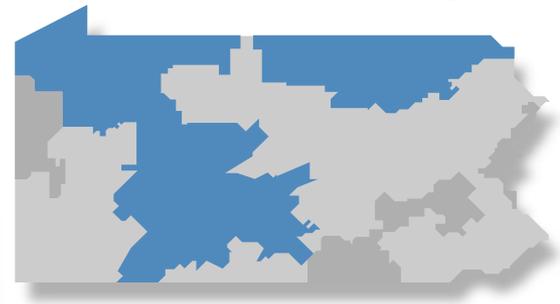
Met-Ed
A FirstEnergy Company



Pennsylvania Electric Company (Penelec)

- Service to 585,000 western and northern Pennsylvania customers
- Transmission owner in PJM Interconnection, LLC (PJM)
- Generation rate cap ends December 31, 2010

Penelec
A FirstEnergy Company



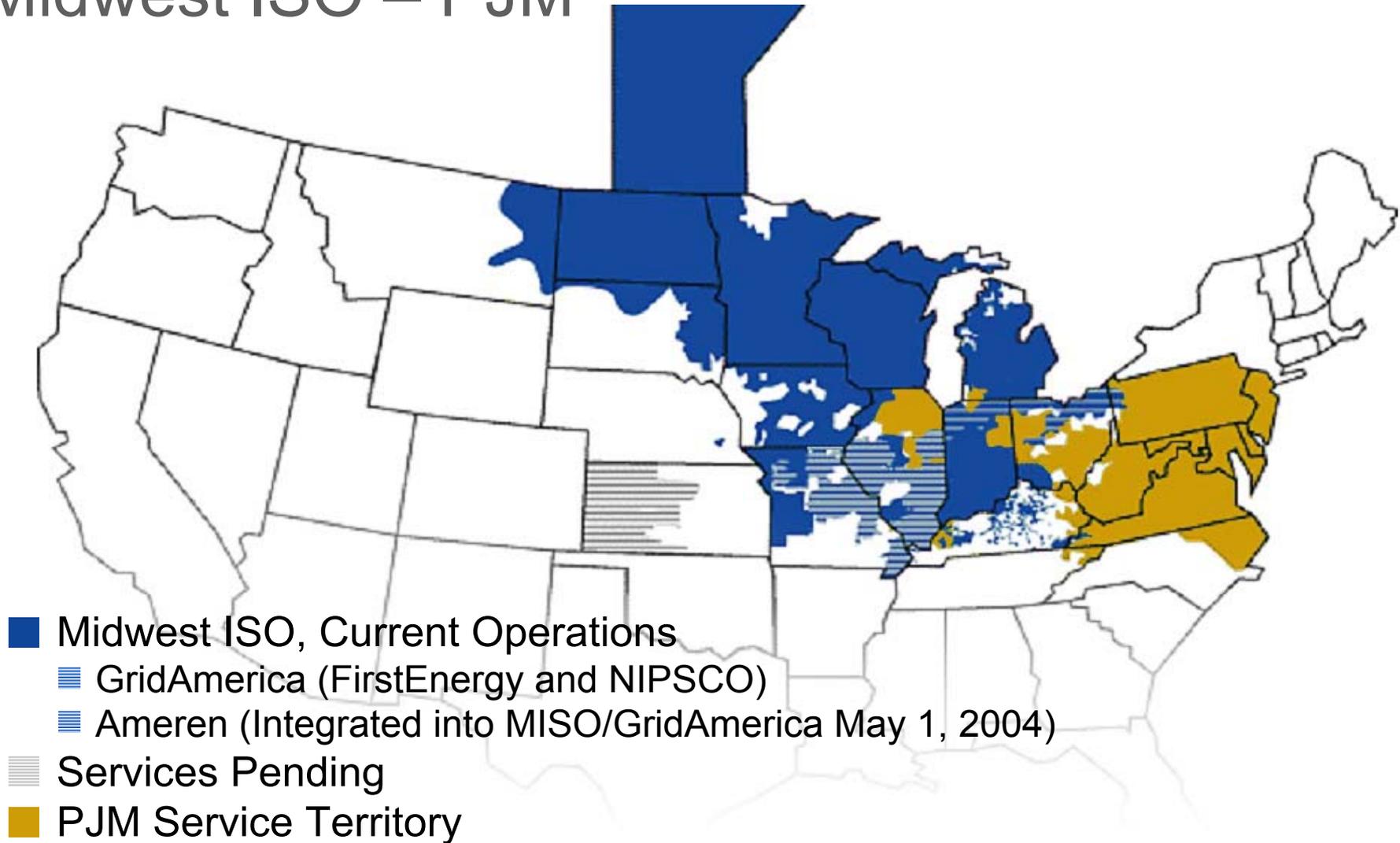
Pennsylvania Power Company (Penn Power)

- Subsidiary of Ohio Edison serving 155,000 customers in western Pennsylvania
- Transmission facilities under operation control of Midwest Independent Transmission System Operator, Inc. (MISO)
- Generation rate cap ends December 31, 2006

PennPower
A FirstEnergy Company



Midwest ISO – PJM



Summary of Main Points

- 1.** Electric Distribution Companies (EDC) should retain POLR responsibility.
- 2.** Competitive Wholesale Auction should be used to establish rates for POLR customers.
- 3.** Administrative costs related to POLR service should be specified and recoverable under the regulations.
- 4.** Tariff and rate design issues should be guided by existing practice and bids that are reflective of EDC rate design.

1. EDCs should retain POLR responsibility.

- POLR is a regulatory obligation
- Ownership of T&D system and customer care functions are linked
- POLR obligation should include retail market support functions, DSR, customer care functions, and Chapter 56
- Separate systems for POLR charges and delivery related charges is inefficient and complicates administration of Universal Service Programs/Chapter 56

2. Competitive wholesale auctions should provide the foundation for POLR rates.

- Participation by as many qualified bidders as possible, in a simultaneous descending clock auction, will drive down POLR prices
- Initial auction covering 17 months (subsequently in multiples of 12 months) coordinated with the PJM planning year
- Statewide auction, by EDC, for PJM companies
- Separate auction for Penn Power, assuming MISO has sufficiently developed

3. Administrative costs related to POLR service should be specified and recoverable under the regulations.

- Recoverable administrative costs should include “back office”, new billing functionality, auction-related expenses, new EDI programs, programs to track bids, consumer education, etc.
- Retail “adder”
- Market prices to cover EDC costs in the event of a supplier default

4. Tariff and rate design issues should be guided by existing practice and bids that are reflective of EDC rate design.

- Wholesale market auction bids should be coordinated with and responsive to established EDC rate design (i.e., time-of-day rates, seasonal rates and variable market-based rates)
- “Fixed” rates are appropriate for rate classes with predictable usage patterns
- Variable market-based rates should apply to larger C&I customers

The FirstEnergy Operating Companies Appreciate the Opportunity to Discuss POLR Issues and Look Forward to the Rulemaking Process

