

# Pennsylvania Public Utility Commission

## Provider of Last Resort Roundtable

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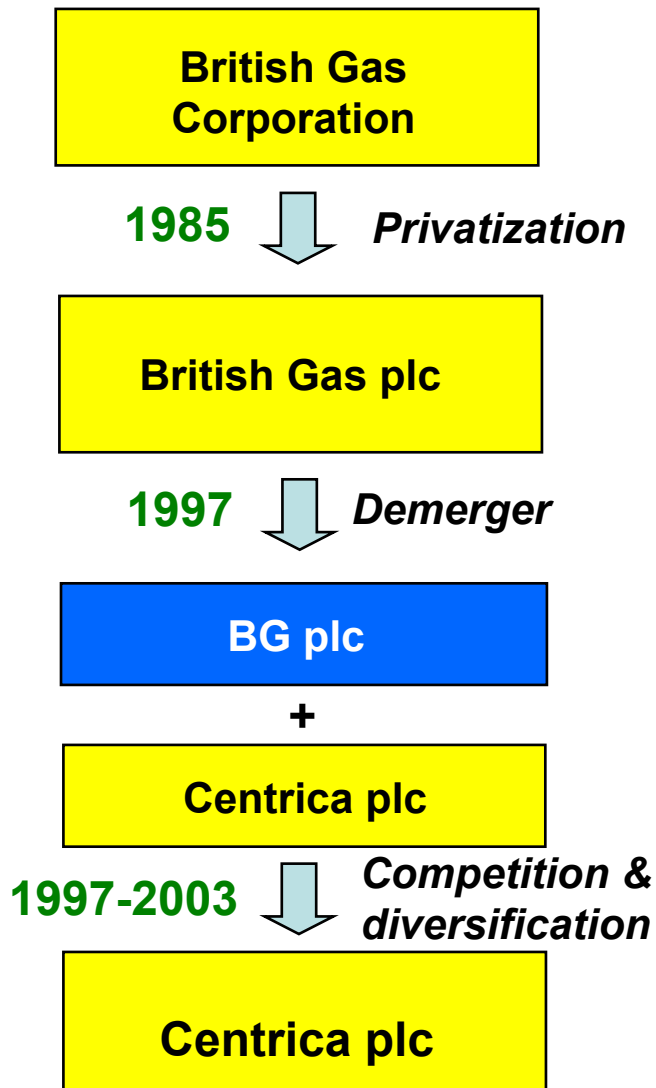
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Direct Energy.

## Direct Energy – a Centrica company

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- Centrica is a leading provider of energy and other essential services worldwide
  - Serves over 20 million households
  - US\$31bn annual turnover
  - US\$17bn market capitalisation
  - 38,000 employees
  - S&P 'A' credit rating
- [www.centrica.com](http://www.centrica.com)

# Our North American Presence

17,000 business services customers across Canada

30,000 gas customers in Manitoba

★ Main Offices

100 mmcf/day of gas and 0.5 million bbl pa of oil and gas liquids production in Alberta

980,000 gas and electricity customers in Alberta

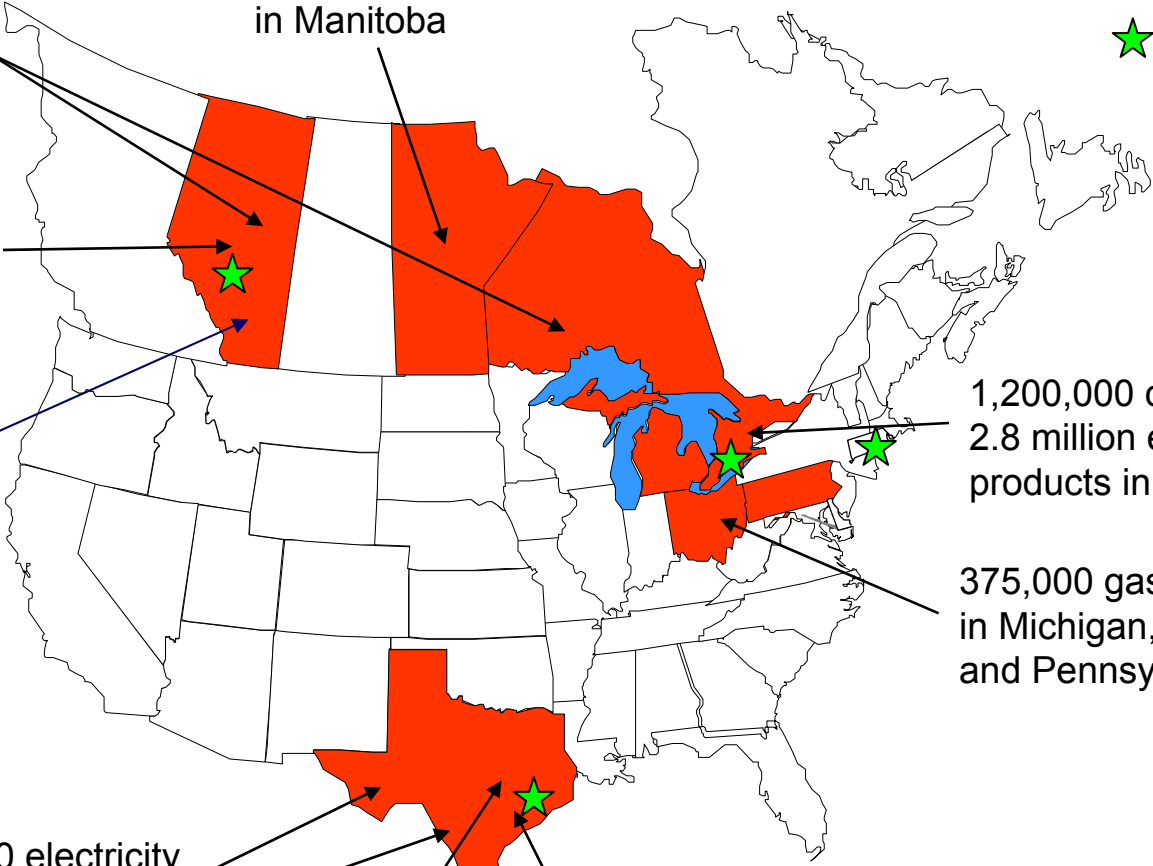
1,200,000 customers taking 2.8 million energy and services products in Ontario

375,000 gas customers in Michigan, Ohio and Pennsylvania

700,000 electricity customers in WTU and CP&L

540 MW generation plant being acquired

127,000 electricity customers in Houston and Dallas/Fort Worth



## Overall Framework

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- Competition is the law of the land in Pennsylvania –
  - It is the right tool to deliver the best service to electricity consumers
  - Every decision should be made in favor of more competition, not less
  - This time around PUC need not worry about stranded costs
- POLR should be understood as a “last resort” option for consumers
- POLR service should be designed without anti-competitive or anti-consumer restrictions
- POLR service must be viewed as full retail obligation
- Two key questions –
  - Who should be the POLR provider?
  - How should the POLR prices be set?

## Who should be the POLR Provider?

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- An EGS can be the POLR provider per the law
- The PUC should consider a Retail Auction to determine who will act as POLR provider in each EDC territory
  - PUC can define preconditions (e.g., financial security)
  - No reason not to have multiple POLR providers per EDC territory
  - Direct Energy is the provider of Price to Beat Service to approximately 700,000 electric customers in Texas
  - Direct Energy has recently finalized an agreement to become the provider of Default Service to 980,000 gas and electric customers in Alberta, Canada
- If an EDC does provide POLR service the distinction between the two entities needs to be clear to consumers – structural separation should be the preferred approach

## How should the POLR prices be set?

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- POLR service must be priced “at market”
- As the Energy Association of Pennsylvania pointed out, the POLR price should fully reflect the full cost of being the POLR
- POLR service must include all costs associated with providing the service, including:
  - All Generation procurement expenses
  - All Customer Migration expenses
  - All Administrative costs
  - All Operation costs
  - All Customer Care costs (including bad debt and customer care)
- POLR prices should not use deferral accounts or be reconciled
- POLR prices should be established far enough in advance so consumers and suppliers understand the impact

## How should the POLR prices be set (cont'd)?

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- Residential and Small Commercial
  - Prices should be fixed for a set time period, preferably monthly, but in no instance longer than 6 months
    - Monthly pricing would reflect the market and send seasonal price signals to consumers
  - Prices should be set at least 30 days prior to new price regime
  - Prices should not have “true-up” against cost

## How should the POLR prices be set (cont'd)?

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- Large Commercial & Industrial
  - Prices should be established at wholesale hourly prices + capacity costs + Administration costs + Operation costs + Customer Care costs
- The threshold between Large Commercial and Small Commercial should be 25 kw annual demand and should be uniform across Pennsylvania
- Consumers should plan and deploy metering technology now to allow this at end of transition period



## Conclusion

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- Direct Energy commends the PUC for beginning these discussions now
- It is critical that the PUC establish the rules for the provision of POLR service in the near term so that consumers and suppliers can prepare for the end of the transition periods
- Don't assume that the EDC must be the POLR provider
- Consumers should be able to move to or from POLR service without restrictions or fees
- Focus on making the most competitive market possible – it's hard work but will bring the biggest benefits to all consumers