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April 29, 2004

Honorable James J. McNulty
Secretary
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pennsylvania 17105-3265

Re: Provider of Last Resort ("POLR") Roundtable
Docket No. M-00041792

Dear Secretary McNulty:

The Pennsylvania Public Utility Commission ("Commission") has established a POLR Roundtable to provide a forum to discuss issues related to POLR service in Pennsylvania. The Commission has scheduled a series of meetings at which interested parties may present their views on POLR issues and respond to questions from the Commission. In addition, the Commission has stated that parties are welcome to submit written comments on POLR issues. Although Pike County Light & Power Company ("Pike") will not make a formal presentation at any of the POLR Roundtable sessions, we do welcome the opportunity to address the issues through these written comments.

Pike is an electric distribution company ("EDC") that serves approximately 4,500 residential, commercial and industrial customers in a portion of Pike County, Pennsylvania. The total area of Pike's service territory is approximately 51 square miles. For calendar year 2003, the electric requirements of Pike's customers were 72,362 MWH, with a capacity of 20 MW. Pike is a wholly owned subsidiary of Orange and Rockland Utilities, Inc. ("O&R"). O&R provides electric service to approximately 213,500 customers in Orange, Rockland and Sullivan counties in the State of New York. Another subsidiary of O&R, Rockland Electric Company, serves approximately 71,200 customers in the State of New Jersey. Electric service in the three states is provided as an integrated operation by O&R (collectively referred to as the "O&R System"). Pike receives all of its electricity through two 34.5 KV radial circuits that cross the Delaware River from Port Jervis, New York.

Unlike the other investor-owned utilities in Pennsylvania, Pike is not a member of the PJM Interconnection, L.L.C. ("PJM"). Rather, as a part of the O&R System, Pike is located in the New York Control Area administered by the New York Independent System Operator ("NYISO"). To ensure that this system design is in the best interest of customers, Pike has investigated the costs and benefits associated with interconnecting with PJM.[1] Specifically, Pike studied the feasibility of interconnecting with PJM by extending a 69 kV transmission line from Pennsylvania Power and Light Corporation's existing Twin Lake's substation to a new distribution substation that would have to be constructed by Pike in Milford, Pennsylvania. The Interconnection Study concluded that it would not be economically feasible for Pike to interconnect with PJM at the present time. Conservative estimates indicate that the annual savings resulting from the interconnection would be approximately $1.2 million while annual carrying charges on system investment required for the interconnection would be approximately $2.6 million.

By being affiliated with the NYISO rather than PJM, Pike operates under a set of circumstances fundamentally different from those of the other Pennsylvania utilities. These circumstances directly affect the manner in which Pike addresses POLR issues, particularly Pike's attempts to foster retail competition in its service territory.

Currently, Pike serves as POLR for its customers. Since O&R divested all of its electric generating assets on June 30, 1999, neither Pike nor its parent, O&R, own generating assets with which to fulfill Pike's POLR obligations. The transition power sales agreements with the purchasers of O&R's former electric generating facilities expired on October 31, 2000. In addition, contracts with non-utility generators provide only a minimal amount (i.e., approximately 5%) of Pike's annual energy requirement. Pursuant to the provisions of the Federal Energy Regulatory Commission-approved Power Supply Agreement ("PSA") between O&R and Pike County, O&R secures the supply needs to meet Pike's POLR obligations. This supply is secured through purchases at market prices from NYISO- administered markets.

In view of the foregoing, Pike requests that the Commission consider Pike's small size and non-PJM status as it develops strategies to address POLR issues, and, ultimately in drafting regulations to define the obligations of EDCs to connect, deliver, and acquire electricity. Given Pike's relatively modest size, it simply may not be either feasible or cost-effective for Pike to embark on programs that may be sensible for larger EDCs to implement. Moreover, as a non-member of PJM, Pike may be similarly precluded from implementing certain policies and procedures. For instance, given its non-membership in PJM, combined with its very small energy purchase requirements and relatively remote geographical location, Pike expects that it will be difficult or impossible to attract qualified alternative suppliers to act as a POLR provider in Pike's service territory. Accordingly, we ask that the Commission give serious consideration to

[1] Pike prepared the Pike-PJM Transmission Interconnection Study ("Interconnection Study") pursuant to Pike's obligation under Paragraph 11(j) of the Settlement Petition entered into among Pike, the Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA") on July 18, 2002, and approved by the Pennsylvania Public Utility Commission by Order entered August 9, 2002. Petition of Pike County Light & Power Company for Exception to Rate Cap Limitations Pursuant to 66 Pa.C.S. § 2804(4)(iii)(D) and for Expedited Proceedings Pursuant to 66 Pa.C.S. § 2804(4)(iv); Docket No. P-00011872.

providing exemptions to smaller utilities, like Pike, in the POLR regulations ultimately adopted.

In addition, events since 1999 have demonstrated that POLR prices must reflect market prices if there is to be any chance of developing retail competition in Pike's service territory, as well as the rest of Pennsylvania. Experience to date provides ample evidence that third party suppliers simply cannot compete against artificially low POLR prices. Clearly, POLR rates that are consistently below the market cost of energy cannot result in demand for competitive supply services. Pricing POLR service significantly below real costs artificially impedes the development of a truly robust competitive market and the ability of competitive suppliers to develop products at prices that would attract customers. Moreover, requiring EDCs to provide POLR service at below market prices merely serves to undercut the EDCs' financial health and corresponding ability to continue to provide the service reliability that customers legitimately expect. Accordingly, any POLR regulations adopted by the Commission should ensure that pricing of POLR service reflects the market prices of providing POLR supply.

If you have any questions regarding any of the matters discussed above, please contact me at the telephone number or address listed above.

Very truly yours,

John L. Carley
Assistant General Counsel

c: Law Bureau (electronically)
Office of Communications (electronically)