

POLR Service Design -

The Wholesale Model

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Presentation by Mary Lynch,
Vice President Regulatory Affairs

Constellation Power Source, Inc.

Constellation Family of Companies

Group
(NYSE: CEG)

Market Cap: \$6 billion

Unsecured Debt Rating: A-(Fitch) to BBB (S&P)

Constellation Power Source

- Wholesale energy marketing and trading
- Markets all energy from CGG assets
- POLR/SOS obligations in:
 - Maryland
 - ➤ New Jersey
 - > Northeast

Constellation New Energy

- 8,000 MW of load under contract
- Licensed in 19 states, including PA
- Target mainly medium to larger commercial customers (50 kW and above)
- Over 4,000 commercial and industrial customers
- Served customers in PPL, PECO, Met Ed, Penelec, and DLC service areas

Constellation Generation Group

- Fossil and renewable plants
 ~8,800 MW
- Nuclear plants ~3,250 MW
- All Merchant
- PA Plants:

Keystone – 359MW Coal Conemaugh – 181MW Coal Colver – 28MW Waste Coal Panther Cr - 42MW Waste Coal Handsome Lake – 250MW Gas Safe Harbor – 278MW, Hydro

Baltimore Gas & Electric

- Distribution and Transmission only
- 1.1 million electric customers (6500 MW peak)
- 600,000 gas customers
- · Oldest utility in the US



POLR Service -

What is It?

- POLR Provider of Last Resort
 - Full Requirements Electricity Service for customers who:
 - Do not choose an alternative supplier
 - Choose an alternative supplier, but energy is not delivered by the alternative supplier
 - Different Requirements for Different Customer classes

POLR Design –

Wholesale Model vs. Retail Model

- Who is the SOS Provider?
 - Retail Competitor or Incumbent Utility?
- If Retail Competitor,
 - Customer account "ownership"
 - Obligation to serve
 - Competitive Issues
- Wholesale model is better suited to PA at this time.
 - Increases wholesale competition
 - Supports development of retail competition
 - Well supported by RTO design

Wholesale POLR Design -

It's all about balance

- POLR Design must achieve a balance that
 - Provides all customer classes a fairly priced electricity service that is market responsive.
 - Supports robust wholesale competition as necessary for achieving reasonable POLR prices and promoting retail competition.
 - Promotes retail competition by providing accurate price signals and preserving customer choice.

POLR Service Design -

Wholesale Model Components

- Wholesale bidding process occurs after all the following have been developed:
 - Retail Rules for switching, administrative cost adders, and utility profit margin as POLR provider.
 - Length of contracts portfolio approach, annual, multi year – may (and probably should be) different for different rate classes.
 - Bidding rules, including bidder qualifications, bid performance assurances, bid structure, contract terms and conditions.
- Bid evaluation is based solely on price evaluation.

Length of Contract Issues

- Accurate price signals require that POLR prices reflect market.
- This does not mean that all POLR should be spot market.
- For longer term POLR service (ie., for residential/small commercial) staggered procurements.
- Largest customers should have spot market priced POLR service.

Retail Prices Must Reflect All Relevant Costs

- Accurate price signals require that POLR price reflect costs to serve.
- Margin is a cost component, based on risks assumed by POLR provider.
- If no explicit cost allocation, true up is necessary to ensure that customers do not pay twice.

Preserving Customer Choice

- Customer Migration risk can be mitigated without switching restrictions
 - Seasonal Rates
 - Pricing resets for returning customers

Credit Provisions

- Customers pay less if credit support is bilateral
- Comprehensive, bilateral credit supports robust wholesale competition. Includes:
 - Unsecured credit thresholds
 - Mark to market collateral
- Utility counterparties are not immune from credit problems or bankruptcy

Some final thoughts

 Periodic review of customer shopping, bidding rules and structure, contract terms and conditions should be conducted.

 Robust wholesale competition for POLR service will support infrastructure development.