



POLR Service Design –

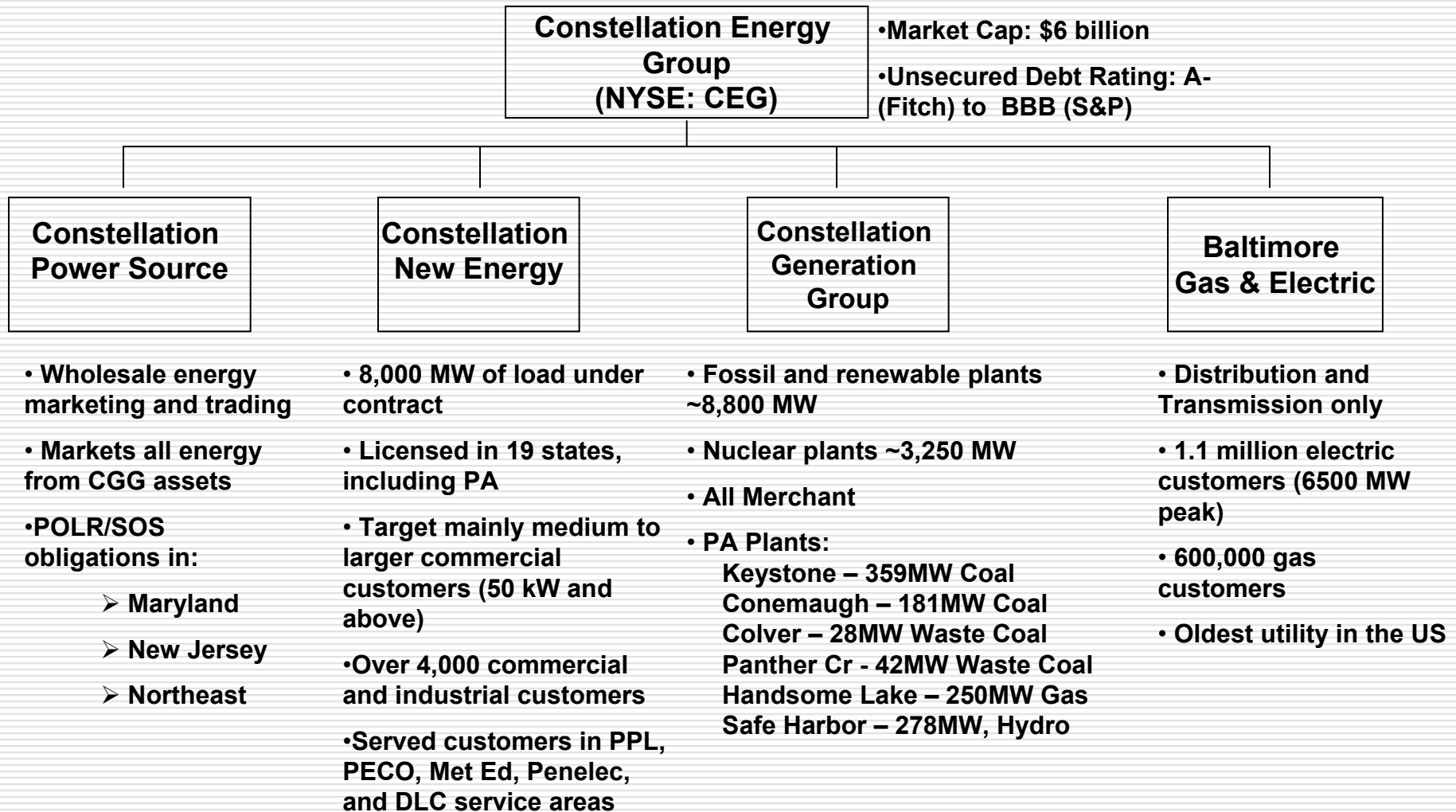
The Wholesale Model

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Constellation Power Source, Inc.

Constellation Family of Companies



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.**

Wholesale POLR Design Specifics

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.**

Wholesale POLR Design Specifics

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.**

Wholesale POLR Design Specifics

Preserving Customer Choice

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

Wholesale POLR Design Specifics

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**

Wholesale POLR Design Specifics

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.**