

# **Pennsylvania Public Utility Commission Provider of Last Resort Roundtable**

**May 19, 2004**

**Bringing the Benefits of Competitive  
Wholesale Supply to POLR Customers**

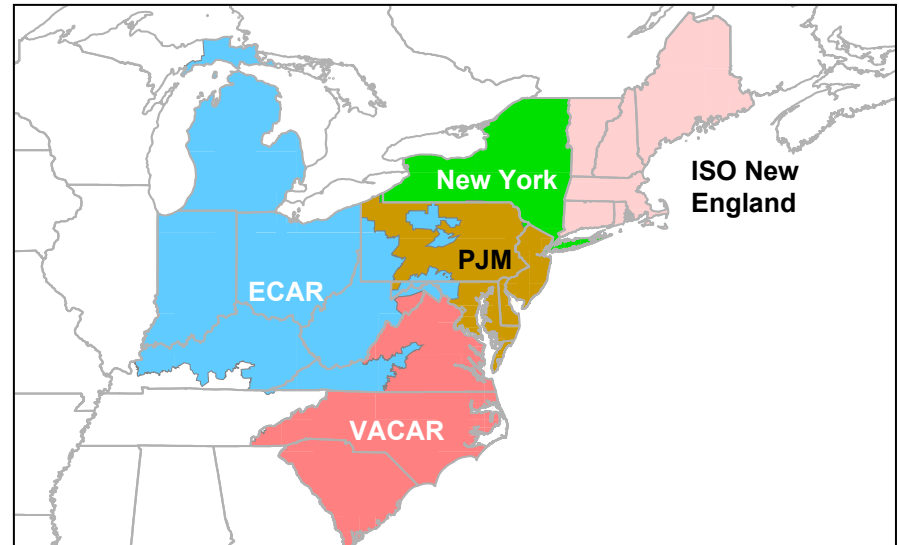
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# PSEG Power: Overview

## “The “Super Region”

- Low-cost portfolio
- Leading market player in PJM
  - Focus on “Super Region”
- Diverse asset mix
  - 13,055 MW growing to more than 14,000 MW in 2004
- Assets favorably located
  - Near customers/Load centers
- Integrated generation and commercial function
- Significant participant in wholesale POLR supply throughout region.



**“Super Region” comprises 37% of U.S. power consumption**

## PA POLR Roundtable – General Comments

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- EDC should remain the ultimate POLR provider.
- Competitive wholesale auctions should be used to supply the generation products associated with POLR service. Effectively create a massive aggregation – bestows buying power to the consumer.
- Retail rates based upon the outcome of the auctions – seasonal pricing to address migration issues.
- Uniform competitive processes across all EDCs in the state.
- All costs associated with its role as POLR provider should be recoverable by EDC.

## PA POLR Roundtable – Competitive Wholesale Auctions

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PSEG ERT recommends an auction process similar to that used in New Jersey.

- Encourage competition by designing an open process, with wide stakeholder participation.
- Regulatory assurances that the outcome of the competitive solicitation would be approved quickly.
- The POLR product design and settlement processes should dovetail with PJM rules and agreements.

# PA POLR Roundtable – Competitive Wholesale Auctions

## PSEG ERT recommendations, continued

- The competitive POLR supply includes generation components of the bundled retail product - risks that the market participants can manage on behalf of the consumer.
- Changes in PJM charges related to restructuring or recovery of transmission costs should be a pass through and result in an adjustment of the POLR rate.
- Two separate auctions can bring the advantages of wholesale competition to all rate classes:
  - FP auction produces extremely competitive results for residential and small commercial customers – a massive aggregation.
  - CIEP auction has encouraged the development of retail markets in appropriate rate classes.

## PA POLR Roundtable – Competitive Wholesale Auctions

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### PSEG ERT recommendations, continued

- Avoid short term solicitations in order to mitigate price volatility to the consumer. Over time create a “portfolio” of POLR supply contracts – incorporating contract durations of 1 to 5 years.
- Generation affiliates of the EDC should be permitted to participate in wholesale solicitations.
- The declining clock format proved reasonably well suited. It provided price transparency, competitive flexibility, bidder control over their destiny and tended to increase competitive pressure on price.

## PA POLR Roundtable – Competitive Wholesale Auctions

### PSEG ERT recommendations, continued

- Load caps - limiting the amount of POLR supply that can be provided by any one participant (in NJ 33%) - encourages competition, increases the number of participants, limits post auction concentration default risk and protects customers from market power by large marketers or incumbent generators.
- Retail “adders” should be discouraged. Making electric service “ugly” for consumers will not increase competition or lower prices. Adders are a subsidy for retail suppliers and very often are simply “split” between supplier and consumers remaining on hourly service. Retail competition should be based upon providing consumers price advantages, enhanced services or products that wholesale POLR supply can not.

## PA POLR Roundtable – The Wholesale / Retail Question

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During these and future proceedings, the Commission will face the issue of Retail verses Wholesale models for competition in Pennsylvania. The arguments for the Retail model will include the following appeals:

- permitting retail marketers to replace the EDC as POLR provider
- short term price cycle for POLR service to the mass market
- leveling the playing field by maximizing the price to compare
- impose “retail adders” to create greater competition tomorrow
- competitive process that assign consumers to retails marketers
- relaxation of credit requirements for retail marketers
- the necessity to create a friendly environment for retail marketers
- and many others

What's a Regulator to do?



# PA POLR Roundtable – The Wholesale / Retail Question

Consider the following:

Competition is a concept that means different things to different parties

- Hold an auction!
- Create a retail market!
- Large customers need choice!

But for the electric consumers of PA competition = low prices.

The most price effective way to deliver POLR service to residential and small commercial customers is through competitive wholesale auctions.

## PA POLR Roundtable – Recent wholesale solicitations.

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The market environment and recent experience in NJ and MD:

- Surplus generation capacity – will take some time to clean up.
- Strong fuel prices will be around for awhile – a global situation.
- Compression of the marginal “spark spread”.
- PJM rules continue to improve - facilitating market functions.
- Statewide processes with strong EDC and regulatory support.

The Results.....

- Generators and marketers showed up in large numbers with significant quantities of supply.
- Auction and RFP produced lower POLR energy prices in a very high fuel price environment.
- Wholesale margins disappeared.
- Consumers will benefit!