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January 19, 1999

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VIA FEDERAL EXPRESS

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
North Office Building, Room B20
Harrisburg, PA 17105-3265

Re: **PECO Joint Petition for Full Settlement
Competitive Provider-of-Last Resort
Docket Nos. R-00983953 and P-00971265**

973953

Dear Secretary McNulty:

Enclosed please find an original and three (3) copies of the Reply Comments of Allegheny Power to Comments of Mid-Atlantic Power Supply Association in the above-captioned matter.

Very truly yours,

John L. Munsch
John L. Munsch
Attorney

Enclosures

cc: Certificate of Service

6

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: PECO JOINT PETITION FOR :
FULL SETTLEMENT :
: :
(COMPETITIVE : Docket Nos. R-00973953 and P-00971265
PROVIDER-OF-LAST RESORT :
PARAGRAPH NO. 38) :

REPLY COMMENTS OF ALLEGHENY POWER TO
COMMENTS OF MID-ATLANTIC POWER SUPPLY ASSOCIATION

Allegheny Power¹ files these comments in response to those filed by Mid-Atlantic Power Supply Association ("MAPSA"), dated December 3, 1998, at the above-captioned docket.

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FOLDER Allegheny Power asserts that this proceeding is specific to PECO and its respective settlement. Because of the differences in individual company settlements, CDS issues should be addressed for each company within the context of single company proceedings. The results of this proceeding should not be generically applied to other Pennsylvania companies.

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¹ Allegheny Power is the trade name of West Penn Power Company, a Pennsylvania corporation and licensed utility.

I. Background

The Pennsylvania Public Utility Commission ("Commission") approved PECO Energy Company's ("PECO") restructuring plan on May 14, 1998. On October 19, 1998, the Commission adopted a tentative order that released for comment PECO's proposed "Rules for Competitive Default Service." Allegheny Power filed comments on December 1, 1998. On December 9, 1998, MAPSA asked the Commission to provide the opportunity to file reply comments, and at the Commission's Public Meeting held December 17, 1998, the Commission provided additional time for the parties to file reply comments until January 17, 1999.

II. Effects on Securitization

Allegheny Power is in general agreement with the reply comments of PECO, dated December 10, 1998, which respond to the MAPSA's comments. In addition to the PECO comments, however, Allegheny Power is concerned about the effect of MAPSA's stranded cost buy-down proposal on securitization. In particular, Allegheny Power is concerned that the intrusion of a third party into the intangible transition charge process could generate concerns for financing parties, and therefore could have a negative effect on the issuance of transition bonds on behalf of the electric utility or assignee. Certainly, the stranded cost buy-down proposal was not contemplated under Chapter 28 or the utilities' restructuring settlement orders. While MAPSA claims that its proposed stranded costs buy-down method may be easy to implement since the Commission need only select the highest bidder, Allegheny contends that inserting a third party into the securitization process will only serve to confuse the process and possibly denigrate the credit rating advantages inherent in the Chapter 28 securitization procedure.

III. Buy-down Not Part of Settlement

Aside from its possible negative effect on the securitization process, Allegheny Power is also concerned that the MAPSA proposal clearly falls outside the agreement reached in PECO's restructuring settlement. Allegheny agrees that the Commission should reject the invitation of MAPSA to develop new and different concepts of PLR or CDS service from that developed in the restructuring settlement. In proposing an entirely new approach to the bidding process for CDS, the MAPSA is attempting unilaterally to change utility settlements.

IV. CDS Is For All PLR Service

Finally, MAPSA's proposal could encourage CDSs to selectively choose to provide those services which are most profitable. CDS services should be clearly delineated and defined and should include all PLR aspects, including termination of service. At page 15 of its comments, at paragraph T19, MAPSA suggests that the CDS bidder should be entitled to receive from the utility an appropriate credit for providing billing and collection services. MAPSA also suggests that the EDC perform physical termination. The CDS should not be able to decline the cumbersome, unpleasant and costly aspects of PLR service. Physical termination of service is closely tied to the other CDS services, such as meter reading and billing, and should remain with the CDS winning bidder. Indeed, as PECO points out, MAPSA's proposal is contrary to the explicit terms of its joint petition which provides that the CDS should receive a cross section of PECO's customers, including low-income and inability-to-pay customers.

V. Miscellaneous

- MAPSA contends that CDS service may be for more than 20 percent of customers. Allegheny Power wants to be on record as stating that in its proceeding the 20 percent CDS portion of customers is a strict limitation, not a minimum.
- MAPSA submits that "PECO Energy shall provide to any CDS provider at least five (5) days notice to the CDS on its load obligation." Allegheny Power does not take a position about notification of load forecasts in this proceeding, but it notes that in Allegheny Power's control area forecasts are provided one (1) day in advance.

V. Conclusion

Allegheny Power recommends that the comments of MAPSA not be incorporated by the Commission in adopting standards for the implementation of competitive default service.

Respectfully submitted,

Date: January 19, 1999

ALLEGHENY POWER

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**RE: PECO JOINT PETITION FOR :
FULL SETTLEMENT :
: :
(COMPETITIVE : Docket Nos. R-00973953 and P-00971265
PROVIDER-OF-LAST RESORT :
PARAGRAPH NO. 38) :**

CERTIFICATE OF SERVICE

I certify that this 19th day of January 1999, I have served a true and correct copy of the Reply Comments of Allegheny Power to Comments of Mid-Atlantic Power Supply Association by first-class mail, postage prepaid, upon the following:

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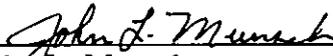
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Attorney for
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January 20, 1999

VIA UPS OVERNIGHT

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
North Office Building
Room B-20
Commonwealth Avenue and North Street
Harrisburg, Pennsylvania 17120

Re: PECO Joint Petition For Full Settlement, Competitive Provider of
Last Resort, Paragraph 38, Docket Nos. R-00973953 and P-00971265

Dear Mr. McNulty:

Enclosed herewith for filing are an original and fifteen (15) copies of Replies to Comments on behalf of GPU Energy in the above-referenced proceeding. These Replies to Comments are being submitted in accordance with the Commission's order in the above matter entered on December 21, 1998.

Copies of these Replies to Comments are being served this date upon those parties listed on the attached Certificate of Service.

Very truly yours,

RYAN, RUSSELL, OGDEN & SELTZER LLP

Alan Michael Seltzer

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AMS:sae
Enclosures

cc: As per Certificate of Service

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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BEFORE THE

JAN 20 1999

PENNSYLVANIA PUBLIC UTILITY COMMISSION PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: PECO Joint Petition for Settlement :
Competitive Provider of Last Resort : Docket Nos. R-00973953 and
Paragraph 38 : P-00971265
:

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**REPLIES OF METROPOLITAN EDISON COMPANY AND
PENNSYLVANIA ELECTRIC COMPANY TO COMMENTS**

Metropolitan Edison Company and Pennsylvania Electric Company, collectively doing business in Pennsylvania as GPU Energy ("GPU Energy" or collectively, the "Company"), by and through their attorneys, Alan Michael Seltzer and Ryan, Russell, Ogden & Seltzer LLP, hereby file the following Replies to Comments in the above matter.

I. Introduction

GPU Energy filed timely Comments to the Commission's Tentative Order entered in the above matter on October 20, 1998. In an Order entered on December 21, 1998, this Commission, among other things, directed (i) the parties in this proceeding to submit Replies to Comments within thirty (30) days (i.e., January 21, 1999) and (ii) the Executive Director's Office of the Commission to convene a meeting in February 1999 in connection with PECO's Competitive Default Service ("CDS").

GPU Energy has a profound and significant interest in CDS for several reasons. First, it has actively participated in this proceeding by submitting comments, and expects to be an active participant in the PECO CDS collaborative starting in February. Second, GPU Energy will start implementing its own CDS program on June 1, 2000 - a full seven months earlier than PECO. Consequently, GPU Energy will need to

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resolve all of the issues associated with CDS before PECO. Third, CDS will apply to all of GPU Energy's customer classes, not only the residential customers covered by PECO's CDS. Needless to say, the rules for GPU Energy's CDS must be broad enough to work effectively for all customer classes. Fourth, GPU Energy's CDS could potentially apply to 80% of the Company's customers – four times more than applicable to PECO.

The Comments and Reply Comments submitted by the parties in this proceeding will provide their view of how certain CDS issues should be resolved in the upcoming collaborative process. In order to facilitate an understanding of GPU Energy's position, it is necessary to address five principles. The more detailed CDS comments GPU Energy expects to introduce during the PECO collaborative process will be in the context of these five general principles.

II. Reply Comments – General CDS Principles

1. Generic versus Company Specific Issues

Not every issue involved in this proceeding can or should be established on a generic basis and applied to all electric distribution companies ("EDCs") uniformly. GPU Energy's unique circumstances must be kept in mind when formulating CDS rules in this proceeding. The differences among EDCs must be recognized in this process, and neither GPU Energy nor any other EDCs should be bound to the resolution of certain issues in this proceeding without regard to their individual circumstances.

For example, GPU Energy's CDS program will apply (i) to more customer classes than PECO, (ii) to a larger percentage of the Company's total customers than PECO and (iii) under circumstances in which GPU Energy will not be the owner of any generating resources. These differences with PECO suggest the need for different rules

for certain aspects of CDS. Developing uniform CDS rules where none are needed will lead to less than optimal results for CDS in Pennsylvania.

The issues most suitable for generic resolution are those affecting the qualifications of CDS suppliers. GPU Energy is committed to working with PECO, the Commission and the parties to develop strong and consistent criteria for qualification of CDS providers, regardless of who ultimately implements the CDS program or is responsible for approving qualified bidders. The Company expects to participate actively in the PECO collaborative on these issues.

III. Relief from the Generation Rate Cap Imposed by the Competition Act

Successful implementation of CDS is dependent upon whether EDCs, as the generation provider of last resort, will be protected from the adverse rate consequences associated with providing services to customers at costs that exceed their generation rate cap imposed under the Electricity Generation Customer Choice and Competition Act, 66 Pa. C. S. §§ 2801-2813. If CDS is to be truly successful, EDCs cannot be required to absorb the costs to serve customers who return to them (or elect not to take all available CDS services) at levels that may exceed their capped rates. Relief from the generation rate cap is absolutely essential in circumstances where the EDC no longer owns any generating facilities and is subject to the vagaries of the market when seeking to acquire energy, capacity and other resources to serve customers who (i) do not elect to shop, (ii) do not elect to take service from their appointed CDS supplier or (iii) take service from the CDS supplier but later return (for whatever reason) to the EDC. GPU Energy will be confronting these exact issues when it implements its CDS program on June 1, 2000.

Some recognition that adherence to the rate cap is antithetical to successful CDS must be addressed in this proceeding.

**IV. Greater Flexibility for CDS Providers Requires Greater Flexibility
In Dealing with the Generation Rate Cap**

Several parties, principally the Mid-Atlantic Power Supply Association ("MAPSA") and the Office of Consumer Advocate ("OCA"), suggest that CDS suppliers should be given the opportunity to choose those services they would like to bid on and provide to CDS customers, with the EDC retaining the obligation to deliver what the CDS provider elects not to supply. While enhanced flexibility makes some sense from the perspective of customers and CDS providers, the same is not necessarily true for EDCs. After all, allowing CDS suppliers the right to decide what they will supply to customers and/or bid to EDCs will require EDCs to maintain the infrastructure necessary to support all aspects of such services, including metering, billing, call center, collection activities, customer care functions, etc.¹ If CDS suppliers want to have the flexibility to choose which array of services they will package in their CDS, EDCs must be given rate protection for the risks they assume and the costs they incur to provide these "back-up" or "default" services.

In other words, the greater the flexibility provided to CDS suppliers, the greater the rate and cost protection that must be afforded to EDCs, particularly the generation rate cap. Beyond the generation rate cap, however, EDCs must be provided adequate and appropriate ratemaking for those infrastructure activities they will continue to provide in order to "back stop" CDS providers who (i) default in those obligations, (ii)

¹ Allowing a CDS supplier to bid on a variety of services could make the overall evaluation of CDS supplier bids more challenging since the evaluation is likely to involve more than just price considerations.

do not elect to offer the full array of services potentially required by customers, or (iii) in circumstances in which no CDS supplier bids or is qualified to provide CDS.

V. CDS Rules Must Prohibit and Discourage Customer Gaming

CDS providers and EDCs share a common concern when it comes to customer gaming. Customers cannot be encouraged, implicitly or explicitly, to switch among CDS providers, electric generation suppliers and EDCs to take advantage of variations in pricing or cost structures resulting from the differences in the costs of generation supply during certain times of the year. It will not take customers long to realize the enormous benefits they can achieve and the costs they can impose on EDCs and CDS suppliers by switching generation suppliers at different times of the year. It would be grossly unfair and exceedingly costly for either the CDS suppliers or EDCs, as the provider of last resort, to be required to provide service at capped rate levels to customers who seek to return to them in search of lower rates during high cost periods. Those customers generating higher incremental costs must be required to pay them. This approach properly mimics typical unregulated enterprises and provides the correct price signals to customers.

The potential issues associated with gaming are well known and can easily be addressed, provided that all parties share a common goal of discouraging customers from engaging in such conduct and imposing needless costs upon EDCs and CDS suppliers. For example, at least one electric generation supplier is currently offering a "5-4-3" contract under which customers take generation from the supplier during the months of January through May (i.e., the "5") and return to the EDC as the provider of last resort

Under these circumstances, the rules for CDS would need to be carefully crafted to ensure fair treatment for all parties.

during the historically high cost months from June through September (i.e., the "4"), and then return to the supplier during the months of October through December (i.e., the "3"). The PECO collaborative process must address this serious issue of gaming and reflect it in generic CDS rules.

VI. MAPSA's Stranded Cost Buy-Down Model

MAPSA proposed a novel concept in its comments. Although chastised by PECO as being inconsistent with the terms of its Joint Petition for Settlement, MAPSA raised a unique and interesting proposal which warrants further consideration in the PECO collaborative process. In simple terms, MAPSA suggests that CDS bidders quote an all-in price for the right to provide CDS. The winning bid price would then be used to write down the applicable EDC's stranded costs, and the winning CDS bidder would be permitted to provide CDS services at the EDC's cost level.

MAPSA identified a number of advantages to its proposed stranded cost buy-down model. This approach merits further evaluation and consideration, irrespective of whether it meets the technical requirements of any settlement. GPU Energy is presently reviewing this model to determine its applicability, not only to PECO but to GPU Energy in its own upcoming CDS collaborative process. To dismiss this concept out of hand would be inconsistent with providing CDS in a manner that meets the best interest of all affected constituencies.

VII. Conclusion

The five general principles discussed above are critical to the resolution of final rules dealing with CDS in Pennsylvania. GPU Energy welcomes the opportunity to

work with all interested parties in the PECO proceeding to reflect these and other principles in the design of a realistic and acceptable CDS program for PECO Energy.

Respectfully submitted,



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Telephone: (610) 372-4761

Attorneys for GPU Energy

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: PECO Joint Petition for Settlement :
Competitive Provider of Last Resort : Docket Nos. R-00973953 and
Paragraph 38 : P-00971265

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the Replies of Metropolitan Edison Company and Pennsylvania Electric Company to Comments upon the individuals listed below, in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant).

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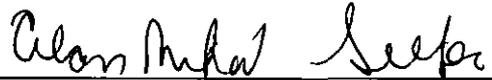
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San Carlos, CA 94070

Dated: January 20, 1999



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1100 Berkshire Boulevard, Suite 301
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(610) 372-4761

Attorneys for
Metropolitan Edison Company and
Pennsylvania Electric Company

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January 20, 1999

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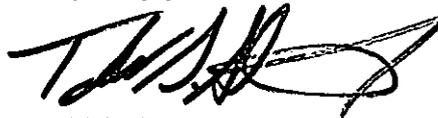
RE: RE: PECO Joint Petition for Full Settlement Competitive Provider of Last Resort Paragraph 38; Docket Nos. R-00973953, et al.; **REPLY COMMENTS OF THE MID-ATLANTIC POWER SUPPLY ASSOCIATION TO REPLY COMMENTS OF PECO ENERGY COMPANY**

Dear Secretary McNulty:

Enclosed, for filing with the Commission, please find the original and fifteen (15) copies of the Reply Comments of the Mid-Atlantic Power Supply Association to the Reply Comments of PECO Energy Company above-captioned matter.

If you have any questions concerning this filing please direct them to me.

Very truly yours,



Todd S. Stewart
Counsel for the Mid-Atlantic
Power Supplies Association

TSS/bes

cc: Chairman John Quain
Vice Chairman Robert Bloom
Commissioner David Rolka
Commissioner Nora Mead Brownell
Commissioner Aaron Wilson, Jr.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: PECO JOINT PETITION FOR :
FULL SETTLEMENT COMPETITIVE : Docket Nos. R-00973953
PROVIDER-OF-LAST-RESORT : and P-00971265
PARAGRAPH No. 38 :

REPLY COMMENTS OF THE
MID-ATLANTIC POWER SUPPLY ASSOCIATION
TO PECO ENERGY COMPANY'S REPLY COMMENTS

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SECRETARY'S BUREAU

I. INTRODUCTION

The Mid Atlantic Power Supply Association ("MAPSA"), by and through its counsel, Malatesta Hawke & McKeon LLP, submits its Replies to the Comments of PECO Energy Company ("PECO") in the implementation of Paragraph No. 38 of the *Joint Petition for Full Settlement of PECO Energy Company's Restructuring Plan* ("Joint Petition").

Since the filing of its initial comments, MAPSA's proposal to structure the "energy and capacity market price bidding process" as a "stranded cost buy down" has been supported by an independent think tank, the Regulatory Assistance Project (RAP). A copy of the RAP paper is enclosed as Attachment "A." RAP's analysis concluded that:

Asking bidders to indicate the price they would charge default customers and to pick the lowest price bid is the wrong approach . . . * A better approach is to ask prospective bidders to indicate the payment they would be willing to make to be granted the right to provide default service to customers at a set price which includes retailing costs These two approaches would be equally effective in finding the lowest cost provider of default service and

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in minimizing the over all cost to electric customers of obtaining default service. But the second approach is also consistent with the goal of not artificially discouraging the development of a competitive retail market.

If the second approach is taken, then the payment from the winning bidder(s) could be used to reduce the wires charge or the CTC So long as the default premium is given entirely over to electricity customers, they will be largely indifferent to the fact that the default provider is charging above wholesale market prices for generation service.¹

[* In MAPSA's proposal this "set price" is the present PLR rate.]

RAP's analysis makes clear that to achieve maximum customer benefit and to enhance competition, the Commission should establish MAPSA's stranded cost buy down approach as the mechanism to determine the CDS provider.

II. REPLIES

A. **MAPSA's Proposal is Fully Consistent with the Joint Petition's Requirement to Submit Bids for Energy and Capacity.**

PECO opposes as violative of the terms of the Joint Settlement the MAPSA proposal which would select the Competitive Default Service ("CDS") provider on the basis of the amount that an EGS would be willing to remit to "buy down" stranded costs.² But PECO's argument is based upon a misunderstanding of the MAPSA proposal and the terms of the Settlement.

¹ Regulatory Assistance Project, Issuesletters, (Draft) "Selling Rates for Default Service: The Basics," (URL: www.rapmaine.org/defaultsvc.html) at 3.

² PECO Reply Comments at 2-3.

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The Joint Settlement states only that on January 1, 2001, “20% of all of PECO’s residential customers . . . shall be assigned to a provider of last resort default supplier other than PECO that will be selected on the basis of a Commission-approved energy and capacity market price bidding process.”³

MAPSA fully intends that the bid process for selecting the CDS provider would be “on the basis of a Commission-approved energy and capacity market price bidding process” and is not proposing a bidding process divorced from energy and capacity market prices. MAPSA would simply have the bidding process structured so that the winning bidder would agree to provide energy and capacity at rates and in rate structures identical to PECO’s Provider of Last Resort rates and rate structures.

The amount an EGS bids would obviously be based in part upon the EGS’ view of the market price of energy and capacity (based on internal market price forecast made by the EGS) and in part upon how much revenues it would receive from consumers using CDS service. The EGS would use these numbers to calculate how much it could pay in “buying down” stranded costs.

There is not a single word in the Joint Settlement that would bar or preclude the MAPSA stranded cost buy down proposal, nor did PECO point to any provision that would so indicate.⁴ Thus, the MAPSA proposal is perfectly consistent with the Joint Settlement.

³ Joint Settlement, ¶ 38a (emphasis added).

⁴ The only other guidance in the Joint Settlement is the provision indicating that “[t]erms and conditions of CDS shall be established, maintained, and modified by the Commission.” ¶38(c). This general grant of authority obviously supports MAPSA’s approach.

In fact, MAPSA's proposal fully supports other elements of the Joint Settlement which, the Commission has indicated, are just as important to the Commission as the specifics of the bid process. For example, the PUC has indicated that "[b]ids must reflect a clear correlation to PECO's residential rates and shall maintain the same cost allocation among the rates as contained in the settlement."⁵ Without such a nexus, the CDS price will likely cause confusion and concern for remaining residential customers. MAPSA's process would result in a direct correlation between CDS rates and PECO's existing rates and rate design thus avoiding these concerns. No other process would achieve this important goal. PECO is simply incorrect when it states that MAPSA's proposal is inconsistent with the terms of the Settlement or with PUC goals and cannot be implemented.

B. MAPSA's Proposal is Not Complicated.

PECO appears to argue that the MAPSA proposal should be rejected because it allegedly "is more complicated." But indeed, one advantage of MAPSA's stranded cost buy down proposal is its simplicity of execution. A bid process which allowed each EGS to structure its CDS service would have to be analyzed by the Commission for each rate class. The stranded cost buy down, on the other hand, would allow the Commission to make a very easy determination of the winning CDS provider – the pre-qualified EGS bidding the highest amount wins. In addition, the stranded cost buy down payment will be distributed simply as a credit against the entire classes' stranded costs -- all consumers will see a reduction in their CTC rates.

Clearly, the "stranded cost buy down" proposal will not present any obstacles to implementing the Joint Petition's requirements.

⁵ PUC Tentative Order, Annex A, ¶ S3.

C. MAPSA Recognizes that the Physical Termination Through the EDC May be Appropriate.

PECO argues that there are “no legal, logistical or procedural obstacles to the CDS” providing physical termination to customers.⁶ MAPSA recognizes that the Settlement generally contemplates the CDS structure would encompass all retail obligations, and not simply providing energy and capacity.⁷ One potential element of CDS service is the physical termination of customers who do not pay their bills, after the CDS provider has complied with all applicable Chapter 56 provisions. Nothing in the Joint Settlement, however, explicitly mandates that termination duties must be transferred to the CDS.

Generally, the PUC’s restructuring rubric so far has clearly assigned termination responsibility to the EDC only. For example, in its Final Order⁸ establishing Chapter 56 guidelines for maintaining quality customer service under the Electricity Generation Customer Choice and Competition Act,⁹ the Commission made clear that “EDCs shall be responsible for ending the physical delivery of service.”¹⁰ The Commission went on to state that, when customers contact the supplier to obtain physical discontinuance of service, instead of contacting the EDC, procedures governing exchange of information between suppliers and EDCs must provide for rapid notification to the EDC.¹¹ Maintaining termination responsibility with the EDC

⁶ PECO Reply Comments at 5.

⁷ MAPSA segments CDS into two categories: (1) Retail CDS involves all retail obligations required by Commission regulations (e.g., billing, customer care, etc), and (2) Wholesale CDS involves only the provision of energy and capacity and transmission sufficient to meet the needs of the consumers with the EDC providing all other retail obligations.

⁸ Final Order re: Guidelines for Maintaining Customer Services at the Same Level of Quality Pursuant to 66 Pa. C.S. § 2807(D), and Assuring Conformance with 52 Pa. Code Chapter 56 Pursuant to 66 Pa. C.S. § 2809(E) and (F), Docket No. M-00960890F.0011, Order entered July 11, 1997 (Customer Service Order).

⁹ 66 Pa. C.S.A. §§ 2801, et seq.

¹⁰ Customer Service Order at 35.

¹¹ Customer Service Order at 35.

thus would be consistent with the Commission's general directives and policy determinations. MAPSA understands the importance of this issue and looks forward to working with the other parties to achieve a reasonable resolution.

D. MAPSA's Proposed Change to Paragraph T7 is Necessary.

PECO argues that MAPSA "cannot pick and choose the services it will provide and still receive the entire 'credit'."¹² MAPSA was indicating its preference, as indicated in its original comments, that "the CDS [be] identical in all respects to the PECO Energy PLR."¹³ MAPSA is not attempting to pick and choose. The Commission, however, may decide for policy reasons that it would be better for a CDS not to provide a particular service(s). In this event, the CDS should not be penalized by having the CDS credit reduced. The CDS credit amount was a negotiated amount with no direct correlation to the unbundling of specific unbundling of services, and trying to pull out certain charges is impossible. The Commission should recognize that even if as the CDS service differs from PECO PLR services the CDS credit should not be changed.

E. MAPSA and the OCA's Proposed Method of Restoring CDS Service to 20% is Consistent with the Joint Petition.

PECO argues that the MAPSA and OCA proposals to restore the CDS customer pool is inconsistent with the Joint Petition. The understanding of the parties was that the Commission would implement the CDS process in a manner that would support a competitive market and provide value for those consumers who did not switch for whatever reason. Clearly, insisting that the 20% pool be replenished only with customers that have already switched to a

¹² PECO Reply Comments at 7.

¹³ MAPSA Comments at 13.

competitive provider (and thus were not currently using PLR service) would completely frustrate the “replenishment opportunity” and reduce the value of CDS service to EGSs. Adding additional PECO PLR to fill out the 20% pool would not violate the Settlement — it would be an add on to the agreed upon CDS procedure. The Commission has authority to take such action by virtue of its authority set forth in section 2807(e)(3) of the Code.¹⁴ This discretion to expand the competitive PLR is not limited by the Settlement. Using this plenary authority, the Commission has the ability to expand CDS service rules to make them more pro-competitive. Accordingly, the Commission should order that the total pool for CDS service should reflect PLR customers.

III. CONCLUSION.

MAPSA recommends that the Commission utilize these comments in developing standards for the implementation of CDS pursuant to Paragraph 38 of the Joint Petition.

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¹⁴ “If a customer contracts for electric energy and it is not delivered or if a customer does not choose an alternative electric generation supplier, the electric distribution company or commission-approved alternative supplier shall acquire electric energy at prevailing market prices to serve that customer and recover fully all reasonable costs. (emphasis added).”



Issuesletters

DRAFT

Setting Rates for Default Service: The Basics

One of the most important issues which any state moving to retail electric competition must face is setting the rates, terms, and conditions for default service -- the electric generation service which will be provided to customers who, for one reason or another are not signed up with a competitive generation provider. Early experience in California and Massachusetts shows that a significant majority of residential and small commercial consumers are likely to be default service customers. Early experience in Pennsylvania shows that the price of default generation service plays a crucial role in dictating whether competitive retail suppliers can enter and participate in the market.

Overlooking the careful design of default service is a serious mistake which can undermine the development of a competitive retail market. For example, suppose all customers who do not choose a supplier remain with the incumbent utility and pay for generation services at wholesale commodity prices. This is tantamount to awarding a large share of the retail market to the only seller customers have ever dealt with, at a price other retail competitors can't match. It is not likely to lead to vigorous competition in the small use commercial and residential markets.

There are three principal components crucial to any default rate policy -- setting the right price while minimizing overall costs, deciding who should provide default service, and the relationship of default service to developing clean energy resources. This Issuesletter will discuss each in turn.

What is Default Service?

The concept of default service does not exist in ordinary competitive markets. Every consumer buying any other product chooses a retail supplier. There is no default provider of, for example, gasoline. Every consumer that buys gasoline chooses a *retail* supplier. Customers do not have the option of doing nothing, thereby having their cars filled by a default provider at a wholesale price.

Of course, electricity is not gasoline. For a several reasons - including the essential nature of electricity, the unique transition to competitive markets, the risk that some consumers will not have choices, and the political risk or "forcing" large numbers of consumers to choose a supplier - all default customers must have an uninterrupted supply of electricity at reasonable costs. Default service, sometimes called standard service or service of last resort, is designed to meet these market and political realities.

By its nature the price of default service is not set directly by the market; regulators will set the price for default service. When reviewing pricing options, the purpose served by default service, the effect

that the price of default service will have on consumer behavior and on the development of a competitive retail electricity market need to be considered.

The gasoline analogy teaches us that if regulators did not create a default service for electricity, the generation market would yield both a competitive *wholesale* price and a competitive *retail* price. If retailers incur more costs than wholesalers - which is typical in most consumer markets- the competitive retail price for electricity would be above wholesale price.

How Do Retail Generation Prices Differ from Wholesale Prices?

There are real costs for non-utility sellers participating in the retail electricity market and they can be high. These retailing costs include marketing, customer service and communication, and required interaction with the distribution company. At least one major supplier has exited the residential market in California claiming that it cannot cover its retail costs when competing against a default wholesale price. Marketing costs need to be taken into consideration when determining the price for default service. This means that *retail*, not wholesale prices should be used to set the default price.

While there are many important implementation details and choices involved in setting the price for default generation service, regulators are faced with two main pricing policy options: to price default service at the competitive wholesale price, as was done in Massachusetts and California, or the competitive retail price, as was done in Pennsylvania and is now being considered in California. The choice will greatly influence the extent and pace at which a retail market develops.

If default service is priced at the wholesale level, retail competition will probably be limited to niche markets. The default service provider will have a substantial, perhaps insurmountable, advantage in the market. The advantage will not stem from superior economic performance but from the administrative decision that gave one firm the competitive advantage of being named the default service provider. If by doing nothing, customers can receive default generation service at wholesale prices they are very unlikely to pay a higher, retail rate to another supplier.

If regulators set default prices at the retail level, competition will be more vigorous. But regulators will have to be very careful to assure that default providers are not overcompensated and that consumer interests are safeguarded.

Choosing to price default service above the competitive wholesale price does not necessarily translate into an increase in the total price paid by default customers nor should it result in a windfall to the default service provider. Because the default provider will not incur the same retail marketing costs that other retail suppliers incur, the premium charged to make the default price look like a fair retail market price can (and should) be flowed directly back to consumers. The relationship between default service pricing and recovery of allowed stranded costs and other fixed charges is such that higher default prices for generation services could be applied to offset stranded cost or other charges recovered by the distribution company. This approach would require periodic recalculation of distribution and stranded costs charges as customers migrate from the default provider to other suppliers. A simpler approach would be to directly credit the default retail premium back to customers in a separate line item on bills.

Who Should Provide Default Service?

Default service can be provided in many ways. Three options are: 1) by the incumbent monopoly utility as a regulated offering, 2) as a form of access to the hourly wholesale market (e.g. in California, the standard service is based on the price charged by the power exchange or PX), and 3) via an auction where one or more firms are chosen to provide the service.

If the incumbent utility automatically becomes the default service provider, a number of potential problems arise. First, this approach guarantees that the incumbent will have a large, probably insurmountable, advantage. The incumbent begins with virtually a 100 percent market share. If the default service price is too low, it will be difficult for competitive providers to develop a significant market presence in the face of such market dominance. Second, the approach implies that the incumbent utility remains a vertically integrated firm which provides both monopoly (distribution) and competitive services (retail marketing and probably generation) to the same customers. (Previous Issuesletters by RAP describe the serious problems of having a vertically integrated firm provide both competitive and monopoly services. See, www.rapmaine.org) Finally, the distribution company, because of its monopoly relationship with customers, will have marketing opportunities that are simply unavailable to other competitors.

Market-based solutions for the delivery of default service are preferable. These approaches rely on bidding mechanisms to pick one or more firms to supply default service at the lowest cost. One interesting bidding approach is the creation of Retail Marketing Areas (first proposed by Dr. Kenneth Rose of NRRRI and now pending in Ohio restructuring legislation) where the winning bidder(s) would provide generation services to default service customers for a period of years. Subsequent auctions could choose the provider(s) for the next period. If the incumbent utility were not in the generation or retailing business, then the utility would, in most cases be able to administer the auction and choose the winning bidders, and the commission would play an oversight role. Alternatively, if the incumbent was one of the bidders, or would be competing directly with the firms who were bidding, commissions would need to take a much more direct role in bidding process. Commissions could either engage an independent firm to administer the bidding process or administer the bidding themselves.

Massachusetts, Nevada and Maine restructuring legislation require competitive processes to select generation service providers for non-choosers.

This market-based approach makes sense for three reasons. It relies on market forces, not administrative proceedings to find the best provider(s) of default service, provides competitive suppliers an additional opportunity to enter the market and helps insure that default service will be provided at the lowest, overall cost.

Structuring a Market Based Approach

Where default service is bid out, care needs to be taken in structuring the auction to make sure retail costs are captured. Asking bidders to indicate the price they would charge default customers and to pick the lowest price bid is the wrong approach. Because the default provider would bear no retailing costs a simple auction in which default service went to the low price bidder would yield a price near the wholesale price of power. A better approach is to ask prospective bidders to indicate the payment they would be willing to make to be granted the right to provide default service to customers at a set price which includes retailing costs. For example, the minimum bid might be the short-term wholesale energy price plus a one cent allowance for retailing costs or alternatively, the average retail price charged by competitive suppliers. The firm willing to make the largest payment for this right to sell to customers at this administratively determined price would be chosen as the default service supplier.

These two approaches would be equally effective in finding the lowest cost provider of default service and in minimizing the overall cost to electric customers of obtaining default service. But the second approach is also consistent with the goal of not artificially discouraging the development of a competitive retail market.

If the second approach is taken, then the payment from the winning bidder(s) could be used to reduce the wires charges or the CTC which the monopoly distribution company would otherwise charge customers, or it could simply be credited back to customers on their monthly bills. So long as the default premium is given entirely over to electricity customers, they will be largely indifferent to the fact that the default provider is charging above wholesale market prices for generation service.

What Should Default Service Include?

Default service ought to take customer preferences into account. In the monopoly utility environment, Integrated Resource Planning or some similar planning process provided consumers with an opportunity to influence resource selection. In a competitive market environment, some customers will choose their resource mix directly. But the fact that most small-use consumers will not choose to shop among suppliers need not preclude the opportunity for these customers to express preferences as to what resources should be included in the default service.

Customers have repeatedly said in one state poll after another that they want cleaner, greener resources to be used for generating their electricity. It makes sense that the default service reflect these preferences. Otherwise, the default rate becomes a race to the bottom - the dirtiest resources at the lowest prices. If green resources are included in the default service, customers who want a resource mix that is "greener" than the default will shop for it, as will customers who want lower cost and are willing to accept less "green" to get it.

Pennsylvania has designed renewable resource requirements into the default service. Maine requires all providers to be 30% invested in renewable resources, reflecting the large supply of renewable facilities already developed in that state. Massachusetts, Rhode Island and California support the development of renewable resources through public goods charges that are paid by all customers, including default customers.

The Long Term Role of Default Service

The long term nature of default service is hard to predict. Vigorous retail competition, if it develops, could push retailing costs down to the point where retail prices become nearly identical to wholesale prices.

On the other hand, the policy measures discussed in this Issuesletter do not guarantee success. For example, a single small state, acting on its own, may not have a large enough market to attract several competitive providers. More troubling still is the possibility that retailing costs could turn out to be so high that retail marketing should remain a natural monopoly indefinitely, at least for smaller customers. If either example holds, then default service is likely to become even more important. The pricing issues surrounding default service will become less critical since the goal of encouraging a competitive market will become moot. But simultaneously, the need to adopt a strong competitive framework such as periodic bidding for the right to be the default provider becomes even more important. This bidding framework will become the only mechanism whereby small customers can tap into the competitive generation market.

Where the range of possible outcomes is this wide, the need to maintain flexibility and periodically revisit the issue is obvious. The policies discussed here allow for evolution as the retail market emerges - or fails to emerge - for smaller customers.

Conclusion

A well-developed, default service policy needs to protect smaller customers and it needs to encourage (or at least not discourage) development of a competitive retail market for these same customers in the longer term. To achieve these goals, default service should not be priced at wholesale prices. In fact, failure to reflect retail costs in the default price will severely stifle development of a retail market.

Box #1 - Rate Reductions and Default Service Rates

A number of states have coupled the move to retail competition with an overall reduction in the rates charged for electric service. A properly crafted rate reduction can be entirely consistent with a well-designed default service policy if the price of default generation service is set at the retail market price. The rate reduction should be reflected in one (or more) of the rates for the non-competitive monopoly services. The critical element is that the price of retail generation service not be artificially depressed.

Box #2 - Pricing Default Service: California

In California, customers who buy generation from a competitive provider receive credit on their bills based on the spot market price for electricity generation established at the Power Exchange (PX). The PX price is, in effect, the market price for short-term (hourly) wholesale power in California. Thus, customers who take default service pay the PX price for their generation. To date, few firms have been able to compete effectively, due at least in part to the fact that default service does not include the retailing, metering or billing costs that competitive providers would incur to serve customers. The few small California customers who have chosen new suppliers (competition began in April 1998) have largely done so for reasons other than price. For instance, a number are choosing electricity from "green" sources that are being sold at higher rates.

The California PUC is currently considering increasing the "PX credit" to include retailing costs such as marketing and customer service costs. The effect of such a change would be to raise the price of default service by a like amount.

Box #3 - Pricing Default Service: Pennsylvania

In Pennsylvania, default service is provided by the incumbent utility, although at least 20 percent will be subject to bid by 2001. To encourage customers to shop around, the Pennsylvania PUC deliberately set the default service rate (which they call the "shopping credit") above anticipated market prices. The result is that customers who choose a competitive supplier pay a lower rate. It is not clear how well this approach will work in practice. There is evidence that actual retail market prices will be higher than expected which could thwart the PUC's attempt to encourage customers to

switch.

The level of the shopping credit for some Pennsylvania utilities (they vary by utility) is generally consistent with the approach taken in this Issuesletter, but the treatment of the surplus profit from a higher default service rate is not credited back to customers. According to Commission statements, the combination of the tariffed rate and the shopping credit were set in an attempt to provide the utility with its full revenue requirement based on the assumption that all customers would opt to take service from a competitive supplier. If this is true, and if some customers do not switch suppliers (a virtual certainty), the utility will be over earning and customers will be paying more than they should for electricity.

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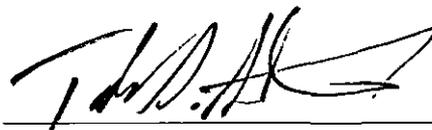
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Todd S. Stewart

DATED: January 20, 1999



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Re: PECO Joint Petition for Full Settlement
Competitive Provider of Lase Resort
Paragraph 38
Docket Nos. R-00973953 & P-00971265

Dear Secretary McNulty:

Enclosed please find for filing an original and fifteen copies of the Office of Consumer Advocate's Reply Comments in the above-captioned proceeding.

Copies have been served upon all parties of record as shown on the attached Certificate of Service.

Sincerely,

Tanya J. McCloskey
Assistant Consumer Advocate

Enclosures
cc: All parties of record

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BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PECO JOINT PETITION FOR FULL	:	
SETTLEMENT: COMPETITIVE PROVIDER OF	:	Docket Nos. R-00973953
LAST RESORT, PARAGRAPH 38	:	P-00971265

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TABLE OF CONTENTS

I. INTRODUCTION 1

II. REPLY COMMENTS 3

 A. Introduction 3

 B. MAPSA’s Stranded Cost Buydown Model May Provide Benefits And Advantages To All Residential Ratepayers That Should Be Fully Explored. 5

 1. The Potential Advantages Of the Stranded Cost Buydown Method Warrant Its Full Consideration By The Commission 5

 2. The Stranded Cost Buydown Model Is Consistent With The Act And Can Be Considered Under The Settlement 6

 C. The OCA Continues To Recommend The Consideration Of A Generation Only Default Service 8

 D. The OCA’s Response To Issues Raised In PECO’s Reply Comments 10

 1. The CDS Provider Should Not Physically Disconnect A Customer From The Electricity Grid 11

 2. The Responsibility For Developing, Administering And Delivering Universal Service Programs Should Remain With PECO At This Time 12

 3. The Restoration Of The 20% Should Be A Matter Further Considered In The Collaborative Process 13

 4. No CDS Provider Should Be Permitted To Promote POLR Service Over Competitive Alternatives Or In A Manner That Is Inconsistent With The Act And The Commission’s Consumer Education Initiative 14

III. CONCLUSION 16

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I. INTRODUCTION

The Office of Consumer Advocate (OCA) has reviewed the Proposal of the Mid-Atlantic Power Supply Association (MAPSA) regarding the Competitive Provider of Last Resort in PECO's Service Territory and the Commission's Order allowing Reply Comments to address the important issues raised by the Comments. It is the OCA's understanding that MAPSA is proposing a different form of competitive bidding framework than that envisioned by the Commission's Tentative Order. MAPSA has termed its competitive bidding framework the "Stranded Cost Buydown" model.

Initially, the OCA would note that residential competition appears to be the slowest to develop, with a relatively small number of customers seriously vying for customers in each residential market. The OCA is concerned that the vast majority of residential ratepayers eligible for the phase-in of electric choice are not yet realizing certain of the benefits of the competitive market and may not realize those benefits, at least during the early years of competition. As such, the OCA submits that the benefits of a competitive market for residential customers may best be realized, at least in the early stages of competition, through the use of innovative approaches for the provision of Competitive Default Service. In addition to the absolutely vital protections provided by the statutory and Settlement rate caps, the provision of Provider of Last Resort service, whether established through a competitive bidding framework or otherwise, may be one of the most valuable aspects of the Electricity Generation Customer Choice and Competition Act for residential customers during the transition to a fully workable and viable competitive market.

The Commission, in its Order setting forth the opportunity for Reply Comments, has also called for a collaborative process during the month of February, 1999 to work on these issues.

The OCA fully supports this collaborative process and submits that the Commission should make clear that this process can and should consider a variety of approaches to the provision of competitive default service to best accomplish the goal of bringing the benefits of a competitive market to residential customers. At the time of the Settlement of PECO's case and the other restructuring cases, there was not sufficient time to consider all necessary alternatives to determine the best method of implementing a competitive default service. It was for this reason that the details of this process were left open for discussion. The OCA submits that these discussions should not be unduly limited or restricted in any way. The OCA believes that this issue requires discussion and innovation to ensure that the promised benefits of competition are realized for residential customers.

II. REPLY COMMENTS

A. Introduction

It is the OCA's understanding that MAPSA has proposed a competitive bidding framework known as the "Stranded Cost Buydown" model, in contrast to the model referred to under the Settlement which MAPSA categorizes as the "CDS Price Bid" model. It is the OCA's understanding that under the Stranded Cost Buydown model, all terms and conditions of service, except the CTC, would be locked in by the Commission for the period of the bid. A bidder would then bid to provide the service at the rates set forth in the Settlement. The bid price, which is a premium for providing the service, is used to reduce stranded cost.

Unlike the CDS price bid approach, the generation portion of the customer's bill will remain the same as all other residential customers receiving POLR service from PECO. In other words, under MAPSA's proposal, the "shopping credit" would be fixed at the levels set forth in the Settlement for all customers, and alternative providers would bid to provide generation service to customers at those rates for the years in which the alternative provider serves. The amount that the alternative provider bids for the right to provide default service at those fixed rates is then used to reduce stranded cost and the CTC. The reduction in the CTC in a given year would provide rate relief to all residential customers.

MAPSA argues that this model may be preferable to a "CDS price bid" model. The "CDS price bid" model requires a bidder to submit a bid that is lower than the "shopping credit" set forth in the Settlement. This lower rate is only charged to the percentage of customers who are assigned to the Competitive Default Service provider. Under MAPSA's proposal, MAPSA argues that the benefits of providing the default service on a competitive basis are reflected for all

residential customers since the bid proceeds are used to reduce the stranded cost charges for all customers in the class being provided competitive default service. For PECO, at this time, the provision of competitive default service is only contemplated for the residential class.

MAPSA also asserts that the Stranded Cost Buydown model would retain the Commission's "shopping credit" structure which would continue to encourage customers to shop during the period when the CTC is in effect.¹ The "CDS price bid" model, on the other hand, may not encourage customers to shop in this interim period since it reduces the "shopping credit" to a market price and retains the CTC at the Commission established level. MAPSA is concerned that lowering the "shopping credit" may reduce customer's economic incentive to shop by reducing the savings from shopping. Thus, the CDS price bid model may result in fewer customers exploring the competitive market.

The OCA submits that MAPSA has presented a model that may be workable and certainly should be further explored. If the OCA's understanding of the model is correct, the "Stranded Cost Buydown" model may provide benefits to all customers while at the same time retaining the opportunity for all customers to participate in the competitive market. In addition, the OCA agrees with MAPSA that this model may more accurately capture the value of providing default service—a value that has not been fully captured at this time.

¹ The OCA would note that Duquesne Light Company has also suggested a model that may be similar to the MAPSA model. Although the details of Duquesne's model have not been fully developed, it is the OCA's understanding that Duquesne may be proposing a similar process. The OCA anticipates continuing to work with Duquesne to fully understand its model.

B. MAPSA's Stranded Cost Buydown Model May Provide Benefits And Advantages To All Residential Ratepayers That Should Be Fully Explored.

1. The Potential Advantages Of the Stranded Cost Buydown Method Warrant Its Full Consideration By The Commission.

As MAPSA has noted, the "Stranded Cost Buydown" model may have several advantages over a "CDS price bid" model. Although both models are capable of providing benefits to consumers, the Stranded Cost Buydown model may guarantee those benefits to a larger portion of PECO's customers, and it may do so in a simpler, more straightforward manner. Additionally, if the stranded cost buydown model was utilized to provide default service to more than 20% of PECO's customers, the benefits of a reduction in stranded cost could be even greater. In the alternative, PECO could be required to match the premium for the percentage of POLR customers that it continues to serve to properly reflect the value of the service.

The MAPSA proposal is particularly beneficial because the customers who receive CDS will have a stated shopping credit that is the same as other PECO residential customers on PECO's POLR service, and all customers will receive a reduced CTC and thus, a reduced rate. This differs from the CDS price bid method where only the customers selected by lottery for the CDS will receive any guaranteed reduction in rates.² Thus, the MAPSA proposal could eliminate the potential disadvantage for customers who are not selected by lottery to receive POLR service from the CDS.

In addition, the Stranded Cost Buydown model by retaining the shopping credits as set forth in the Settlement, may resolve the concern raised by the OCA in its initial Comments to the

² Under the Settlement, PECO may reduce its rates within a range that sets a floor based on the competitive bid and a cap based on the rate cap or a certain percentage of the PJM price.

Commission's Tentative Order that the CDS should not have a different rate design as compared to other POLR service. It is the OCA's view that all POLR customers should receive comparable prices on every rate element to avoid any adverse reaction to the existence of the CDS provision in the Settlement. The OCA has recommended that customers who want competitive services other than that offered by the distribution utility or the CDS should be steered toward the competitive market.

Finally, the MAPSA proposal passes the benefits of creating this competitively provided default service to all residential customers by means of a reduction in the regulated portion of the rate, i.e. the CTC.. This could be a significant benefit and would bring the advantages of the competitive market to all residential customers in a form that preserves their incentive to compare their shopping credit to the competitive market and find a potential advantage in the generation service portion of their bill.

2. The Stranded Cost Buydown Model Is Consistent With The Act And Can Be Considered Under The Settlement.

In considering this model, though, the OCA submits that the Commission must determine whether the model is consistent with the Act. Specifically, the Commission must reconcile this model with Section 2807(e)(3) of the Act which provides:

If a customer contracts for electric energy and it is not delivered or if a customer does not choose an alternative electric generation supplier, the electric distribution company or commission-approved alternative supplier shall acquire electric energy at prevailing market prices to serve that customer and shall recover fully all reasonable costs.

66 Pa.C.S. § 2807(e)(3). The question that must be asked is whether a model that allows a company to charge the shopping credit—a price that is by definition not the same as prevailing market price—is consistent with the Act.

The OCA submits that the Stranded Cost Buydown model would be consistent with the Act. Importantly, the Stranded Cost Buydown model starts by obtaining the market value of providing the POLR service. It then elects to reflect that market value in the stranded cost charges—by reducing the CTC—rather than in the shopping credit portion of the rate. It simply achieves the goal of serving at prevailing market price by adjusting a different portion of the rate to reflect this price. If the bid is only for a percentage of customers, the more difficult question may be how to reflect the full market value of the default service—a significant portion of which PECO is continuing to provide. The OCA submits that if successful, the Commission may want to implement the stranded cost buydown method for a significant portion of PECO's default service to more fully capture this benefit. In the alternative, the Commission could require PECO to match this bid premium for the percentage of customers that it retains as provider of last resort.

The OCA also agrees with MAPSA that its proposal can be considered under the Settlement. At the time of the Settlement, the Competitive Default Service process was agreed upon as a concept, but the detailed methodologies for implementing this service were left to the Commission to develop at a later time. Nothing in the Settlement precludes the Commission from considering this bidding framework for implementing a Competitive Default Service.

C. The OCA Continues To Recommend The Consideration Of A Generation Only Default Service.

As set forth in its initial Comments, the OCA remains concerned about the provision of what has been termed “customer cares functions” in the context of CDS. The OCA would frankly suggest that the parties may have been overly ambitious during the Settlement process in trying to move so quickly to default service providers who would provide all services and not just generation service. At this time, to the best of OCA’s knowledge, no alternative provider is even close to offering a residential service similar to the CDS service that has been the focus of the Comments and the Commission’s Tentative Order. At this time, the OCA recommends that the Commission at least consider a proposal for “plain vanilla” generation service and perhaps develop a CDS in the future that provides customer cares functions after experience is gained by the market and more providers enter the market.

PECO argues in its Reply Comments to the OCA’s Comments that the Settlement requires that the customer cares functions be competitively bid, and that any other methodology would not be consistent with the Settlement. The OCA submits, however, that the Settlement cannot be read as strictly as PECO argues, particularly if the goal of the Act to ensure that the quality of service is maintained, is to be achieved. Importantly, at this time, it is still unclear what functions are encompassed under the term “customer cares functions.” As the OCA understands the term, it would include functions such as billing and metering, and the Chapter 56 compliance requirements attendant to such billing and metering. As the OCA set forth in its initial Comments, it is still unclear what the level of involvement is, or should be, for a CDS provider in performing termination services or in taking emergency calls regarding such things as outages.

MAPSA's proposal continues to contemplate that when an alternative supplier bids on providing generation service at the shopping credit level, the bidder would also bid on providing the customer cares functions, presumably at the rates set forth in the Settlement. Even under the MAPSA proposal, the OCA submits that bidders should not be required to bid for the customer cares functions. At this time, across the Commonwealth, there are only a few alternative providers who are even actively offering competitive generation service to residential customers. The OCA is concerned that a requirement to bid for all customer cares functions as well may serve as a deterrent to alternative suppliers, particularly those who are small or new entrants into the market. The OCA would recommend that at least in the initial years, that the bidding process include generation service only and not all customer cares functions. When more experience is gained by the market in providing these services, the bidding procedure could be expanded.

If it is determined to include the customer cares functions as part of the bid process in the initial years, the OCA continues to recommend that bidders not be required to submit a bid for the provision of these functions. Although this may make evaluation of the bids slightly more difficult, the basis of the evaluation would remain the same—*i.e.*, which bid provides the greatest reduction in stranded cost charges. If a bidder thought that they could provide more value by assuming the customer cares functions, the bid would reflect this fact. If the bidder determined not to provide customer cares function, the bidder would have to assume the risk of providing all of the necessary value from the generation component. In other words, the bidder who elected not to bid on customer cares functions would have to take less profit on the generation side in order to win the bid. But this would be a business decision made by that bidder after assessing the extent of the customer cares functions, the credits provided, and its own infrastructure for providing those

services. If in fact the CDS bidders see value in the assumption of the customer cares function at the rates set forth in the Settlement, the bidding process will reveal this value. It is entirely possible that given the infrastructure and staffing necessary to provide these services, many small companies could not provide the service at a rate that is competitive with PECO whose staffing and infrastructure is already in place. These same small providers, however, may be able to provide benefits on the generation portion of the bill—benefits that should not be lost or ignored.

By bidding only the generation portion of the CDS, or by allowing bidders to elect to bid only the generation portion of the service, the winning bidder would need to bill for their generation services via a PECO-issued bill with PECO retaining the customer cares functions associated with billing, metering and Chapter 56 compliance. This approach would also avoid the OCA's concern about allowing an entity other than PECO to physically disconnect a customer for non-payment of POLR charges.

For these reasons, the OCA continues to recommend that the Commission consider a CDS that includes only the generation portion of the service. The OCA submits that, at least in the early stages, a “plain vanilla” CDS service that focuses on competitive generation may produce the best results for residential ratepayers.

D. The OCA's Response To Issues Raised In PECO's Reply Comments.

On December 10, 1998—before the Commission's Order calling for Reply Comments—PECO filed Reply Comments addressing some of the issues and concerns raised by the OCA. The OCA will not address each of these arguments herein since the OCA has previously addressed many of the concerns raised by PECO. Several of PECO's arguments, however, warrant further reply.

1. The CDS Provider Should Not Physically Disconnect A Customer From The Electricity Grid.

At page 4-5 of its Reply Comments, PECO argues that the CDS should be responsible for collection of delinquent accounts and physical terminations from the electricity grid. PECO argues that leaving delinquent customers as the responsibility of the EDC is contrary to the idea of a CDS provider assuming full responsibility for PLR functions and places a disproportionate burden on PECO. The OCA submits, however, that PECO's arguments are misplaced.

As the OCA set forth in its Comments, since CDS is a provider of last resort service, both the CDS and PECO, need to retain the right to terminate a customer from the electricity grid for failure to pay undisputed POLR charges. The OCA, however, recognized that physical termination involves visits to the customer's premise and sometimes, actual disconnection at the customer's meter. The OCA anticipates that such physical terminations may need to be conducted in a manner that will not disturb the electricity distribution grid—a grid for which PECO remains responsible. With that in mind, the OCA recommended as follows:

The OCA recognizes that a process will need to be established between the EDC and the CDS to effectuate this termination. We recommend that only the EDC actually physically terminate service at the customer meter.

OCA Comments at 5. Contrary to PECO's interpretation, the OCA did not recommend that collection activities be transferred to PECO—only the actual physical termination that may require a customer premises visit by PECO. Nor does the OCA recommend that PECO be left with all

delinquent customers.³ Rather, the OCA seeks a process that will allow physical terminations to go forward when necessary in a manner that is consistent with the Settlement and adequately protects consumers.

The OCA recommends that if PECO believes that the costs of these physical terminations is included in the customer cares credit included in the Settlement, then PECO should itemize these costs for the parties in detail, and the issue can be further explored in the collaborative process.

2. The Responsibility For Developing, Administering And Delivering Universal Service Programs Should Remain With PECO At This Time.

At pages 5-6 of its Reply Comments, PECO argues that responsibility for universal service programs, including LIURP and CAP, should be assumed by the CDS provider. The OCA submits, however, that while LIURP and CAP benefits must be portable, the actual development, administration, and delivery of these programs must remain with PECO. This is particularly important since only a maximum of 20% of PECO's customers will receive CDS in the initial years. Given the limited number of customers that will receive CDS, the economy of scale that can be obtained by centralizing the development, administration and delivery of these programs argues for PECO continuing to serve these functions. This is not to suggest that these customers cannot be transferred to the CDS provider. The OCA submits that these customers can be transferred to the

³ PECO argues that leaving delinquent customers to be the responsibility of PECO would be contrary to the terms of the Settlement which provides that CDS service receive a cross-section of PECO's customers. The OCA agrees that CDS service should include a cross-section of all customers, including payment-troubled customers. The OCA only contends that once a customer is "terminated" by the CDS provider, the actual, physical disconnection must be performed by the distribution company.

CDS . The benefits must remain portable so that a CDS CAP or LIURP customer is treated as any other CAP or LIURP customer.

If PECO is concerned that costs for administering, delivering and developing universal service programs were included in the credit contained in the Settlement, then the OCA suggests that PECO provide a specific break out of these amounts to the parties so that this issue can be further discussed in the collaborative process. PECO has provided no reason, however, for it to be relieved of the obligation of providing universal service that exists under the Act and the Settlement.

3. The Restoration Of The 20% Should Be A Matter Further Considered In The Collaborative Process.

At page 7, PECO argues that the OCA seeks a unilateral change to the Settlement to provide for a restoration of the 20% from a "slice" of PECO's residential customers. As the OCA discussed in its Comments, the OCA raised this issue before the Settlement was finally approved by the Commission. In response to the Commission's Tentative Order regarding the Settlement, the OCA filed Comments on May 12, 1998 raising its concern about this provision. As the OCA noted, it had a continuing concern that the CDS be sufficiently attractive to produce truly competitive bids from a number of suppliers. The Commission acknowledged these Comments when it approved the Settlement. Application of PECO Energy Company, Docket No. R-00973953, slip op. at 5 (Order of May 14, 1998). As the OCA further noted, this provision was specifically modified in every subsequent Settlement to restore the number of customers through a random selection.

The OCA submits that its concern regarding this provision has been properly preserved, particularly in light of the fact that the details of implementing the CDS were left for

further consideration. As the OCA has stated, the provision of this service is of critical importance in bringing the benefits of the competitive market to residential customers. As such, the OCA continues to recommend that this provision be modified.

4. No CDS Provider Should Be Permitted To Promote POLR Service Over Competitive Alternatives Or In A Manner That Is Inconsistent With The Act And The Commission's Consumer Education Initiative.

At page 8-10 of its Reply Comments, PECO argues that the OCA has sought to introduce into this proceeding various standards for POLR service including a prohibition against advertising POLR service. Initially, the OCA submits that this proceeding is specifically about the standards for CDS which is a POLR service. The OCA submits that all providers of POLR service must, and should, be guided by the same standards and principles. To do otherwise could result in a CDS service that is of lower quality than an EDC's POLR service.

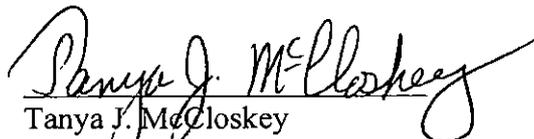
The OCA would note that it has addressed this issue in several other proceedings and will not repeat its arguments here. However, as the OCA has set forth, it is the OCA's position that the POLR service, whether provided by PECO or a CDS provider, should not be promoted *to the detriment of competitive generation service*. OCA Comments of December 1, 1998 at 16. The OCA submits that alternative CDS providers should also comply with the Commission's Interim Guidelines on this point and should not be promoting POLR service in a manner that is inconsistent with the Interim Guidelines or inconsistent with the Commission's consumer education initiative. The OCA does not oppose, and indeed supports, the concept that customers should be adequately informed and educated about POLR and CDS service, so that customers are aware of the availability and terms of such service.

The OCA submits that its recommendation is consistent with the Commission's Interim Guidelines issued November 19, 1998 and should be applied to all providers of POLR service.

III. CONCLUSION

For the reasons set forth above, the Office Consumer Advocate urges the Commission to consider the MAPSA proposal and the proposals of the OCA. The OCA respectfully recommends that the collaborative process envisioned by the Commission for February of 1999 should include structured discussions involving these issues.

Respectfully submitted,


Tanya J. McCloskey
Assistant Consumer Advocate

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
(717) 783-5048

Dated: January 20, 1999

CERTIFICATE OF SERVICE

Re: PECO Joint Petition for Full Settlement Competitive Provider
of Last Resort Paragraph 38
Docket Nos. R-00973953 & P-00971265

I hereby certify that I have this day served a true copy of the foregoing document,
Reply Comments, upon parties of record in this proceeding in accordance with the requirements of
52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed
below:

Dated this 20th day of January, 1999.

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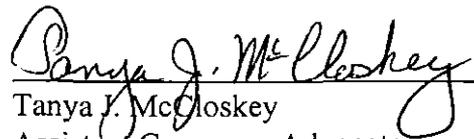
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ORIGINAL

REP

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DOCUMENT
FOLDER

February 21, 1999

DOCKETED
MAR 03 1999

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

Re: Application of PECO Energy to Approve
Restructuring Plan,
Docket No. R-00973953

Dear Mr. McNulty:

This letter is an update on the status of the Sustainable Development Fund ("SDF"), created by paragraph 40a of the Joint Petition for Full Settlement.

The Joint Petition, paragraph 40a, calls for a seven-member board "to be nominated by the Joint Petitioners and approved by the Commission." I have been working with many of the parties to implement this section of the Joint Petition and I would like to share with you the nominations for the Board of Directors:

1. John McCawley, PECO Energy Company
2. Steve Huntoon, Conectiv
3. Thomas Flaherty, The Budd Company
4. David F. Lincoln, EnerTech Capital Partners
5. Liz Robinson, Energy Coordinating Agency
6. Andrew Altman, Clean Air Council
7. Ron Celantano, Philadelphia Solar Energy Association

RECEIVED
SECRETARY'S BUREAU
99 FEB 25 AM 9:31

This list was circulated to all of the parties in the proceeding in a letter dated December 4, 1998. Any party objecting to any of these nominations was asked to notify me.

156

Nominations for the Board of Directors for the PECO Energy
Sustainable Development Fund
February 21, 1999
Page two

PECO Energy has responded that they oppose the nomination of Steve Huntoon of Conectiv, indicating they would prefer to see Dan Griffiths of New Energy Ventures representing the suppliers. I believe that the suppliers should be able to nominate the candidate of their choosing and I find Steve Huntoon a good nominee.

The PUC's Bureau of CEEP stated that they wished to be made a member of the Board, but have since withdrawn that request.

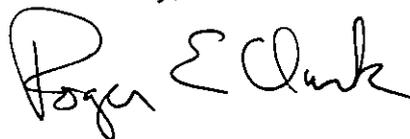
CEPA objected to the label of Liz Robinson as the "consumer" nominee but did not object to Ms. Robinson being on the board. The nominees are now listed only by name and are no longer listed as representing a particular sector.

No other party responded to my nomination letter of December 4, 1998.

I hereby request the Commission to accept these nominations and to approve these persons as the Board of Directors of the Sustainable Development Fund for the PECO Energy service territory.

A copy of this document has been served on all parties of record as shown on the attached certificate of service.

Sincerely,

A handwritten signature in black ink that reads "Roger E. Clark". The signature is written in a cursive style with a large initial "R" and "E".

Roger E. Clark
Attorney for the Environmentalists

Copies: All parties of record
Honorable John Quain
Honorable Robert Bloom
Honorable David Rolka
Honorable Nora Mead Brownell
Honorable Aaron Wilson, Jr.
Office of Special Assistants

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of PECO Energy Company : Docket No. R-00973953
to Approve Restructuring Plan :

CERTIFICATE OF SERVICE

I hereby certify that I have served the attached letter to the Secretary dated February 21, 1999 containing nominations to the Sustainable Development Fund to the following persons by first class mail on February 23, 1999:

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Date: February 23, 1999

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FEB 19 1999

James McNulty, Secretary
Pennsylvania Public Utility Commission
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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

RE: NorAm Energy Management, Inc.: Change of Company Name

Dear Secretary McNulty:

NorAm Energy Management, Inc. has recently changed its name to Reliant Energy Retail, Inc. Accordingly, please reflect this name change on all the official service lists in each of the following proceedings.

- Docket No. P-00981625: Petition of NorAm Energy Management, Inc. for a Declaratory Order, or, in the Alternative, a Petition for Amendment of Section 57.173 of the Public Utility Code
- Docket No. M-00960890: Interim Guidelines Regarding Notification by an
F.0013 Electric Generation Supplier of Operational Changes Affecting Customer Service and Contracts
- Docket No. M-00960890: Proposed Enrollment Procedures Applicable to
F.0014 Electric Distribution Companies and Electric Generation Suppliers During the Phased-In Implementation of Direct Access
- Docket No. M-00960890: Proposed Standards for Electronic Data
F.0015 Transfer and Exchange Between Electric Distribution Companies and Electric Generation Suppliers
- Docket No. L-00970126: Rulemaking Re: Customer Information Disclosure for Electric Providers
- Docket No. L-00970129: Rulemaking Re: Licensing Requirements for Electric Generation Suppliers

RS

- Docket No. L-00980136: Rulemaking Re: Amending Annual Resource Planning Report Filing Requirements
- Docket No. I-00980076: Year 2000 Compliance Questionnaire
- Docket No. I-00980078: Chapter 28 Electricity Generation Customer Choice and Competition Act; Capacity Issues Within the PJM Interconnection
- Docket No. R-00973953: Petition for Approval of PECO's Restructuring Plan
- Docket No. R-00973954: Application of Pennsylvania Power & Light Company for Approval of its Restructuring Plan
- Docket No. R-00973975: Application of UGI Utilities, Inc for Approval of its Restructuring Plan
- Docket No. R-00973981: Application of West Penn Power Company for Approval of its Restructuring Plan
- Docket No. R-00974008: Petition for Approval of Metropolitan Edison's Restructuring Plan
- Docket No. R-00974009: Petition for Approval of Pennsylvania Electric's Restructuring Plan
- Docket No. R-00974104: Application of Duquesne Light Company for Approval of its Restructuring Plan
- Docket No. R-00984298: Pennsylvania Public Utility Commission v. PECO Energy Company (Supplier Tariff Proceeding)

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Please date-stamp and return the 2 additional copies in the enclosed envelope. If you have any questions concerning this matter, please do not hesitate to contact me.

Respectfully submitted,

Joelle Ogg

Douglas F. John, Esq.
Gordon J. Smith, Esq.
Joelle K. Ogg, Esq.

**DOCUMENT
FOLDER**

Counsel for Reliant Energy Retail, Inc.

cc: Keith Sappenfield
Janet Patrick
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PECO Energy Company
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February 25, 1999

KJR

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Pennsylvania Public Utility Commission
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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

f. 00973953

Dear Mr. McNulty:

Re: May 13, 1998 Stipulation filed with the Restructuring Settlement Agreement

The referenced stipulation requires that PECO Energy file any required modifications to its distribution rates within 60 days of this issuance of a FERC Order that results in an increase in transmission rates.

Since the May 14, 1998, Order, the FERC has issued two orders, one decreasing transmission rates and the other increasing them. Taken as a whole, no change is necessary in distribution rates nor is an increase in transmission necessary as current FERC rates are less than the unbundled rates in the settlement. The attached document discusses why it is unnecessary to file any changes in rates.

Please acknowledge receipt of the foregoing on the enclosed extra copy of this letter.

Sincerely,

ABC:aam
x:\ratedir\abc\May 13 1998 Stipulation Filed.doc

DOCUMENT
FOLDER

Enclosure
cc: Service List

93

Certificate of Service

I hereby certify that I have this day, served the enclosed document, first class mail, on the following:

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Dated: February 25, 1999

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FEB 26 1999

**Compliance of Transmission Rates
with the Restructuring Settlement**

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

In a stipulation filed along with the Settlement of its restructuring case,

PECO Energy agreed to the following:

" In addition, within 60 days after the issuance of a FERC Order modifying PECO Energy's transmission revenue requirement or rate structure, or PJM's transmission rate structure, to the extent that such change or modification effects PECO Energy's transmission charges, PECO Energy shall submit a tariff supplement with supporting data to the Pennsylvania Public Utility Commission which makes any necessary changes to PECO Energy's distribution rates to ensure that the sum of the distribution rates and the transmission rates and charges to each class of customer do not exceed the transmission and distribution rate cap."

Recently, the FERC has issued two orders effecting PECO Energy's transmission revenue requirement. First, on December 16, 1998, the FERC issued an order approving the settlement in PECO's transmission proceeding. The rates were approved retroactive to 4/1/97 and reflected a reduction in the reactive power charge and the removal of Account 561 costs - system control and load dispatch costs incurred by PECO. As this was a reduction in rates no verification that the rate cap has not been exceeded was necessary.

Subsequently, on December 30, 1998, the FERC issued an order approving, subject to refund and hearings, a new Schedule 1A to the PJM Open Access Transmission Tariff ("PJM Tariff"). Attachment A provides a copy of Schedule 1A. The purpose of Schedule 1A is to provide PJM regional transmission owners with a mechanism for recovering Account 561 expenses under the PJM Tariff. Account 561 contains system control and load dispatch

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cost incurred by PECO in operating its local control center. The amount included for PECO Energy is approximately \$4.6 million. While this is an increase in the FERC settlement revenue requirement, it does not result in an increase in PECO's transmission rates above the level that has been unbundled and used as a transmission shopping credit in PECO Energy's restructuring settlement. Attachment B provides a comparison of the cost in \$/kW-year for transmission unbundled from retail rates as compared to the PJM network rate for PECO, based upon the FERC settlement and the Account 561 Filing. As shown in that attachment, the unbundled transmission rate/shopping credit in the Company's restructuring settlement is higher than either the 4/1/97 or the 1/1/99 PJM rate for the PECO zone.

In summary although two orders have been issued by the FERC regarding transmission rates, no change in PECO's retail transmission rates/shopping credit was necessitated and therefore no change in distribution rates is warranted.

SCHEDULE 1A**RTO Scheduling, System Control and Dispatch Service**

Scheduling, System Control and Dispatch Service is provided directly by the Transmission Provider under Schedule 1. The Transmission Customer must purchase this service from the Transmission Provider. Certain control center facilities of the RTOs also are required to provide this service. This Schedule 1A sets forth the charges for Scheduling, System Control and Dispatch Service based on the cost of operating the control centers of the RTOs.

The monthly charges for operation of the control centers of the RTOs shall be allocated and billed to the Transmission Customers as follows:

Monthly Charge for Transmission Customer serving Non-Zone Load =
Allocation Factor * Total RTOs Monthly Expense

Monthly Charge for Transmission Customer servicing Zone Load =
Allocation Factor * Zonal RTO Monthly Expense * Service Adjustment Factor

Where:

Transmission Customer serving Non-Zone Load is a Network Customer serving Non-Zone Network Load or a Transmission Customer taking Point-to-Point service where the Point of Delivery is at the boundary of the PJM Control Area.

RTO Monthly Expense is one-twelfth (1/12) of the annual expense of providing Scheduling, System Control and Dispatch Service through the control center of an individual RTO. The annual expense shall be the amount booked to Account No. 561 of the Uniform System of Accounts and reported by the RTO in its Form 1. The most-recent Form 1 data shall be applied to accounting for uses beginning in July of each year.

Revised: October 30, 1998
Effective: January 1, 1999

Zonal RTO Monthly Expense is the sum of the RTO Monthly Expenses for all RTOs whose systems constitute a Zone.

Total RTO Monthly Expense is the sum of the Zonal RTO Monthly Expenses for all Zones in the PJM Control Area.

Allocation Factor is the monthly transmission use of the Transmission Customer per Zone or Non-Zone, as applicable, on a megawatthour basis divided by the total transmission use in the Zone or in the PJM Control Area, as applicable, on a megawatthour basis. For Transmission Customers taking Network Service, monthly transmission use on a megawatthour basis is the sum of the individual hourly values of Network Load for all hours of the month. For Transmission Customers taking Point-to-Point Service, monthly transmission use on a megawatthour basis is the sum of the individual hourly values of energy scheduled and dispatched during the month.

Service Adjustment Factor is determined as the sum of the total monthly transmission use in the PJM Control Area on a megawatthour basis exclusive of such use by Transmission Customers serving Non-Zone Load, divided by the sum of total monthly transmission use in the PJM Control Area on a megawatthour basis.

Note that if a single Transmission Customer is serving load in more than one Zone, or serving Non-Zone Load as well as load in one or more Zones, the Monthly Charge for such Transmission Customer shall be the sum of the Monthly Charges determined by application of the above formulae to its use in each separate Zone as well as its Non-Zone use.

Each month, the Transmission Provider shall pay to each RTO an amount equal to the RTO Monthly Expense billed for that RTO under this Schedule 1A.

Transition Provisions: With respect to transactions during the period January 1, 1999 through June 30, 1999, the RTO Monthly Expense of the following RTOs shall be set to zero: Baltimore Gas and Electric Company, and Potomac Electric Power Company.

Revised: October 30, 1998
Effective: January 1, 1999

**Initial Basis for the Charges under Schedule 1A
(January 1, 1999 - June 30, 1999)**

<u>Regional Transmission Owner</u>	<u>RTO Annual Expense (\$)</u>
Atlantic City Electric Company	900,959
Baltimore Gas and Electric Company	0
Delmarva Power & Light Company	81,563
PECO Energy Company	4,608,393
PP&L, Inc.	2,221,289
Potomac Electric Power Company	0
Public Service Electric and Gas Company	5,139,207
Jersey Central Power & Light Company	2,260,887
Metropolitan Edison Company	744,679
Pennsylvania Electric Company	1,154,651
UGI Utilities, Inc.	138,782

PECO Energy Company
Comparison of Unbundled Transmission Rates
and PJM Open Access Transmission Tariff Charges for PECO

	Unbundled Transmission per Settlement	PJM Tariff for PECO Eff. 4/1/97	PJM Tariff for PECO Eff. 1/1/99
Revenue Requiremen (excl GRT) \$	144,415 (a)	\$151,703 (b)	\$ 156,311 (c)
Coincident Peak (MW)(d)	6509	7244	7244
Cost per kw-year(excl GRT) \$	22.187	\$ 20.942	\$ 21.578

Rates per Restructuring Settlement	\$ 22.187
PJM rate effective 1/1/99	\$ 21.578

Amount by which the Settlement Rates/Shopping Credit Exceed the PJM rate	\$ 0.609
--	----------

(a) Attachment B, page 2

(b) Attachment B, page 3

(c) includes \$4,608 for a/c 561 (Attachment A, page 3)

(d) 7244 is PECO's 1995 coincident peak used in establishing the FERC rate
6509 is PECO's 1996 coincident peak, which is the basis for the unbundled rates,
included in the restructuring filing and settlement

**Joint Petition for Approval of Full Settlement
of PECO Energy's Restructuring Case at Docket No. R-00973953
Summary of Unbundled Revenue**

Unbundled Revenue

	<u>Sales</u> (MWh)	<u>Total Rev</u> (1)	<u>Transmission</u> (2)	<u>Distribution</u> (3)	<u>CTC</u> (4)	<u>Market Energy</u> (5)=1-2-3-4
✓ HT	14,198,713	906,142,971	49,980,864	108,672,760	208,471,458	539,017,888
✓ EP	638,800	43,444,241	2,317,169	7,301,849	9,258,652	24,566,570
✓ PD	1,081,656	95,679,081	5,061,246	19,546,954	20,196,065	50,874,816
✓ GS	6,596,721	704,765,088	38,897,558	141,475,683	158,254,271	366,137,576
GS	6,557,040	700,594,728	38,667,386	140,638,518	157,317,821	363,971,002
TL	39,681	4,170,360	230,171	837,165	936,450	2,166,574
✓ RH	2,816,467	265,775,123	11,249,256	98,422,830	37,923,787	118,179,250
✓ R	7,699,431	1,009,225,292	43,057,202	430,747,757	143,288,713	392,131,620
R	7,699,352	1,009,216,092	43,056,810	430,743,830	143,287,406	392,128,045
RT	79	9,200	393	3,927	1,306	3,575
OP	375,823	23,931,960	178,554	19,122,543	-	4,630,862
SLP	88,803	12,627,000	153,555	10,623,707	-	1,849,738
SLS	16,908	4,718,680	80,982	3,837,854	-	799,844
SLE	47,017	8,757,480	75,496	7,922,340	-	759,644
OTHER	9,019	1,714,880	10,225	1,630,465	-	74,190
POL	8,988	1,711,200	10,203	1,626,966	-	74,031
AL	31	3,680	22	3,499	-	159
TOTAL	33,569,357	3,076,781,797	151,062,108	849,304,742	577,392,947	1,499,021,999
¢/kWh		9.17	0.45	2.53	1.72	4.46

excl. GRT 144,415,375

Attachment B
Page 2 of 3

ATTACHMENT H-7
Annual Transmission Rates -- PECO Energy Company
for Network Integration Transmission Service

1. The annual transmission revenue requirement is \$151,703,000 and the rate for Network Integration Transmission Service is \$20,942 per megawatt per year, which reflects the facilities recorded in FERC Form 1, as transmission for PECO Energy Company and its subsidiaries. Service utilizing other facilities will be provided at rates determined on a case-by-case basis.
2. The rate in (1) shall be effective until amended by the Regional Transmission Owner(s) within the Zone or modified by the Commission.
3. In addition to the rate set forth in section 1 of this attachment, the Network Customer purchasing Network Integration Transmission Service shall pay for transmission congestion charges, in accordance with the provisions of the Tariff, and any amounts necessary to reimburse the Regional Transmission Owners for any amounts payable by them as sales, excise, "Btu," carbon, value-added or similar taxes (other than taxes based upon or measured by net income) with respect to the amounts payable pursuant to the Tariff.

Revised: January 15, 1999

Effective: January 1, 1999

THE LAW FIRM OF

MALATESTA HAWKE & McKEON LLP

JOSEPH J. MALATESTA, JR.
WILLIAM T. HAWKE
KEVIN J. McKEON
LOUISE A. KNIGHT
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TODD S. STEWART

HARRISBURG ENERGY CENTER
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FAX (717) 236-4841

MAILING ADDRESS:
P.O. BOX 1778
HARRISBURG, PA 17105

<http://www.MHM-LAW.com>

February 26, 1999

DOCUMENT
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RECEIVED
99 FEB 26 PM 3:54
EA.P.U.C.
SECRETARY'S BUREAU

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Room B-18, North Office Building
PO Box 3265
Harrisburg, PA 17120

ORIGINAL

RE: Application of PECO Energy Company For Approval of Its Restructuring Plan Under Section 2806 of the Public Utility Code, et al.; Docket Nos. R-00973953 and P-00971265; **COMMENTS OF THE MID-ATLANTIC POWER SUPPLY ASSOCIATION TO "CONSENSUS" SPECIFICATIONS FOR BIDDING ON COMPETITIVE DEFAULT SERVICE IN PECO ENERGY COMPANY'S SERVICE TERRITORY**

Dear Secretary McNulty:

Enclosed, for filing with the Commission, please find the original and three (3) copies of the Comments of the Mid-Atlantic Power Supply Association, as referenced above in Dockets R-00973953 and P-00971265.

If you have any questions concerning this filing please direct them to me.

Very truly yours,



Todd S. Stewart

Counsel for the Mid-Atlantic
Power Supply Association

TSS/bes

cc: John C. Miller, Jr., CEEP

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of PECO Energy Company :
For Approval of Its Restructuring Plan : Docket Nos. R-00973953
Under Section 2806 of the Public Utility : and P-00971265
Code, et al. :

COMMENTS OF MID-ATLANTIC
POWER SUPPLY ASSOCIATION TO
"CONSENSUS" SPECIFICATIONS FOR BIDDING
ON COMPETITIVE DEFAULT SERVICE IN
PECO ENERGY COMPANY'S SERVICE TERRITORY

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On October 20, 1998, the Pennsylvania Public Utility Commission ("Commission") issued a Tentative Order in the Docket Nos. R-00973953 and P-00971265 seeking comments on its proposed specifications for bidding for the right to provide competitive default service ("CDS") in PECO Energy Company's ("PECO's") service territory commencing January 1, 2001. These specifications were attached to the Commission's Tentative Order as Annex A. After receiving comments and reply comments from interested parties, the Commission determined that additional process was required in order to reach a decision, and thus ordered that the matter be addressed by a collaborative process held during the month of February, 1999. During the past month, the parties have engaged in a collaborative process in order to revise Annex A into a "consensus" document. The parties have succeeded in agreeing to numerous processes and requirements, but several key points remain to be determined. The most significant issue left unresolved is the type of bid that must be submitted and the methodology for selecting the winning bidder. The following comments detail the Mid-Atlantic Power Supply Association's ("MAPSA's") recommendations on these issues.

DOCKETED
MAR 03 1999

I. PROCEDURE

At the threshold, MAPSA suggests that this Commission allow parties to render comments upon any report filed by the Bureau of CEEP with the Commission prior to the Commission rendering a decision on the merits of this case. At this juncture, MAPSA does not know what form any report will take, and cannot be certain that such a report will be a consensus document or one with which it will agree. Therefore the Commission should allow for an additional round of comments before finally deciding this matter. Because the bidding process in PECO's service territory will not be implemented before the end quarter of 2000, there is no need for the Commission to rush to judgment in this matter. Indeed, the Commission might wish to first determine the bidding procedures to be used in GPU Energy's ("GPU") service territory, since CDS will be bid in GPU's service territory well before PECO. In any event, the Commission should allow for additional input before it sets the rules in this case.

II. THE COMMISSION SHOULD DECIDE THAT THE APPROPRIATE BID METHODOLOGY IS THE STRANDED COST PREPAYMENT APPROACH

The major point upon which the parties fail to reach "consensus" is the appropriate bid methodology. MAPSA consistently has argued that the stranded cost prepayment methodology is superior to the price bid model and will provide the most value for the most customers in PECO's service territory. The stranded cost prepayment methodology is relatively simple -- a bidder submits a bid which agrees to charge customers the same rates which the PECO Provider Of Last Resort ("PLR") currently charges those customers but, at the same time, recognizes that there is value in providing that service at the shopping credit. Therefore, the bidder bids a lump sum cash payment that it would be willing to pay to reduce PECO's stranded cost for all residential customers

based upon its expectations of current and future market prices for energy and capacity. This methodology, because it relies upon energy and capacity pricing, clearly comports with the requirements of Paragraph 38 of PECO's restructuring settlement. As an example, suppose a bidder was fairly certain that the market prices for energy and capacity would allow it to provide service at less than the current PLR rates in PECO's service territory during the period of the bid. That bidder would calculate the difference in the market prices and then determine what value it would be willing to return to PECO's customers for the privilege of serving those customers as the competitive default service provider during that period. This lump sum payment would be applied to reduce the stranded costs of all PECO's residential customer classes.

Under the methodology supported by PECO, the bidders would simply bid a discount off of PECO's rates for those customers receiving service from the CDS (20%). Therefore, the only customers to benefit are those being offered CDS service. The unspoken, and unlikely, premise in this scenario is that PECO, due to the operation of Paragraph 38(e) of the restructuring settlement, would reduce its rates for its PLR customers to the floor price and, thus, match the CDS bid discount. This behavior on the part of PECO is economically irrational and is not mandated, and, therefore, is not likely to occur. The Commission should not consider it when comparing the benefit to customers under a stranded cost prepayment process versus the price bid methodology. Thus, while the stranded cost prepayment methodology provides immediate and direct benefits to all residential customers through its operation, the price bid methodology leaves any benefit for PECO's residential PLR customers to the sole discretion of PECO, which has little incentive to undertake such action.

The stranded cost prepayment methodology not only provides known benefits to all customers, it also encourages customers to engage in the competitive market in order to experience potentially greater savings consistent with the Electricity Generation Customer Choice and Competition Act. The price bid methodology supported by PECO does not encourage customers to explore the competitive market, but rather provides the opposite incentive.

Further, the stranded cost prepayment methodology is based upon a bidding paradigm -- the acquisition of customers from another business entity -- that is very familiar and understood by most commercial entities. Duquesne's POLR auction proposal, while not perfect, is one example. Finally, selecting a CDS on the basis of the stranded cost prepayment methodology makes it simple for the Commission to choose the winner -- it need only compare the dollar amounts that are bid. Similarly, all concerns over adherence to PECO's existing rate structure are eliminated because the CDS will use the exact structure and the same rates. For all these reasons, MAPSA believes that the stranded cost prepayment methodology clearly is the superior selection method.¹

Under the stranded cost prepayment framework, the benefits to all customers are clear and competition is enhanced. Conversely, the price bid methodology thwarts the development of competitive markets and offers benefits which - at PECO's whim - might be enjoyed by the 80% of PECO's customers who are not served by the CDS.

If the Commission decides that it does not want to prescribe a specific bidding methodology, but instead allow for both price and stranded cost prepayment bids, MAPSA suggests that the specifications, as written, require modification so that the specifications specifically state that fact.

¹ It is likely that the Office of Consumer Advocate ("OCA") will propose that bidders be permitted to bid a "plain vanilla" CDS service. A plain vanilla CDS would supply only generation and would not provide the additional customer care functions currently contemplated in Annex A. MAPSA would agree that if no bids are received by the Commission for a customer care inclusive CDS, that the Commission might consider a second, plain vanilla, bid as an alternative to having no competitive CDS. In any event, MAPSA strongly believes that a plain vanilla should still be bid on a stranded cost prepayment methodology.

In such a circumstance, the Commission should make it clear that it will not discriminate between bidders and its evaluation of bids based upon its preference, albeit unspoken, of one bid methodology over another.

In particular, Sections S1 and S3 require modification, as shown on MAPSA's specific comments, in order to provide for both bid formats.

MAPSA's clear preference is that the Commission adopt the stranded cost prepayment method, however MAPSA does recognize that the Commission may choose what might appear to be a more flexible approach. MAPSA continues to believe that there are obvious, and not-so-obvious pitfalls to be avoided when evaluating bids of differing structure. Perhaps most significant among these pitfalls would be any assumption that under either method any party will engage in behavior that is not required and which is economically irrational, i.e., offer across-the-board discounted rates. MAPSA is confident however, that given a choice, the market will overwhelmingly favor the stranded cost prepayment methodology over the price bid methodology.

III. SPECIFIC COMMENTS

MAPSA hereby comments on specific sections of Annex A and will use the numbering convention set forth in Annex A as the basis of its comments.

Q1: MAPSA's understanding of the discussion at the last collaborative meeting of February 23, 1999 was that the qualification package would be submitted simultaneously with the bids. To that end, MAPSA suggests that the qualification packages and bids be submitted to the Commission no later than May 1, 2000, and thereafter on May 1st of the year prior to the first year of the new CDS term.

Q2: MAPSA continues to have concerns about the bonding requirements in the last paragraph of Section Q2. MAPSA agrees that a bond, similar to that required of an electric generation supplier (“EGS”), be required for payment of taxes and other obligations accruing to the state and which the state would have no ability to collect in the event of a CDS default. However, MAPSA does not agree that a bond is necessary to secure PECO against a CDS default. Specifically, the amount of the bond is vague. The Commission should be aware that bonding requirements that are vague are anti-competitive because they create risk and uncertainty and, thus, increase barriers to entry - - the larger the bond, the smaller the benefits to consumers.

With regard to the need for a bond to protect PECO, MAPSA does not believe that PECO faces any risk as a result of a CDS default. In the unlikely event that a CDS would default, PECO immediately would have the revenue stream from customer payments for default service available to meet its costs of standing in the shoes of the CDS. To the extent that energy costs, at that time, exceeded those revenues, PECO clearly has an opportunity to recover those costs from ratepayers. Requiring a bond simply increases the cost of doing business for the CDS bidder and decreases the amount of stranded cost prepayment (or erodes a discount under a price bid) that a CDS bidder would be likely to offer. Therefore, the cost of paying for a potential CDS default are paid by those customers without regard to whether the CDS is likely to, or in fact, defaults. On the other hand, if a CDS would default, and there is no bond to PECO, PECO, if necessary, has the opportunity to seek a rate cap exception to recover those costs from its customers.

However, PECO could exercise that option only if the costs actually were incurred and, only if those costs were above the market price for energy and capacity reflected in PECO's shopping credit.

Q4(g). MAPSA contends that requiring a CDS bidder to submit financial statements to present their current and "expected future" financial condition is burdensome, potentially misleading and unnecessary. Essentially, this requirement demands that a CDS bidder forecast its future financial condition - a process which is speculative, at best. Further, to the extent a CDS does not typically forecast its future financial condition, this process potentially is burdensome and would present an unneeded barrier to a CDS bidder. Finally, such a process would require a CDS bidder to provide the Commission with its expectation of its future economic condition, which information is highly proprietary. MAPSA suggests a requirement that a CDS bidder be required to "provide financial information adequate to allow the Commission to appropriately assess the CDS bidder's financial condition." Such a requirement ensures that the Commission has adequate information to assess a bidder's current financial position, and allows the Commission to speculate, if it chooses, about any future changes. Further, the need for section Q4(g) in its entirety disappears if the Commission insists upon a further bonding requirement, as it currently exists in sections Q2 and T16. In such a circumstance, since there is an absolute guarantee of payment, no review of financial information appears to be warranted.

- Q9.** This section should require that the Commission make the information available at the time it issues the RFP, as determined by Section Q1. Also, MAPSA suggests that the technical conference be held earlier in the month, rather than later, and suggests a date in the first full week of April, rather than in the second or third week. If the Commission does compress the bid preparation period to a single month, the technical conference should be earlier to allow bids to be prepared on the basis of the complete information that the technical conference will produce.
- S1.** The first sentence should be modified to remove the words “energy and capacity sufficient.” Such modification will make it clear that the bidder is bidding for the right to serve as CDS, not necessarily to provide energy and capacity. Likewise, such a modification will not narrow the format of the bid, or limit to methodology used to select the winning bidder.
- S3.** The word *pricing* in the first sentence of S3 should be stricken, so that the sentence reads “The CDS bidder must submit bids utilizing the exact block rate structure...”. Such a modification would make it clear that parties are not required to submit their bids on the basis of any specific methodology. Section S3 should then specify that the bid will be based upon a stranded cost prepayment model, if the Commission agrees that it is the best approach.
- S4.** MAPSA suggests that Section S4 is vague and therefore would suggest changing the word *bid* to *price*, in order to clarify that the price in the bids will be fixed for the term.

- T1.** MAPSA consistently has suggested that the Commission mandate procedures relative to the customer's right to return to PECO. Specifically, a customer that is in the termination process (has been served with a termination notice), should not be permitted to opt back to PECO as its default supplier without **first** satisfying any outstanding arrearage with the CDS. Without such a requirement, customers will too easily game the system to avoid arrearages accumulated at the expense of the CDS, and then switch to PECO to avoid termination and eliminate leverage the CDS might have had to collect that arrearage through an appropriate termination procedure.
- T9.** In its current form, Section T9 states that "all EDC customers will receive EDC-mandated legal and safety notices...", MAPSA suggests that the notices should not be EDC mandated; rather, they should be Commission mandated, as was the general agreement at the February 23, 1999 Collaborative Meeting.
- T15.** MAPSA agrees that a CDS provider does not fit neatly into the category of electric distribution company ("EDC") or EGS. MAPSA suggests, however, that a CDS is more akin to an EGS than to an EDC² and, in any event, it is inappropriate to apply the EDC Code of Conduct to a CDS. An EDC has monopoly transmission and distribution facilities which grant it an anti-competitive position vis-a-vis, an EGSs serving in its service territory because of the EDC's control of these bottleneck facilities. The same holds true with the relationship of an EDC to a CDS Codes of Conduct were designed to restrict an EDC from using its control of bottleneck facilities to competitively harm an EGS.

² The Commission agrees with respect to the customer information regulations. See Final Rulemaking Order at Docket No. L-00970126, Ordering Paragraph No. 9 ("[P]roviders of last resort are viewed as electric generation providers.")

However, the same is not true as between a CDS and an EGS since CDS controls no bottleneck facilities. The fact that customers have their default energy provided by the CDS does not vest the CDS with the same influence over customers, or the same market power as an EDC. Therefore, it is inappropriate to mandate an EDC Code of Conduct for the CDS. MAPSA has suggested a reasonable and balanced Code of Conduct to govern the activities of a CDS, and has attached it to these comments. (**Appendix A**). MAPSA believes that its proposed Code of Conduct adequately addresses the issues that are likely to be of concern in the relationship of a CDS to EGSs and customers.

T20. MAPSA disagrees that a CDS provider should be required to maintain a separate accounting protocol for CDS customers if that CDS has an EGS serving in the PECO service territory. MAPSA agrees that it may be necessary to develop safeguards to prevent any threat of termination, or termination of CDS services, on the basis of a customer's failure to pay EGS charges owed to a CDS affiliate. However, a separate accounting protocol is not necessarily required, and in fact, is not likely to be required to address such a potential harm. Requiring separate accounting protocols as a blanket protection will create an additional burden with no concomitant customer benefit. Requiring a CDS provider to maintain 'separate accounting protocols' represents unwarranted and unnecessary micromanagement because the CDS provider has already agreed to terminate service only as permitted by Commission regulations. All that is necessary is a requirement that the CDS provider maintain 'appropriate accounting controls' to prevent termination or threat of termination for nonpayment of unregulated or competitive charges.

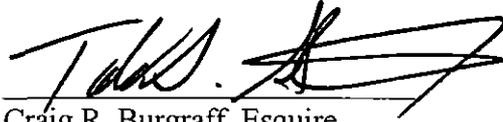
T21. MAPSA suggests that a sentence be added to Section T21 to require that data exchange protocols be established to place the CDS on the same footing with regard to customer information as the PECO EDC, and which require that PECO as EDC cannot advantage its own PLR to the detriment of the CDS.

IV. CONCLUSION

MAPSA urges this Commission to adopt the stranded cost prepayment methodology as the sole method for preparing and submitting CDS bids. MAPSA believes that it has demonstrated that the stranded cost prepayment methodology is superior and that it will provide definite benefits to all PECO residential customers through reduction of their stranded cost obligation, in contrast to the alternative method which produces savings for only 20% of PECO's customers and provides an illusory benefit to the remaining 80%. Along with the other benefits of being pro-competitive, easy to understand and easy to compare, MAPSA believes that the stranded cost prepayment methodology clearly is the superior method. Also, MAPSA urges the Commission to adopt its separate specific comments, and to make the changes as requested herein. Competitive default service is an opportunity for this Commission to allow a competitive bidding process to bring benefit to all of PECO's residential ratepayers. Clearly, that was the result contemplated by the Customer Choice Act, and the settlement in PECO's restructuring case. MAPSA's proposal provides those benefits with certainty, as opposed to any speculative benefit which might be gained under any other proposal.

WHEREFORE, MAPSA respectfully requests that the Commission adopt and implement its comments as proposed herein.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Todd S. Stewart", written over a horizontal line.

Craig R. Burgraff, Esquire
Todd S. Stewart, Esquire
Malatesta Hawke & McKeon LLP
Harrisburg Energy Center
P. O. Box 1778
Harrisburg, PA 17105-1778
(717) 236-1300

Counsel for the Mid-Atlantic
Power Supply Association

DATED: February 26, 1999

APPENDIX A

STANDARDS OF CONDUCT APPLICABLE TO CDS SERVICE

1. Each EGS shall continue to adhere to the “Standards of Conduct and Disclosure set forth by the Commission as applicable to licensed electric Generation Service Providers and set forth at 56 Pa. Code §54.43.
2. The CDS shall cooperate with the EDC in the EDC’s dissemination of Ratepayer information and education materials.
3. An EGS providing PLR service as the competitive default service provider shall not market through direct mail or mass media the competitive default service. An EGS providing that service is not restricted from engaging in reasonable non-deceptive and non-misleading advertising to consumers with respect to other competitive options that it, an affiliate or partner in providing competitive service might offer, so long as those non-CDS competitive options are clearly represented as such.
4. An EGS in its role as CDS provider may not use its CDS customer bill or customer contacts for the purpose of marketing to CDS customers or engaging in direct advertising of the EGS’s separate competitive energy service. The CDS provider also may not use its CDS customer mailing list to market its competitive energy service unless it makes the mailing list available to all EGSs at a reasonable fee approved by the Commission. The EGS’s CDS service and its separate competitive energy service shall be clearly differentiated to avoid customer confusion.
5. The CDS shall comply with all existing rulemakings and Commission Orders in the provision of CDS service including all aspects of 56 Pa. Code, Parts 54, 56, and 57.

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a copy of the foregoing document upon the persons named and in the manner indicated below.

Service By First Class Mail:

Paul R. Bonney, Esquire
Noel H. Trask, Esquire
Michael A. Carvin, Esquire
PECO Energy Company
2301 Market Street
PO Box 8699
Philadelphia, PA 19101-8699

John L. Munsch, Esquire
Allegheny Power Corporation
800 Cabin Hill Drive
Greensburg, PA 15601

Paul E. Russell, Esquire
Pennsylvania Power & Light Company
Two North Ninth Street
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Philadelphia, PA 19102-1909

Phillip Bertocci, Esquire
Community Legal Services, Inc.
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Philadelphia, PA 19102

Roger Clark, Esquire
Environmentalists
905 Denston Drive
Ambler, PA 19002-3901

Christopher B. Craig, Esquire
Senator Vincent Fumo
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Harrisburg, PA 17120

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Pennsylvania Power & Light Company
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Gordon Smith, Esquire
John & Hengerer
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Steven Steinmetz, Esquire
Office of Consumer Advocate
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Bernard A. Ryan, Jr., Esquire
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
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Charles Daniel Shields, Esquire
Pennsylvania Public Utility Commission
Office of Trial Staff
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PAIEUG
McNees Wallace & Nurick
100 Pine Street
Harrisburg, PA 17108

Terrance Fitzpatrick, Esquire
David DeSalle, Esquire
GPU Energy
Ryan Russell Ogden & Seltzer
800 North Third Street, Suite 101
Harrisburg, PA 17102

Walter W. Cohen, Esquire
Andrew J. Giorgione, Esquire
Indianapolis Power & Light Company
204 State Street
Harrisburg, PA 17101

Daniel Clearfield, Esquire
Enron Corp.
Wolf Block Schorr & Solis-Cohen
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Craig A. Doll, Esquire
Delmarva Power & Light Company
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Harrisburg, PA 17101

Gary A. Jeffries, Esquire
CNG Energy Services Corporation
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Pittsburgh, PA 15244-0746

Susan Shanaman, Esquire
Center for Energy and Economic
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Kenneth Zielonis, Esquire
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Harrisburg, PA 17108-2090

John Earwood
Pennsylvania Dept. of Aging
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Harrisburg, PA 17101

Philip D. McFarren
McFarren Group
Suite 400, 200 N. Third St.
Harrisburg, PA 17101

Andrew S. Tubbs
Pennsylvania Rural Electric Assoc.
212 Locust Street
Harrisburg, PA 17108



Todd S. Stewart

DATED: February 26, 1999

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PA P.U.C.
SECRETARY'S BUREAU

B-983707 LB

File in: R-973953

P-971265

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

MAR 16 1999 REP

INDIANAPOLIS POWER & LIGHT COMPANY,

Petitioner :

DOCKETED

P.U.C. BUREAU

v.

APR 14 1999

PENNSYLVANIA PUBLIC UTILITY COMMISSION,

Respondent :

mtz

NO. 1575 C.D. 1998

DOCKETED
APR 28 1999

ORDER

NOW, March 16, 1999, upon consideration of petitioner's application for discontinuance, said application is granted and the above captioned matter is discontinued, with prejudice.

DOCUMENT FOLDER

Joseph T. Doyle
J.

CERTIFIED FROM THE RECORD AND ORDER EXIT

MAR 17 1999

CA [Signature]
Deputy Prothonotary - Chief Clerk

Form A
Intangible Transition Property Notice

RECEIVED
99 MAR 22 AM 9:28
PA.P.U.C.
SECRETARY'S BUREAU

General Docket Number: M-00970937
Name of Grantor or Assignor: PECO Energy Transition Trust
Address of Grantor or Assignor: c/o First Union Trust Company, National Association, One
Rodney Square, 920 King Street, Wilmington, DE 19801
Name of Financing Party or Assignee: The Bank of New York
Address of Financing Party or Assignee from which Information concerning the Security Interest or
Transfer in Interest Intangible Transition Property may be obtained:
101 Barclay Street, New York, New York 10286

This Intangible Transition Property Notice covers the Intangible Transition Property arising from the following Qualified Rate Order:

Commission Docket Number: R-00973953
Date of Entry: May 14, 1998

State whether the Intangible Transition Property Notice relates to all the above Qualified Rate Order and the amount of Intangible Transition Property arising therefrom, or only to a portion of such Order or Amount:

X All Portion

DOCUMENT
FOLDER

If "Portion" is checked, state either:

The Portion of the Qualified Rate Order to which this Notice relates (by reference to the applicable section(s) or paragraph(s) of the Order:

OR

The Amount of the Intangible Transition Property to which this Notice relates (in comparison to the Total Amount of such property);

\$ of a Total of \$

Check one:

BTL

X This Form A is filed to Perfect a Security Interest in Intangible Transition Property.

This Form A is filed to give notice of a Transfer of an Interest in Intangible Transition Property to an Assignee.

Heaven May King
Beneficiary Trustee
PECO Energy Transition Trust

Cheryl L. Laser
Name:
Title:
The Bank of New York

DOCKETED
MAR 26 1999

CHERYL L. LASER
Assistant Vice President

Form A
Intangible Transition Property Notice

RECEIVED
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PA.P.U.C.
SECRETARY'S BUREAU

General Docket Number: M-00970937

Name of Grantor or Assignor: PECO Energy Company

Address of Grantor or Assignor: P.O. Box 8699, Philadelphia, PA 19101

Name of Financing Party or Assignee: PECO Energy Transition Trust

Address of Financing Party or Assignee from which Information concerning the Security Interest or Transfer in Interest Intangible Transition Property may be obtained:

c/o First Union Trust Company, National Association, One Rodney Square, 920 King Street, Wilmington, DE 19801

This Intangible Transition Property Notice covers the Intangible Transition Property arising from the following Qualified Rate Order:

Commission Docket Number: R-00973953

Date of Entry: May 14, 1998

State whether the Intangible Transition Property Notice relates to all the above Qualified Rate Order and the amount of Intangible Transition Property arising therefrom, or only to a portion of such Order or Amount:

X All Portion

DOCUMENT FOLDER

If "Portion" is checked, state either:

The Portion of the Qualified Rate Order to which this Notice relates (by reference to the applicable section(s) or paragraph(s) of the Order:

OR

The Amount of the Intangible Transition Property to which this Notice relates (in comparison to the Total Amount of such property);

\$ of a Total of \$

Check one:

This Form A is filed to Perfect a Security Interest in Intangible Transition Property.

X This Form A is filed to give notice of a Transfer of an Interest in Intangible Transition Property to an Assignee.

J. Barry Mitchell
Vice President-Finance and Treasurer
PECO Energy Company

George Shicora
Beneficiary Trustee
PECO Energy Transition Trust

DOCKETED
MAR 26 1999