
Memorandum

DATE: September 9, 2010

TO: The Honorable Joseph Preston, Jr., Chairman
The Honorable Robert W. Godshall, Republican Chairman
The Honorable Members
Pennsylvania House of Representatives
Consumer Affairs Committee

FROM: Thomas V. Chiomento, III
Exelon Generation, LLC

SUBJECT: House Bill 2619

Exelon Generation appreciates the opportunity to submit written comments to the Consumer Affairs Committee concerning this important legislation that is intended to further advance retail electric competition in Pennsylvania.

Exelon Generation is headquartered in Kennett Square, Pennsylvania and is one of the world's largest power producers and wholesale marketers of electricity. Exelon Generation has access to more than 31,000 megawatts of electricity and is heavily invested in low-carbon nuclear energy, operating the largest nuclear fleet in the nation.

In addition to being one of the nation's largest wholesale electricity companies, Exelon Generation's subsidiary, Exelon Energy, markets electricity to retail electric customers in Pennsylvania and Illinois.

Exelon Generation is a vocal and staunch advocate of competitive electricity markets at both the wholesale and retail levels. We are supportive of municipal aggregation generally as a way to provide the multiple benefits of retail choice to customers who have not actively shopped for an Electric Generation Supplier (EGS). We also believe, however, that municipal aggregation programs must be structured in such a way to ensure the competitiveness of the aggregation service while also protecting the existing and well functioning procurement processes for default service customers.

As such, we are very interested in House Bill 2619, which authorizes municipalities working individually or together to aggregate the electric demand of customers in their territory who are receiving default service from an electric distribution company (EDC). Under this legislation, municipalities would combine the demand of these customers and seek competitive offerings from EGSs.

While the current retail market is strong in Pennsylvania and continues to grow, House Bill 2619 represents a unique opportunity to further the goals of electric restructuring, which Exelon Generation strongly supports. However, there are several elements of House Bill 2619 that we encourage the Committee to examine in more detail as the bill moves through the legislative process.

First, the negative impact that municipal aggregation could have on existing default service if not structured properly must be considered. The current utility processes used to procure electricity for customers who are not being supplied by an EGS (default service) have been fully vetted through legislative and regulatory bodies. The wholesale suppliers who participate in those procurements are largely responsible for the risk associated with the supply needs changing because of decreased demand. If large numbers of customers leave utility default service under a municipal aggregation program, winning suppliers of the utility procurements could suffer significant financial harm. While suppliers who participate in the procurements consider all risks and price their offers accordingly, municipal aggregation didn't exist when current suppliers made their bids. As a result, the risk of mass customer migration occurring over a very short period of time was not anticipated and appropriately priced into bids.

To allow those suppliers to suffer significant financial harm based on a post facto change in law would not only be inequitable, it would harm the competitiveness of future utility procurements and increase the default service price for consumers overall. Suppliers may be reluctant to participate in future procurements at all if they know they could be harmed again by unforeseen risks caused by further changes in law. Even if they elect to participate, they will likely include a significant risk premium to protect against such unforeseen risks, causing the default service price to be artificially high. **The transition to full implementation of municipal aggregation must be phased-in to protect those suppliers, the competitiveness of future procurements, and the price of ongoing default service rates.**

Second, Exelon Generation believes that **the procurement for aggregation service must be fully competitive and the winning bids should be selected based on price alone without regard for generation source, location, vintage, or technology.** Avoiding preferences for specific generation resources enhances the competitiveness of the aggregation procurement and ensures that consumers will get the most competitive price.

In closing, Exelon Generation believes municipal aggregation could provide a new and valuable tool to bring the benefits of retail choice to more Pennsylvania consumers. We applaud the Consumer Affairs Committee for demonstrating a strong commitment to furthering the goals of electric choice and we hope you will consider the proposals we have identified.