

Testimony of Marjorie R. Philips

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On Behalf of PSEG Power LLC and PSEG Energy Resources
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Public Hearing on Municipal Opt-Out Aggregation

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Good morning. My name is Marji Philips, and I am the Managing Director, Market Development, for PSEG Energy Resources & Trade LLC ("PSEG ER&T"). I am speaking today on behalf of PSEG Power LLC. PSEG Power is a wholesale energy supply company that integrates its generation asset operations with its wholesale energy, fuel supply, energy trading and marketing, and risk management functions through three principal subsidiaries: (i) PSEG Nuclear LLC ("PSEG Nuclear"), which owns and operates nuclear generating stations; (ii) PSEG Fossil LLC ("PSEG Fossil"), which develops, owns, and operates domestic fossil-fuel fired and other non-nuclear generating stations; and (iii) PSEG ER&T.

PSEG ER&T sells power and energy and certain ancillary services at market-based rates. PSEG ER&T markets the capacity and production of PSEG Nuclear and Fossil's generating stations, some of which are located in Pennsylvania. PSEG ER&T is engaged in extensive asset-based energy trading operations and is an active and successful participant in wholesale procurement programs such as New Jersey's Basic Generation Service auction and Pennsylvania's Provider of Last Resort, or POLR program.

The purpose of our testimony is very limited. We do not oppose allowing municipalities the right to opt out of POLR service and the right of individual customers or the municipality as a whole to return to POLR service, although we think there are some consequences to that approach. Our primary purpose in speaking here today is to urge you to include in the legislation an implementation date that will not impact those contracts already executed under the PPL and PECO POLR programs. While it is clearly in our economic interest that you do so, I want to explain why it is in consumers' best interest as well.

Electricity market participants such as ourselves must choose which markets and POLR programs they will participate in, and of course,

the more the participants, the more competitive the outcomes are likely to be, which is good for consumers. How do we choose which programs to participate in? One of the most critical features is regulatory stability – whether the legislators and regulators with jurisdiction over the utility procuring wholesale power honor contractual arrangements or have they imposed new laws and regulations that will undermine the basic bargain on which the POLR procurement and executed contracts were premised.

You may be aware of an incident a few years ago involving Pike County's procurement of power at a wholesale auction and then leaving the supplier for another supplier offering a discount off of the POLR price. The PA PUC sanctioned this action, which may have appeared right in the short term because customers got an immediate discount, at the expense of the supplier losing a lot of money having purchased the supply no longer needed. But in the long term, that outcome was very harmful to Pike County consumers. Why? If Pike County goes out to procure power again through a competitive process, participants will put in a significant premium to serve the county because of the regulatory risk that neither the county nor the PA PUC will honor the contracts and lose money as a result.

So we strongly urge you today to ensure that this legislation respect the regulatory construct under which existing POLR contracts were executed by having an implementation date no earlier than June 1, 2013. By so doing this, you will reinforce that Pennsylvania is a state that recognizes the need to provide regulatory stability, which in turn will be perceived as extremely attractive place to invest in for market participants such as ourselves. And you will have guaranteed the people of Pennsylvania that, in the long term, they will receive the best pricing terms through a vibrantly competitive POLR procurement.

Thank you for allowing me the opportunity to share our concern and recommendation with you.