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COMMONWEALTH OF PENNSYLVANIA
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INDEPENDENT REGULATORY
REVIEW COMMISSION

July 18, 2007

The Hon. Arthur Coccodrilli, Chairman
Pennsylvania Independent Regulatory Review Commission
333 Market Street, 14th Floor
Harrisburg, PA 17101

Re: Default Service Regulations
IRRC Docket No. 57-237

Dear Chairman Coccodrilli:

As the newest member of the Pennsylvania Public Utility Commission (Commission), I have not had the opportunity to be involved in the development of the Commission's Default Service Regulations (Regulations). I am writing today to express my personal view that the Regulations should be disapproved as failing to provide for and to encourage the procurement of competitively priced power under long-term bilateral contracts. In my view, long-term contracts are critical to ensuring that power will be available to Pennsylvania's customers at stable and reasonable prices after the expiration of the rate caps.

The Regulations essentially restrict the interpretation of the term "prevailing market prices" to "prevailing short-term market prices." This overly narrow view of what constitutes the "market" precludes what may be the most important mechanism available to Pennsylvania to ensure the procurement of the lowest cost source of power for Pennsylvania customers. Disallowing long-term contracts in the name of preserving a competitive market perversely would eliminate an option that otherwise would be available in a truly competitive market.

The Regulations fail to recognize that there has been, and with a properly designed program can continue to be, a robust market for power procured under long-term arrangements. From 1986 through 1991, electric utilities in Pennsylvania entered into numerous long-term power purchase agreements (PPAs) with independent power producers. These long-term PPAs provided the basis for the construction of new capital-intensive generating units, which have operated reliably at capacity factors in excess of 90% and otherwise have abided by the requirements of their PPAs. Additional capital-intensive generating units will be needed in Pennsylvania, and long-term PPAs are needed to encourage their development.

For these reasons, it is my firm belief that the Commission's Regulations, though well intentioned, should be disapproved because they fail to explicitly acknowledge and encourage the use of long-term bilateral PPAs by Pennsylvania's default service providers.

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I appreciate the opportunity to provide these comments, which I stress represent my personal views and not those of the Commission.

Very truly yours,



Tyrone J. Christy
Commissioner

cc: Alvin C. Bush, Vice Chairman
David M. Barasch, Commissioner
David J. DeVries, Commissioner
John F. Mizner, Commissioner
Kim Kaufman, Executive Director
Fiona E. Wilmarth, Director of Regulatory Review
Scott R. Schalles, Regulatory Analyst