

- Policies to Mitigate Potential Electricity Price Increases; Docket No. M-00061957; Tentative Order entered February 13, 2007 (“Mitigation Order”).

Comments to the Rulemaking and the Policy Statement are due March 2; comments to the Mitigation Order are due March 5, 2007.

In the Policy Statement (at 2), the Commission explains that the three orders constitute a comprehensive strategy and should be reviewed together.

“This policy statement, coupled with the default service regulations, and the order on electricity price mitigation, represents a comprehensive strategy for addressing retail rates in the context of expiring rate caps. We recommend that interested parties review all three documents in formulating their comments.”

The Rulemaking and the Policy Statement generally address the same issues, but from different perspectives. In the Policy Statement (at 2), the Commission explained the nature of each and the relationship between them as follows:

“Accordingly, the Commission determined that some elements of the default service regulatory framework would be best addressed in the context of a policy statement that provides guidance to the industry as opposed to strict rules. A policy statement is more readily subject to change, and can provide needed flexibility to the Commission and market participants in the context of default service as energy markets continue to develop.”

Although related, these orders were entered in different dockets. Accordingly, PPL Electric Utilities Corporation (“PPL” or the “Company”) will file separate comments to each order.

The background of each of these proceedings is lengthy and complex. The Commission sets forth a comprehensive summary of that background in each of its orders. PPL Electric will not reiterate that summary here. However, the Company will note that it has fully participated in all aspects of these proceedings and looks forward to continued involvement as they move toward final resolution.

In this filing, PPL Electric provides its comments to the Policy Statement. The Company commends the Commission for initiating this difficult and complex proceeding and for carefully evaluating the input of all stakeholders as it moves toward promulgation of final regulations. At the outset, it is important to note that PPL Electric agrees with the majority of the Commission's proposals in this proceeding. However, the Company believes that several modifications or clarifications would be appropriate and directs its comments to those issues. To facilitate review by the Commission and other stakeholders, the following comments track the organization of the Commission's Policy Statement.

2. Comments

§ 69.1801. Statement of Scope.

PPL Electric has no comments to this section of the Policy Statement.

§ 69.1802. Statement of Purpose.

PPL Electric agrees with the approach devised by the Commission under which regulations codified at Chapter 54 will serve as a general framework for default service and this Policy Statement will provide guidelines on those matters where flexibility is required. Such an approach is appropriate at this time when

wholesale markets, retail markets and federal regulation are all evolving. However, as markets mature and federal regulations become more settled, the PUC should be able to reduce the number of issues addressed in this Policy Statement and address default service issues primarily through regulations codified in Chapter 54.

§ 69.1803. Definitions.

PPL Electric believes it is critical to future implementation of the Rulemaking and the Policy Statement that the definitions in each document are identical. To that end, PPL Electric recommends in this docket, and in its comments to the Rulemaking, that the Commission modify the definition of: (1) competitive bid solicitation process, (2) default service, (3) default service provider, and (4) prevailing market prices.

Competitive Bid Solicitation Process – In the definition of this term, the Policy Statement adds “lowest” before bids at the end of the definition. This adjective does not appear in the definition set forth in the Rulemaking. PPL Electric believes that specifying that a Default Service Provider (“DSP”) will award contracts to the “lowest” bidder removes uncertainty regarding future implementation of the Policy Statement and the Rulemaking. Such a statement makes clear, that after bidders have met all applicable qualification criteria, price will be the sole determinative basis on which contracts for electric generation supply will be awarded. Accordingly, the Company recommends that the Commission modify the definition of this term in the Rulemaking to be consistent with the definition in the Policy Statement.

Default Service – As written, this definition appears to set forth two separate independent definitions of default service. This is not correct because

default service must meet both criteria set forth in the definition. Accordingly, PPL Electric recommends that the two subparagraphs of this definition be combined into a single definition.

Default Service Provider – The definition in the Rulemaking uses the phrase “Commission approved alternative supplier of electric generation service” to define the DSP if it is not the incumbent Electric Distribution Company (“EDC”). The definition in the Policy Statement defines this entity as a “Commission approved alternative default service provider.” PPL Electric believes that the definition in the Policy Statement is somewhat circular. That is, it defines default service provider using the term default service provider. The definition in the Rulemaking avoids this problem and more closely tracks the language used in Section 2807(e)(3) of the Electricity Generation Customer Choice and Competition Act (“Competition Act”), i.e., “Commission-approved alternative supplier.” Accordingly, PPL Electric recommends that the Commission modify the definition in the Policy Statement to be consistent with the definition in the Rulemaking.

Prevailing Market Prices – This definition should be expanded to recognize that, at any point in time, the wholesale market includes many electric generation supply products (e.g., capacity, block energy, load shaped energy, load following energy, full requirements service) available over many time periods (e.g., short-term, medium-term and long-term). The price for each of these different products over the agreed-upon term is a prevailing market price at the time the generation supply is purchased.

§ 69.1804. Default Service Program Terms and Filing Schedules.

PPL Electric agrees with the Commission's approach in this area. Given the uncertainties in both the wholesale and retail markets, it seems appropriate to limit default service program terms to two or three years. In addition, the Company agrees with the statement that initial programs may vary from this standard to comply with the applicable Regional Transmission Organization ("RTO") planning year. Because many elements of a default service procurement plan will be based on criteria derived from RTO data, e.g., registered maximum peak load, it makes sense to coordinate these schedules. PPL Electric is a member of PJM; the PJM planning period begins June 1 each year. However, the Company's generation rate cap was set on a calendar year basis and expires December 31, 2009. To align its default service procurement plan with the PJM planning period, PPL Electric will need an initial term for its plan of 29 months, within the two to three year range discussed in this section. Finally, the Company agrees that the Commission should re-visit this issue based on future market developments.

§ 69.1805. Electric Generation Supply Procurement.

This section of the Policy Statement indicates that a procurement plan should balance two goals: (1) development of a competitive retail supply market, and (2) minimize the risk of over-reliance on any particular source. PPL Electric does not have any objection to these overall goals for a procurement plan. However, as indicated in its comments to § 54.186 of the Rulemaking, the Company does not agree with the addition of any other criterion such as "lowest reasonable long-term cost."

PPL Electric is concerned that this section places unnecessary restrictions on the use of long-term contracts. A literal reading of this section could lead to the conclusion that long-term contracts can be used only where necessary to comply with the requirements of the Alternative Energy Portfolio Standards Act (“AEPS Act”). However, under some circumstances, long-term contracts may be the lowest cost source of generation supply or may provide the best mix of generation sources. PPL Electric believes that use of long-term contracts should be evaluated on a case-by-case basis. Accordingly, PPL Electric recommends that the Commission delete the restrictions in this section on the use of long-term contracts. In the alternative, if the Commission is concerned about over-reliance on long-term contracts, PPL Electric recommends that the Policy Statement set an upper limit on the portion of generation supply that can be acquired through such arrangements (e.g., 15%) and allow the DSP to manage its supply portfolio to that limit. In addition, as discussed in PPL Electric’s comments to the Rulemaking, the Commission should approve each DSP’s default service program – including the use of long-term contracts – with no possibility of an after-the-fact review.

The Commission has recommended that default service supply should be split into three customer groupings based on maximum registered peak demand. The first customer group includes residential and non-residential customers with less than 25 kW in maximum registered peak load. The second customer group includes non-residential customers with a maximum registered peak load between 25 kW and 500 kW. The last customer group includes all non-residential customers with greater than 500 kW in maximum registered peak load. PPL Electric agrees the customers

should be divided into three categories: (1) residential, (2) small commercial and industrial, and (3) large commercial and industrial. However, the Company believes these customer classes should not be divided based on an arbitrary peak demand designation. Under PPL Electric's retail tariff, the recommended customer groupings cut across a number of rate schedules, dividing the rate schedules into more than one group. This result could lead to customer confusion and dissatisfaction. If a customer's registered peak demand changes, it could result in reassignment from one customer class to another. When that reassignment would occur and how the customer would be notified are all difficult implementation issues. PPL Electric proposes that the Commission allow each DSP to develop its own customer class designations based upon the unique circumstances of its retail tariff and customer demographics. The Commission could review the customer class designations as part of its review of the DSP's default service program.

§ 69.1806. Alternative Energy Portfolio Standard Compliance.

PPL Electric has no comments to this section of the Policy Statement.

§ 69.1807. Competitive Bid Solicitation Processes.

PPL Electric agrees in general with the proposed guidelines for the competitive bid solicitation process. However, the Company has several concerns with implementing those guidelines. The Company believes the use of standardized request for proposal documents and supplier master agreements that are approved by the Commission will result in a very competitive bid solicitation. However, with the Commission allowing a wide range of bid solicitation approaches, from sealed bid to

real time auction, standard agreements may not be practical. Another potential concern with standard agreements involves whether the DSP is the Load Serving Entity (“LSE”) with the RTO or if the supplier becomes the LSE, which can cause substantial differences in the agreements.

§ 69.1808. Default Service Cost Elements.

PPL Electric agrees with the Commission’s statement that “[t]he PTC should be designed to recover all generation, transmission and other related costs of default service.” The Company also agrees that generation-related costs should not remain in distribution rates. However, PPL Electric has two concerns regarding the Commission’s proposal to review distribution rates for the purpose of identifying generation-related costs.

The first concern is proper identification of those costs. Of course, some costs can be assigned directly to the default service function or the distribution function. For example, the cost of administering a generation supply procurement plan clearly is a cost of default service. Similarly, the cost of maintaining distribution facilities clearly is a cost of the distribution function. The problem arises with the cost of functions that may support both default service and delivery service. One example could be billing and collections. If a customer selects to receive a single bill, the EDC must bill for both default service and delivery service. To the extent a portion of those costs are allocated to the PTC, the EDC’s revenue will vary with the level of shopping. But the EDC’s costs for billing and collections do not vary with the level of shopping. Unless the PTC is fully reconciled, this approach may create a “stranded cost” exposure for the EDC.

The second concern is the timing of the allocation of costs between default service and delivery service. The Policy Statement establishes December 31, 2007 as a deadline for each EDC to initiate a case making such allocations. However, the generation rate caps remaining in effect in Pennsylvania do not end until December 31, 2009 or December 31, 2010. As the Commission notes in the Policy Statement, changes in rates resulting from this allocation effort would take effect after the expiration of these caps. It seems appropriate to allow each EDC to file an allocation proposal closer to the end of its generation rate cap. Accordingly, PPL Electric recommends that the Commission give each EDC the option of including this cost allocation study as a part of its default service program which must be filed no later than 15 months prior to the conclusion of the existing generation rate caps.

§ 69.1809. Interim Price Adjustments and Cost Reconciliation.

PPL Electric strongly agrees with the Commission's conclusion that default service costs and revenues should be reconciled as part of the PTC adjustment process. As the Commission states, "[r]econciliation would ensure that DSPs fully recover their actual, incurred costs without requiring customers to pay more than is required." The Company believes that this result is required by Section 2807(e)(3) of the Competition Act, which specifically mandates that the DSP shall recover fully all reasonable costs. The only way to ensure full cost recovery as required by the Competition Act is the use of an automatic adjustment clause with a reconciliation mechanism. Accordingly, PPL Electric supports the Commission's conclusion in § 69.1809 that a DSP's automatic energy adjustment clause

established for recovery of default service costs should include a reconciliation mechanism.

The Company also agrees with the Commission's proposal that that the DSP include an interim reconciliation mechanism. Most of the automatic adjustment clauses in the Company's retail tariff currently include mechanisms for such interim adjustments. Although PPL Electric seldom has proposed interim adjustments, it is appropriate to include such a mechanism to avoid the potential for excessive quarterly reconciliation adjustments.

§ 69.1810. Retail Rate Design.

PPL Electric has no comments to this section of the Policy Statement.

§ 69.1811. Rate Change Mitigation.

PPL Electric agrees with the Commission's proposal to afford customers an option to defer or prepay some portion of a rate increase greater than 25% following the expiration of a generation rate cap. The details of any rate change mitigation proposal are critical and the Company believes the Commission's Policy Statement establishes the correct parameters for such a mechanism. Rate change mitigation should not be available for any change in retail rates, but only an increase of more than 25% "following the expiration of a generation rate cap due to wholesale energy prices." However, the Commission should clarify that the 25% will be determined on a system basis or, in the alternative, on a customer class basis. Customers should not be enrolled in or assigned to such a program without their affirmative consent, which commonly is referred to as an "opt-in" option. Finally,

DSPs must be able to fully recover reasonable carrying costs associated with any deferral program (including associated administrative cost). Otherwise, DSPs would be forced to finance the deferrals without compensation for the time value of money. Such a result would be unfair and would impose a financial burden on the DSP, perhaps a significant burden if a large number of customers elected to defer a substantial rate increase for the full three years.

§ 69.1812. Information and Data Access.

§ 69.1813. Rate Ready Billing.

§ 69.1814. Purchase of Receivables.

§ 69.1815. Customer Referral Program.

§ 69.1816. Supplier Tariffs.

§ 69.1817. Retail Choice Ombudsman.

Section 69.1812 through Section 69.1817 identify a number of initiatives that the Commission concludes would serve the public interest or, in the alternative, that consideration of them would serve the public interest. All of the initiatives identified by the Commission in these sections should support the continued development of retail competition in Pennsylvania. PPL Electric strongly supports the development of those markets and agrees that properly addressing the various issues enumerated in these sections would be in the public interest. PPL Electric's principal concern is that the solutions to these issues must be reasonable, appropriate and fair to all stakeholders. The Company looks forward to working with the Commission and other interested parties to develop such solutions.

3. Conclusion

As stated above, PPL Electric agrees with the majority of the Commission's proposals in this proceeding. However, as discussed in the foregoing comments, the Company believes that several modifications and clarifications would be appropriate. Accordingly, PPL Electric respectfully requests that the Commission modify its proposed Policy Statement consistent with the Company's comments.

Respectfully submitted,

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at Allentown, Pennsylvania