

VIA FEDERAL EXPRESS

November 3, 2011

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Investigation of Pennsylvania's Retail Electricity Market: Recommended Directives
on Upcoming Default Service Plans
Docket No. I-2011-2237952**

Dear Secretary Chiavetta:

Enclosed for filing on behalf of PPL Electric Utilities Corporation and PPL EnergyPlus, LLC are an original and five (5) copies of their joint comments to the Tentative Order entered on October 14, 2011, at the above-captioned docket. A copy of these comments also has been submitted to the Office of Competitive Market Oversight Retail Markets Investigation inbox at ra-RMI@state.pa.us.

If you have any questions regarding the enclosed comments, please call me at (610) 774-4254.

Very truly yours,

A handwritten signature in black ink that reads "Paul E. Russell". The signature is written in a cursive, flowing style.

Paul E. Russell

PER/skr
Enclosures

cc: Matthew A. Wurst
Stephanie Wimer, Esquire

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NOV 03 2011

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation of Pennsylvania's : Docket No. I-2011-2237952
Retail Electricity Market: :
Recommended Directives on :
Upcoming Default Service Plans :
Tentative Order entered October 14, 2011 :

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**Comments of
PPL Electric Utilities Corporation
PPL EnergyPlus, LLC**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

1. Introduction

On April 29, 2011, the Pennsylvania Public Utility Commission ("PUC" or the "Commission") entered an Order initiating an investigation "with the goal of making recommendations for improvements to ensure that a properly functioning and workable competitive electricity market exists in the state." Investigation of Pennsylvania's Retail Electricity Market, Docket No. I-2011-2237952, Order entered April 29, 2011 ("April 29 Order"). The April 29 Order specified that the investigation would proceed in two distinct phases. The first phase was designed to assess the status of the current retail electricity market and explore what changes need to be made to allow customers to best realize the benefits of competition. The first phase consisted of an opportunity to provide written comments by June 3, 2011 and an en banc hearing that was conducted on June 8, 2011. After review of both the written

comments and the comments conveyed during the en banc hearing, the Commission issued an Order initiating the second phase of the investigation. Investigation of Pennsylvania's Retail Electricity Market, Docket No. I-2011-2237952, Order entered July 28, 2011 ("July 28 Order"). In the July 28 Order, the Commission directed its Office of Competitive Market Oversight ("OCMO") to hold technical conferences to address issues pertaining to the competitive market and to present specific proposals for changes to the existing retail market and default service model. The subject Tentative Order sets forth OCMO's recommendations as to how electric distribution companies ("EDCs") should develop the format and structure of their upcoming default service plans. The Tentative Order states that the Commission has considered OCMO's recommendations and has tentatively adopted them subject to the filing of comments from stakeholders and interested parties.

PPL Electric Utilities Corporation ("PPL Electric") is a "public utility" and an "EDC" as those terms are defined under the Public Utility Code, 66 Pa.C.S. §§ 102 and 2803, subject to the regulatory jurisdiction of the Commission. PPL Electric furnishes electric distribution, transmission, and default service provider ("DSP") electric supply services to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania.

PPL EnergyPlus, LLC ("PPL EnergyPlus") is an "electric generation supplier" ("EGS") as that term is defined under the Public Utility Code, 66 Pa.C.S. § 2803. PPL EnergyPlus has been licensed to provide competitive electricity supply in

Pennsylvania since the industry was restructured in 1998. In these comments, PPL Electric and PPL EnergyPlus are referred to as the "PPL Companies" or the "Companies."

PPL Electric, PPL EnergyPlus, their parent PPL Corporation, and their predecessors are and have been active supporters of both wholesale and retail electricity competition and the development of customer choice within the Commonwealth. The PPL Companies appreciate the opportunity to participate in this investigation. Because they participate in the Pennsylvania retail electric market as both a regulated EDC and a competitive EGS, the PPL Companies believe that their comments will provide the Commission with a broad and balanced perspective as it moves forward with this investigation.

In this filing, the PPL Companies first provide (in Section 2) general comments. In Section 3, the PPL Companies provide their responses to the specific issues raised under each of the Tentative Order's headings. In the interest of clarity, these comments are organized under the headings used in the Tentative Order.

2. General Comments

The PPL Companies have been and continue to be enthusiastic proponents of retail electric competition in Pennsylvania. The Companies support the Commission's efforts, through this and other proceedings, to create a robust competitive retail market in Pennsylvania. To that end, we support improvements that fundamentally enhance the competitive model, but have reservation concerning proposals that may be cosmetic, or which may introduce distortions into the market. The Companies also believe it is essential that any changes that are to be introduced

are implemented from a reasonable set of expectations and with care so that the potential for negative impacts on the markets and, specifically, on customers is minimized. In addition, the Companies believe that the Commission must recognize that full cost recovery for any enhancements EDCs are directed to undertake is proper ratemaking and is explicitly required by the Public Utility Code.

Finally, the Tentative Order, at least in the PPL Companies' view, is not entirely clear as to whether the final order in this proceeding will take the form of suggested recommendations or mandated requirements. The Tentative Order (p. 3) first characterizes the various proposals as "recommendations" from the OCMO and states that it "tentatively adopts" these recommendations, subject to reviewing comments by interested parties. The Tentative Order (p. 4) also states the recommendations are intended to provide EDCs with the flexibility to craft default service plan filings in a manner which seems appropriate. Moreover, as to many of the specific items addressed in the Tentative Order, the Commission concludes by recommending that EDCs take certain steps or make certain proposals in their next default service plans. However, the Tentative Order is not clear as to what form these recommendations will take in any final order issued in this proceeding, and specifically, whether they will become requirements at that time. Given the nature of the proposals and their intentional lack of specificity and detail, the PPL Companies believe that any proposals in a final order should be clearly characterized as recommendations and guidance and not as formal requirements. In the event that the Commission does establish formal requirements, those requirements should apply in as uniform a fashion as possible to all EDCs.

3. Specific Comments

Default Service Plan Time Period

The Tentative Order recommends that EDCs file default service plans that run for two years after the scheduled expiration of their current Commission-approved plans. The Tentative Order further recommends that such plans continue to synchronize with the PJM Planning Year which runs from June 1 of each year to May 31 of the subsequent year. The Tentative Order states that it is the Commission's belief that such an approach will provide a reasonable time period to allow for implementation of any long-term changes that may be proposed in the Investigation.

The PPL Companies support the Commission's objective of attempting to accommodate potential changes in the default service paradigm with a minimum of disruption to existing plans and contracts. The Tentative Order acknowledges (in the section titled "Energy Contract Durations") that contracts may extend past the end date of default service plans – both existing plans and plans that may be filed in the future. PPL Electric's current plan ends May 31, 2013, but includes supply contracts (both existing contracts made pursuant to the plan and new contracts yet to be made under the plan) that extend beyond that date. PPL Electric's current Commission-approved plan includes a block energy purchase for residential customers under an existing 10-year contract that extends to May 31, 2021; another block energy purchase for residential customers under an existing 5-year contract that extends to December 31, 2015; and existing 24-month full requirements contracts for both residential and small industrial and commercial that extend to August 31, 2013 and

November 31, 2013. In addition, PPL Electric's current Commission-approved plan includes future 12-month full requirements contracts that will extend to February 28, 2014; future 24-month full requirements contracts that will extend to February 28, 2015; and future 12-month block purchases that will extend to February 28, 2014.

The PPL Companies interpret the Commission's recommendation (coupled with its recommendation regarding "Energy Contract Durations") to mean that new default service plans should seek to end supply contracts on May 31, 2015; i.e., two years beyond the current date of May 31, 2013. PPL Electric believes, subject to further analysis, that it can develop a default plan filing that would conform to the Commission's recommendation. Such a plan would incorporate the existing long-term block contracts as part of the portfolio and rely on "transitional" full requirements products (i.e., 3, 6, and/or 9-month products) to minimize the amount of supply contracted beyond the May 31, 2015 date.

One drawback of such a plan, however, is that it would create a clean break from the current ladder approach, and the potential impact of this approach is, at this point, unknown and undefined¹. Accordingly, in developing its next default service plan, PPL Electric will consider proposing in the plan that, in the event that no long-term changes are proposed by a certain date, the transitional products will be replaced by a supply laddering approach, as done today, but with shorter duration procurements. Decision points related to the transitional products are not likely to occur until the summer of 2014 time frame, leaving over 2 and a half years from the

¹ The Commission's Final Policy Statement at the Public Meeting of May 10, 2007 (Docket No. M-00072009) encourages default service providers to ladder contracts. (Policy Statement at 6)

date of these comments for long-term changes to be adopted, either through legislation and/or regulation.

Energy Contract Durations

The Tentative Order states that the Commission will not mandate a prescriptive portfolio of contract lengths for the next generation of default service plans. However, the Commission does provide the following recommendations:

1. The Commission recommends that EDCs file plans that limit or eliminate the existence of short term energy contracts extending past the end date of the default service plan period. As noted above, the PPL Companies concur with this approach with the caveat that plans should include the option of continuing to ladder supply if long-term changes to the structure of default service are not legislated and/or regulated by a certain date.
2. The Commission recommends that EDCs limit the proportion of long term contracts that make up their default service plan portfolio and, specifically, consider using already existing long term contracts to satisfy the long term contract mandate of Act 129. As noted above, the PPL Companies believe these recommendations have merit and PPL Electric will take credit for existing long term contracts in developing a balanced portfolio.

As described above, PPL Electric is giving consideration to an approach in its next default service plan that would (1) seek to limit or eliminate the existence of short term energy contracts extending past the end date of the default service plan period; and (2) use already existing long term contracts to satisfy the long term contract mandate of Act 129. The PPL Companies do, however, wish to reiterate

their belief, articulated in their June 3, 2011 comments at this docket that, in the long term, default service portfolios should be constructed of products that more closely track market conditions.

Retail Opt-In Auction

The Tentative Order states, "(T)he Commission recommends that EDCs incorporate an opt-in auction program within their default service plans." As stated in the Tentative Order, it is the Commission's view that such programs can help increase customer awareness for shopping opportunities, provide customers with direct benefits, and instill peace of mind for customers through potential standard offer requirements. The Commission does not propose a specific format for such auctions, but recommends that EDCs use, as a starting point, the format being discussed by the stakeholder sub-group that is part of this Investigation.

PPL Electric is an active participant in the stakeholder sub-group referenced in the Tentative Order, and the PPL Companies acknowledge that such an auction has the potential to achieve the stated objectives. The PPL Companies note, however, that customers in the PPL Electric service territory have embraced shopping in significant numbers and that such an auction might actually be a disruptive influence to those customers, and engender little new shopping. The PPL Companies have, thus far, identified the following concerns:

1. Depending on the final design of the program and customer eligibility, shopping customers may choose to leave existing supply agreements in order to take advantage of short-term inducements. The result would simply be the

re-enrollment of existing customers with less net gain in the number of shoppers than might otherwise be thought.

2. Depending on the nature of the offer available to opt-in participants after the inducement period, participants may simply return to default service if that offer is not attractive or involves significant uncertainty.
3. Proposals discussed within the sub-group and during the Investigation have included inducements as large as \$150 for residential customers in addition to either guaranteed savings relative to the default price or a price not to exceed the default service price. In the PPL Electric service territory, the lowest current competitive residential offer is only about 0.42 cents/kwh below the price to compare. At that small differential, only residential customers who consume more than 3,000 kwh/month (about 1.5% of the customer population) can expect to save as much as \$150 in a year. Stated differently, current pricing suggests that, in the current market, EGSs can make money and provide customers a saving of \$150 over a year only if the customer is a very large consumer. It is acknowledged that the opt-in auction has the advantage of allowing EGSs to avoid some customer acquisition costs and that those savings can be put toward the upfront payment. Nevertheless, the magnitude of the inducement relative to the revenue likely to be gained from an average-sized customer raises the concern that this approach may actually harm the market by allowing only those EGSs with the financial ability to “buy market share” to remain in the market. This concern is magnified by the fact that (1) forecasts generally point to rising market prices for both energy and capacity

and (2) PPL Electric's default service is a blend of procurements made over time; some of which carry with them relatively low costs.

4. PPL Electric's default service portfolio includes a significant amount of low-priced block energy. As a consequence, when residential customers shop, a greater percentage of this low-cost power is available to the remaining default service customers. PPL Electric has performed an initial analysis which indicates that the migration of 100,000 residential customers would reduce the price-to-compare from 8.411 cents/kwh to 8.274 cents/kwh, thereby, putting more financial pressure on an EGS attempting to maintain guaranteed savings to an auction participant, or providing an incentive for customers to exit the program as soon as they can claim their upfront inducement.

The PPL Companies believe that the Commission should consider the possibility of not adopting an opt-in auction program and recommend a referral-type program as a better approach.

Furthermore, the PPL Companies see very little value in conducting a pilot program for an auction of this type. The logistics of such an auction seem straightforward and, unless the pilot is going to include an assessment of post-inducement period behaviors, there is very little to be learned. The PPL Companies further believe that, if an auction or pilot is to be conducted, such auctions or pilots should consider the impact on any existing supply contracts. In the PPL Electric service territory, the last contracts executed without knowledge that an opt-in auction might exist were contracts whose supply begins on September 1, 2011 and extend to August 31, 2013.

Finally, the PPL Companies believe that the costs of any auction or pilot should be paid by the EGSs that participate in and are beneficiaries of the auction.

Referral Program

The Tentative Order states that it is the Commission's recommendation that EDCs' next default service plan incorporate a referral program. As stated in the Tentative Order, it is the Commission's view that such programs can be viewed as a spectrum of programs. On one end are programs that simply advise customers of the potential benefits of shopping for electricity and may direct customers to the Commission's PowerSwitch website. At the other end, an EDC customer representative could offer enrollment assistance; even to the point of enrolling customers in standard competitive offerings as is done in other states (notably New York). The Commission does not propose a specific format for such a program, but recommends that EDCs use, as a starting point, the format being discussed by the stakeholder sub-group that is part of this Investigation.

The PPL Companies believe that referral programs, which generally take advantage of a contact initiated by the customer, have merit and PPL Electric will consider incorporating such a program into its next default service plan. In developing such a proposal, the PPL Companies believe that the following points need to be considered:

1. A referral program should be secondary to the customer's primary reason for initiating a contact; for example, if a customer is calling with a service issue, the shopping messages should in no way interfere with the resolution of the service issue.

2. There are certain customer contacts where it may be inappropriate to engage in a shopping referral; for example, a telephone call from a customer facing termination of service because of an inability to pay monthly bills.
3. The Commission should permit EDCs full and timely recovery of incremental costs associated with the conduct of any Commission-approved referral programs. However, the PPL Companies also believe that the Commission should seek cost recovery from entities other than the EDCs and their customers. The costs an EDC incurs associated with less aggressive referral approaches (such as directing customers to PowerSwitch) would necessarily be recovered from all customers. The cost of an enhanced Welcome Package that includes EGS-specific information could be defrayed by contributions from those EGSs. The cost of a New York-style referral to a standard product offered by a specific group of EGSs should be funded by the EGSs who are beneficiaries of the program.
4. Referral programs should be aimed at appropriate groups of customers on a nondiscriminatory basis.
5. New York-style referral programs should fully inform the customer as to terms and conditions in both the introductory and post-introductory period. Customers should be provided adequate opportunity to exit such programs.

Time of Use Rates

The Tentative Order states that it is the Commission's recommendation that EDCs "contemplate contracting with a retail EGS" to help satisfy their obligation

under 66 Pa. C.S. Section 2807(f)(5) to, as default service providers, provide time-of-use ("TOU") rates to customers with smart meters.

The PPL Companies reiterate their belief, stated in their June 3, 2011 comments at this docket, that, in the long term, default service should be a single, "plain vanilla" product available to each class of customers as a back-stop for those who cannot or who chose not to seek competitive supply. Furthermore, in its Order at Docket No. R-2009-2122718, the Commission raised concerns that any TOU program provided by an EDC would unfairly compete with competitive offerings. In addition, the Commission Order at Docket No. R-2010-2201138 (approving PPL Electric's 2011 TOU program) acknowledged that that program "does not come without its issues". (Order at 10) The PPL Companies believe that, under the Commission's suggested approach, the problems already observed would likely continue to exist. However, the Companies also believe that an EGS-provided TOU product may not necessarily meet the "default service" requirement of the current law.

Accordingly, the PPL Companies believe that a legislative "fix" should be developed as the best approach to comprehensively address the myriad of problems associated with default service TOU products. The Companies offer as support for this approach the fact that PPL Electric residential customers have begun to receive offers to participate in TOU programs from EGSs. In addition, PPL Electric is working with those EGSs offering such programs to simplify the EGSs' access to actual hourly usage through a less costly approach than the existing electronic data interchange transactions with the objective of reducing the complexity and back-office

costs associated with EGSs providing such programs. The Companies believe that even if legislation must be pursued in parallel with the filing and review of the next set of default service plans, the plans of those EDCs who actually have smart meters and who would be affected can be modified to accommodate legislation that has an effective date prior to the effective date of the plan.

Default Service Rate Adjustment Structure – Residential and Small Commercial

The Tentative Order states that it is the Commission's recommendation that EDCs contemplate incorporating price adjustments on a semi-annual basis instead of on a quarterly basis in their next default service plans. While the Tentative Order does not specify the rationale for such a change, it is the understanding of the PPL Companies that the intent would be to evidence a more stable environment to customers with less confusion regarding the price to compare and potential savings and, thereby, encourage a willingness among customers to shop.

PPL Electric is willing to consider various default service products, pricing terms, and reconciliation periods in its next filing. However, as noted above, the PPL Companies believe that default products should be of terms that are more reflective of the market. The objective of such an approach would be to avoid "stale" pricing of default service that can distort the economic comparison of default and competitive options. Consistent with that approach, one would want pricing terms that are consistent with those market-reflective products and those terms would likely be shorter rather than longer. The Companies also note that the longer the pricing term, the more likely it is to rely on forecasts and the greater the chance of over or under collections which introduce additional distortions. The Companies look forward to

additional insight from the Investigation as to the proper balance among default service product terms, default service pricing terms, the potential for large reconciliation balances, and the impact of all of those factors on customers' understanding and willingness to shop. PPL Electric will attempt to reflect that balance in its next default service plan.

However, regardless of the time period for price changes, it is critically important that POLR rates and costs be reconciled on an annual basis and not on a quarterly basis. The Commission required quarterly reconciliation in PPL Electric's last POLR proceeding, and this has caused a very substantial distortion in PPL Electric's POLR rates. For example, PPL Electric's Price to Compare for Small Commercial and Industrial customers increased from \$0.9766/kWh for the application period January 1, 2011 through May 31, 2011, to \$0.13028/kWh for the subsequent application period. The primary reason for this substantial increase was an under collection of supply costs incurred by the Company to supply this customer class. The Office of Small Business Advocate has filed a complaint at Docket No. C-2011-2245906 challenging these rates. That complaint remains pending before the Commission. In an attempt to address the reconciliation issues, PPL Electric has filed a Petition at Docket No. P-2011-2256365 requesting permission to implement a Reconciliation Rider and a non-bypassable Competitive Transition Rider. That petition remains pending before the Commission. However, in the first instance, annual reconciliation is critical to avoiding both upward and downward distortion of an EDC's Price to Compare.

Hourly-Priced Default Service for Medium Commercial and Industrial Customers

The Tentative Order states that it is the Commission's recommendation that EDCs contemplate expanding hourly-priced default service to the medium sized commercial and industrial class of customers. Specifically, the Commission's recommendation would be to expand hourly-priced default service from customers greater than 500 kW to customers who are greater than 100 kW. The Tentative Order describes two objectives behind this recommendation:

1. To remove from the Small Commercial and Industrial default service procurement class a group of customers who is more likely to shop and, because of its increased migration risk, causes a risk premium to be imposed on the rest of the class.
2. To encourage competitive entry and thereby encourage additional competitive offerings from EGSs.

PPL Electric has performed an initial analysis of the consequences associated with such an approach within its service territory. With respect to the customer population, PPL Electric estimates that such an approach would expand the hourly population from the current total of about 1,000 customers to a total of about 4,200 customers. Of the additional roughly 3,200 customers, 93% are currently shopping. As to the first objective, then, it is likely that at least some premium is factored into the default service bids for this procurement group in anticipation that a large number of customers may migrate back to default service. It is not possible to estimate how large that premium may be. As to the second objective, the hourly priced default service is expected to increase shopping levels in

the Commonwealth and allow for EGSs to offer more products to meet customer needs. In the service territory of PPL Electric, there appears, currently, to be little need to encourage this group of customers to shop. The situation is likely to be different in service territories where there is less shopping. However, even in PPL Electric's territory, the current robust market could be reversed as market prices move relative to fixed default service prices due to no reason other than a procurement schedule. Eliminating this type of fixed-price default plan allows the market to provide solutions to this population of customers.

In terms of logistics, PPL Electric does have meters that record and retrieve hourly usage for all of these additional 3,200 customers, but it will still need to make billing system modifications to be able to bill this potentially large number of customers on real-time hourly rates. PPL Electric will also need to reconfigure its procurement groups and that will involve additional billing system modifications. The extent of those modifications might be reduced by not including customers on rate schedules that add few customers to the total; for example, rate schedules GH1, GH2, and GS-1 which, together, account for fewer than 100 of the 3,200 additional customers. PPL Electric believes that the cost of such modifications will be significant and could be recovered either in a base rate proceeding or as a revision to its Commission-approved Smart Meter Rider. Finally, it is not clear how such a change can be introduced during a period when individual customers will be served at each instant through both existing contracts (that contemplate one grouping of customers) and new contracts (that contemplate a different grouping of customers). It may be necessary to delay such a change in procurement groups until such time

that there is a complete replacement of existing contracts with new contracts on a single date or within a single bill cycle. PPL Electric will continue to investigate the issues related to such an approach and believes it appropriate that other EDCs do the same.

Future Issues Identified Within the Investigation

The Tentative Order restates the Commission's concern that EDCs' upcoming default service plans not inhibit the ability to implement changes to the competitive market that can help foster a more dynamic and robust retail electricity environment. The PPL Companies acknowledge this concern. The PPL Companies recommend that the Commission implement Default Service Plans that allow the market to move quickly to full competition. In doing so, the Commission must recognize that full cost recovery is proper ratemaking and is explicitly required by the Public Utility Code. Moreover, the Commission should attempt to establish reasonable approaches and timelines. Such approaches and timelines can be implemented in phases as waiting for full implementation may further delay efficient market development and harm the competitive retail markets in the near term.

4. Conclusion

As stated above, the PPL Companies fully support the Commission's initiative to examine the retail market in Pennsylvania, and look forward to participating in subsequent phases of this proceeding.

Retail Market Investigation 10-11 DSPP Comments
November 3, 2011 3:29 PM

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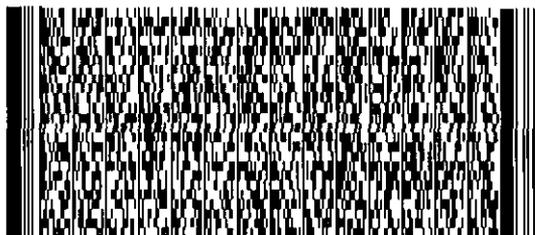
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