BEFORE THE

PENNSYLVANIA PUBLIC UTLITIY COMMISSION

Provider of Last Resort ("POLR") Roundtable

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Statement of Paul T. Champagne

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Good morning. My name is Paul Champagne. I am President of PPL EnergyPlus, LLC (or "EnergyPlus"). On behalf of PPL EnergyPlus, I am pleased to provide these comments for the Public Utility Commission's ("PUC" or the "Commission") Provider of Last Resort ("POLR") Roundtable deliberations. The form of my comments will generally follow the major categories included on the POLR ROUNDTABLE ISSUES LIST, provided by the PUC in preparation for this meeting.

Introduction

Since December of 1996 when Pennsylvania passed the Electricity Generation Customer Choice & Competition Act (Competition Act), the Commonwealth has been in transition to a competitive retail electricity market. For customers served by most larger electric distribution companies, the end of that transition period was expected to occur when prices customers pay for electricity service are no longer capped. For PPL Electric Utilities customers, that transition period is scheduled to close at the end of 2009. This is thirteen years after the General Assemble and Governor Ridge decided that a competitive marketplace would provide retail electricity in Pennsylvania. Other Pennsylvania electric distribution companies have transition periods that extend through 2011.

Pennsylvania led the nation when it passed the 1996 Competition Act. The Commonwealth should continue its leadership in moving beyond the transition period to a fully functioning, competitive retail electricity market. The form of POLR service can play a key role in the continued development of a fully functioning competitive marketplace.

Scope of POLR Service: "[T]he commission shall promulgate regulations to define the electric distribution company's obligation to connect and deliver and acquire electricity." 66 Pa.C.S. § 2807(e)(2).

Section 2807(e) of the Competition Act continues: "…3. if a customer contracts for electric energy and it is not delivered or if a customer does not choose an alternative supplier, the electric distribution company or commission-approved alternative supplier shall acquire electric energy **at prevailing market prices** to serve that customer and shall recover all reasonable costs (emphasis added)".

As noted in the Competition Act, it was anticipated that the end of the transition period would result in POLR service that was no longer capped at an artificial rate but would be based on the market cost of that service. The price components of POLR service include: energy, capacity, reserves, transmission, ancillary services, congestion, losses, scheduling, non-payment, administration, options to mitigate load following risks, and switching risk. It is imperative that POLR service is based on current prevailing market prices and actual costs for these services for true retail competition to thrive. Failure to set pricing for POLR service to capture all of these costs will significantly harm the development of retail competition.

The effect of market-based POLR service in advancing retail competition can be seen in the New Jersey electricity market. In New Jersey, large customers' POLR service falls under the Commercial and Industrial Energy Pricing (CIEP) mechanism. The New Jersey Bureau of Public Utilities December 31, 2003 switching statistics show about 56% of CIEP customers, representing 76% of the electricity usage of these large customers, are shopping. POLR CIEP service is based on real time PJM locational marginal energy prices (LMP), market prices for capacity and some ancillary services, and actual costs for transmission and other ancillary services. On the other hand, for smaller commercial and residential customers, POLR service in New Jersey is based on a fixed price including energy, capacity, transmission and ancillary service prices provided by wholesale suppliers through an auction for terms of up to three years. About 3% of residential and small commercial customers are shopping.

As New Jersey's experience demonstrates, a competitive retail marketplace for electricity is dependent on the provision of POLR service based on real-time PJM market prices for energy and certain related services and on actual costs for other components of service. This is consistent with the Competition Act directive to "acquire electric energy at prevailing market prices."

The impetus for electric competition is based on the premise that the marketplace is more efficient at setting prices and providing products and services than regulation. It is an economic reality that customers will respond rationally to prices and services offered. For example, customers may be willing to pay more for electricity if it is bundled with gas supply or internet service, or if that electricity is produced using "green" generation resources.

In today's marketplace most customers pay a flat rate regardless of when consumption occurs and what wholesale energy prices are at the time of that consumption. The prices charged are "socialized" to all customers in a particular class. There is no incentive for customers to change their usage patterns. If customers can see that they actually pay more for electricity during on-peak hours, customers may modify their usage during those on-peak hours if they believe it makes sense to do so. During times of increased electricity prices due to increased fuel prices, real time pricing provides customers with the opportunity to conserve in order to keep costs down. It also promotes demand side management products and services. This is true demand side response, not demand side response by subsidy and regulatory fiat. But such true demand side response will never develop unless customers experience real time pricing.

The environmental benefits of competition include "green" product choices for customers and more efficient use of electricity. And if public policy goals include further pollutant reduction, recent experience in emissions credit trading shows the marketplace is the most efficient means of achieving reductions. Without a true, fully priced POLR service, the marketplace will not be able to assist in bringing environmental benefits.

Regarding a potential renewable portfolio standard (RPS), Pennsylvania should do a cost-benefit study to determine whether or not it makes sense to implement such a requirement. Should the Commonwealth decide to implement a RPS, legislation may be necessary. If a RPS is legislated, competitive suppliers could be required to purchase the specified percentages of renewable energy as part of their licensing requirements. It is important that an RPS be applied equally to all those providing electricity service to customers so that the market is not distorted. It is also important that a reasonable fee be established to serve as an alternate means of compliance should the demand for renewable generation exceed the supply available. This fee should be used for incentive payments to encourage the development of renewable generation.

Qualifications for POLR: A POLR may be either an "electric distribution company or commission-approved alternative supplier." 66 Pa.C.S. § 2807(e)(3).

The encouragement of a competitive retail electricity market implies that POLR supply should include the pass-through of real-time electricity supply costs. POLR service customers, as well as all other customers, would additionally require metering, billing, customer care and reconciliation services, connection and delivery services, and maintenance and reinforcement of the delivery network. Since the distribution of electricity remains a monopoly service, connection and delivery services and maintenance and reinforcement of the delivery network are monopoly functions and should continue to be provided by an electric distribution company ("EDC").

In addition, metering, billing, customer care and reconciliation functions should be unbundled and provided by the entity most efficient and effective at providing these services. Should that entity be an EDC, that EDC should be permitted to supply these services beyond its respective service area. These services also could be procured by a state-sponsored Request for Proposal Process.

POLR Service Models

If POLR supply is based on the real-time cost of providing that service, the likely result will be that most customers will choose competitive suppliers. Fewer customers will require POLR electricity supply service.

Terms and Conditions of POLR Services: A POLR shall treat a shopping customer who returns to POLR service "exactly as it would any new applicant for energy service." 66 Pa.C.S. § 2807(e)(4).

If POLR supply is based on the real-time cost of providing that service, all customers are automatically treated exactly the same.

Full Recovery of Reasonable Costs: A POLR shall "recover fully all reasonable costs" for its POLR related services. 66 Pa.C.S. § 2807(e)(3).

If POLR supply is based on the real-time price of providing that service, all of the actual cost of providing that service would be recovered as billed.

Adjustment and Reconciliation of POLR Rates

If POLR supply is based on the real-time cost of providing that service, minimal adjustment or reconciliation of POLR rates is required. As energy, capacity, ancillary or other costs change, POLR rates will change automatically on a pass-through basis.

Default of POLR Service Provider

There is little chance for default of the POLR service provider if the price paid to the POLR service provider is the real-time cost. In addition, fewer customers would be affected since most will have chosen a competitive supplier. To further guard against POLR provider default, appropriate credit provisions for the supply of this service should be enforced.

Implementing POLR Rules/Transition Issues

In order to provide a level playing field, and to provide sufficient time to educate customers, new POLR rules should be implemented throughout the state on a date certain—to the extent possible. In 2009, PPL Electric Utilities generation rate cap expires. At that time (in 2009), real costs incurred by electric distribution companies in providing POLR service under rate caps should be fully recovered as an adder to delivery service rates. For electric distribution companies whose rate caps expire later than 2009, the new POLR rules should be implemented as their rate caps expire.

Regarding concerns about market power and reliability, the Commission currently has the power to enforce necessary rules as included in the Competition Act. Section 2809(e) of the Competition Act provides that the Commission shall impose requirements to ensure adequate reserve margins of electric supply are maintained. Further, the PJM wholesale marketplace has in place significant rules including provisions regarding reliability and market monitoring. These rules help to ensure adequate reserve margins and can help detect, prevent and correct abuses by market participants.