Discussion Document – Default Service End-State
Docket No. I-2011-2237952

Submitted by: **PPL Electric Utilities and PPL EnergyPlus (jointly)**
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Issue: **Default Service End State**
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1. Introduction

During the January 5, 2012 Retail Markets Investigation ("RMI") conference call, PUC staff solicited "discussion documents" from interested parties regarding the potential end-state design of default service within the retail electricity market in Pennsylvania. An e-mail sent to RMI participants on January 9, 2012 provided additional guidance regarding the content and structure of such discussion documents. Specifically, the guidance advised:

- Detailed technical and/or legal comments are not necessary or desirable at this time. Outlines or bullet points are preferable to lengthy narratives.
- Parties were encouraged to comment on a list of 18 subject matter areas and how they might be addressed in a particular end state design.

The following are the joint comments of PPL Electric Utilities and PPL EnergyPlus (the "PPL Companies" or the "Companies"). The discussion in Section 2 relates to the end-state the Companies believe the industry should be trying to achieve. Recognizing that certain of the specifics of that end-state are matters of law and public policy, Section 3 discusses the end-state that might be achieved under existing public policy as articulated in the Electricity Generation Customer Choice and Competition Act ("Competition Act") and as modified by Act 129 of 2008 ("Act 129"). The discussion in Section 4 identifies certain concerns that the Companies believe would need to be addressed should public policy seek to remove the default service obligation from the Electric Distribution Company ("EDC").

2. General End-State Attributes

The PPL Companies believe that the appropriate end-state for default service is the one which best supports a truly competitive market. Accordingly, the Companies' comments in this proceeding have consistently supported approaches that fundamentally enhance the competitive model and expressed caution regarding proposals that may be superficial or which may introduce distortions into the market. In a truly competitive market, customers are well

educated about the market and have a high degree of willingness to participate. Also, in such a market, to the extent that there needs to be a default service, it is not a primary generation product and its pricing is reflective of market pricing.

As the Companies stated in their comments filed at this docket on June 3, 2011,

> "Key attributes of the default service product have far more influence over customers' shopping behavior than the entity providing default service."

Accordingly, in the opinion of the PPL Companies, simply shifting default service from EDCs to Electric Generation Suppliers ("EGSs") will likely have very little impact on the competitive market. The key is that the service, whoever provides it, be properly designed so that it is compatible with and reflective of the market. At that point, whether the service is provided by an EDC or an EGS is unimportant.

The Companies recognize, however, that existing law and public policy prescribe a number of consumer protections that are to be reflected in default service. In the sections that follow, the Companies comment on the end-state that might exist under existing law and public policy as well as that which might exist under changed law and public policy.

3. End-State Under Existing Public Policy

As the PPL Companies stated in their comments filed at this docket on June 3, 2011,

> "The General Assembly was clear in its position that retail customers, particularly residential customers, should have adequate protections in the competitive markets. The Competition Act states that "electric service is essential to the health and well-being of residents . . . and electric service should be available to all customers on reasonable terms and conditions." 66 Pa.C.S. §2802. An important component of these customer protections is the Provider of Last Resort ("POLR") function under which a customer who does not obtain electric supply from an EGS can obtain electricity from a default service provider. Therefore, changes to the default service function should be carefully considered, and strike a balance between achieving the objectives of the Competition Act and establishing a robust market for those who are able and who will shop for their electricity supply." Comments at 9.

Given that the Competition Act represents current public policy on the matter, then the end-state, absent a change in public policy, is one in which customers have available to them a default service product that provides the protections described in the event the competitive market fails to provide them. Act 129 provided definition regarding how those protections would be provided

when it established, among other things, the requirement for the filing of default service plans, the requirement that a portfolio of wholesale products be reflected in default service, and the requirement that the default product reflect "least cost over time". While it is true that the Competition Act permits, after stranded costs have been recovered, default service to be provided by either the EDC or a Commission-approved alternative generation supplier, it is also clear that the service that either entity provides will need to provide the protections described in the Competition Act, meet the requirements established by Act 129, and that some level of regulation will be necessary to assure that the protections are being provided and the requirements are being met. As stated in their June 3, 2011 comments, the PPL Companies believe that this service is most logically provided by the EDCs for three reasons:

(1) EDCs are certificated and regulated by the Commission;

(2) EDCs are familiar with the regulatory processes of the Commission; and

(3) EDCs are the entities customers expect to provide adequate service.

The Companies also believe that this is the most logical approach given that the current systems and protocols which were developed during the stranded cost recovery period, assume the EDC to be the default service provider and, accordingly, return customers who leave EGS service automatically (and immediately) to the incumbent EDC. As a result, the reassignment of an EDC's default service obligations to an alternative generation supplier will require a comprehensive redesign of existing systems and protocols.

This does not mean, however, that the Companies oppose any changes to the current structure of the competitive market. As evidenced by our comments on the RMI calls and responses to the tentative orders that have been issued thus far, the Companies generally support the proposals made regarding intermediate-term enhancements and the structure of the next round of default service procurements. Accordingly, the Companies believe that an appropriate end-state under current public policy would be (1) for the EDCs to remain as the default service providers, (2) implementation of the intermediate-term enhancements, (3) on-going consumer education (beyond that which is addressed in the intermediate-term plan), (4) the implementation of smart meter related enhancements (such as off-cycle switching and enhanced data exchange), and (5) continued efforts through subsequent default service plans to create default products that are more reflective of the market.

4. End-State Under Changed Public Policy

The Companies acknowledge public policy could change in ways that could remove the EDC from the role of default provider. Because EDCs gain no financial benefit from carrying the obligation of providing default service, the Companies could support such a change provided it comprehensively addresses all elements including consumer protections and the on-going role of the EDC. In

this regard, the Companies believe that the following are essential elements of any such change:

- Existing law needs to be revised, consistent with the changed public policy, to remove the possibility of default service being provided by the EDC, to identify the consumer protections that would be part of the new paradigm, and to identify how those consumer protections would be met.
- Changes would need to be made to existing PJM protocols to assure that there is an entity (or entities) other than EDCs to which loads not assigned to an EGS will be assigned. Said another way, an EDC should not, by virtue of its status as a control area, become the default settlement entity.
- The EDC shall be permitted to recover any costs that may be "stranded" by such a change and, also, any costs incurred to facilitate such a change. Recovery would include a return of and return on invested capital.

5. Conclusion

The PPL Companies continue to support the Commission's efforts to create a robust retail electricity market in Pennsylvania. The Companies believe that much can and will be accomplished within the existing public policy paradigm through the mechanisms identified in this investigation, by continuing to de-emphasize default service as a primary generation product, and through on-going consumer education.

The Companies are also open to a shift in public policy that would remove EDCs from the default service role as long as it is done in a way that comprehensively addresses all issues and, in particular, completely and irrevocably removes from the EDC any possibility of being a generation provider. The Companies also believe that this point at which the role of the EDC would become more clearly focused on infrastructure would be an appropriate time to introduce ratemaking mechanisms that are more clearly aligned with that role.