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File #: 2507/140070

April 30, 2010

VIA E-FILE

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: Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan for the Period January 1, 2011 Through May 31, 2013 - Docket No. P-2008-2060309**

Dear Secretary Chiavetta:

Enclosed for filing is the original and three (3) copies of Petition of PPL Electric Utilities Corporation for Expedited Approval to Amend the Supply Master Agreement for Allocation of Auction Revenue Rights Under the Default Service Procurement Plan in the above-referenced proceeding.

As indicated on the certificate of service, copies have been provided to the persons in the manner indicated.

Respectfully Submitted,

Michael W. Hassell

MWH/jl

Enclosures

cc: Honorable Susan D. Colwell  
Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: April 30, 2010

  
\_\_\_\_\_  
Michael W. Hassell

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities Corporation :  
for Approval of a Default Service Program : Docket No. P-2008-2060309  
and Procurement Plan for the Period January :  
1, 2011 Through May 31, 2013. :

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**PETITION OF PPL ELECTRIC UTILITIES CORPORATION FOR  
EXPEDITED APPROVAL TO AMEND THE SUPPLY MASTER AGREEMENT  
FOR ALLOCATION OF AUCTION REVENUE RIGHTS UNDER  
THE DEFAULT SERVICE PROCUREMENT PLAN**

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TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”), by and through its attorneys, hereby petitions the Pennsylvania Public Utility Commission (“Commission”), pursuant to Section 5.41 of the Commission’s Rules of Administrative Practice and Procedure, 52 Pa. Code § 5.41, to modify the Default Service Procurement Plan (“DSP Plan”) previously approved by the Commission on June 30, 2009, in the above-captioned proceeding. PPL Electric requests that the Commission approve an Addendum to the Supply Master Agreement (“SMA”), as set forth in the *pro forma* Addendum attached hereto as “Appendix A,” to modify prospectively the allocation of Auction Revenue Rights (“ARRs”) to permit PPL Electric to proportionally assign the ARR to wholesale suppliers, as more fully described herein.

Under the proposed Addendum, the allocation of ARR to wholesale suppliers, who are responsible for congestion management under the SMA, will provide them with an additional tool to manage congestion costs associated with serving PPL Electric’s default service load. The proposed Addendum is substantially the same as the provisions of the Competitive Bridge Plan SMA that was previously approved by the Commission. Further, the proposed Addendum

harmonizes the Company's SMA with those used by other Pennsylvania electric distribution companies ("EDCs"). For these reasons, as more fully explained below, modification of the DSP Plan SMA through the proposed Addendum is proper and in the public interest. In order for this modification to become effective in time for PPL Electric's next DSP Plan solicitation, PPL Electric requests that the Commission act upon this Petition at or before its Public Meeting scheduled for June 16, 2010. In support thereof, PPL Electric states as follows:

**I. BACKGROUND**

1. PPL Electric is a "public utility" and an "electric distribution company" 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's address is Two North Ninth Street, Allentown, Pennsylvania 18101.

2. PPL Electric's attorneys are:

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PPL Electric's attorneys are authorized to receive all notices and communications regarding this Petition.

3. PPL Electric furnishes electric distribution, transmission, and provider of last resort 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.

4. PPL Electric's transmission system is operated as part of the PJM Interconnection LLC ("PJM"), which has been approved by the Federal Energy Regulatory Commission ("FERC") as the Regional Transmission Organization ("RTO") of the transmission systems of electric utilities in the region that includes PPL Electric's service territory.

5. On August 2, 2006, PPL Electric filed the *Petition of PPL Electric Utilities Corporation for Approval of a Competitive Bridge Plan*, Docket No. P-00062227, requesting Commission approval of a plan for acquisition of supply for provider of last resort service ("POLR" or "default service") as a one-year "bridge" between the expiration of its POLR rate caps on December 31, 2009, and a fully competitive, statewide market beginning January 1, 2011.<sup>1</sup> Included with the filing were a proposed Request for Proposals Process and Rules ("RFP Rules") and a proposed SMA. On May 17, 2007, the Commission issued an order approving a revised Competitive Bridge Plan and SMA as modified by the stipulation of the parties to the proceeding.

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<sup>1</sup> The following entities intervened in the Competitive Bridge Plan proceeding: Office of Trial Staff; Office of Consumer Advocate; Office of Small Business Advocate; jointly, by Citizens for Pennsylvania's Future, Char Magaro and Jan Jarrett; Strategic; Constellation; the International Brotherhood of Electrical Workers, Local 1600, which later withdrew; Metropolitan Edison Company and Pennsylvania Electric Company; First Energy Solutions Corp.; SEF; Eric Epstein; Direct Energy; PPLICA; RESA; Dominion; Reliant Energy, Inc.; and Exelon Corporation, PECO Energy Company, and Exelon Generation Company, LLC.

6. Under the Commission approved Competitive Bridge Plan SMA, wholesale suppliers could participate in Financial Transmission Rights (“FTR”) auctions. PPL Electric was required to proportionally transfer any ARRs to the participating wholesale suppliers for the term of the Competitive Bridge Plan on a *pro rata* basis. *See* Competitive Bridge Plan SMA, Article 4.1. Notably, none of the Parties to the Competitive Bridge Plan proceeding took exception to this issue before the Commission. *See generally* *Petition of PPL Electric Utilities Corporation for Approval of a Competitive Bridge Plan*, Docket No. P-00062227 (May 17, 2007).<sup>2</sup>

7. On August 28, 2008, PPL Electric filed the above-captioned DSP Plan to establish the terms and conditions under which PPL Electric would provide default service and obtain generation supply for that service for the Period January 1, 2011 through May 31, 2013.

8. On October 15, 2008, Governor Rendell signed House Bill No. 2200, subsequently identified as Act No. 129, which established, *inter alia*, certain new requirements for the acquisition of default supply by electric distribution companies. Because the legislation was passed after PPL Electric filed its DSP Plan, the Company, without objection of the parties, requested and was granted the right to file revisions to the DSP Plan. On November 3, 2008, PPL Electric filed its amended DSP Plan.

9. In the amended DSP Plan, PPL Electric revised the SMA to eliminate any assignment of ARRs to wholesale suppliers. *See* DSP Plan SMA, Article 4.1.

10. On March 11, 2009, a Joint Petition for Settlement (“Settlement”) was submitted to Administrative Law Judge Susan D. Colwell, along with multiple statements in support of the Settlement. The Settlement contained a full description of the DSP Plan, as revised and agreed

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<sup>2</sup> Although Constellation opposed portions of the default provisions of the Competitive Bridge Plan SMA, no parties took exception to the requirement that PPL Electric proportionally transfer any ARRs to the participating wholesale suppliers for the term of the Competitive Bridge Plan.

to by the parties, pursuant to which PPL Electric would provide default service and obtain generation supply for that service for the period January 1, 2011 through May 31, 2013.

11. On June 30, 2009, the Commission entered a Final Order approving the Settlement and ruling upon the two issues not resolved by the Settlement.<sup>3</sup> Therein, the Commission approved the proposed DSP Plan SMA and directed PPL Electric to submit the DSP Plan RFP Rules and SMA for all default supplies in a subsequent compliance filing.<sup>4</sup> On July 1, 2009, PPL Electric submitted the DSP Plan RFP Rules and SMA in accordance with the Commission's June 30, 2009 Final Order approving the Settlement.

12. Under the DSP Plan SMA, beginning January 1, 2011, PPL Electric will receive ARRs and collect any resulting congestion revenue. Therefore, unlike implementation of the Competitive Bridge Plan SMA, PPL Electric will not proportionally transfer any ARRs to the participating wholesale suppliers under the DSP Plan SMA but, instead, will retain them. *See* DSP Plan SMA, Article 4.1.

13. As explained below, PPL Electric is herein requesting that the Commission approve an Addendum to the DSP Plan SMA, as set forth in Appendix A to this Petition, to reinstate the allocation of ARRs consistent with the Competitive Bridge Plan SMA and allow PPL Electric to proportionally assign the ARRs to wholesale suppliers. If approved, the proportionate assignment of ARRs would be effective for supply tranches won in DSP solicitations undertaken after Commission approval of this Petition. As noted above, PPL Electric requests that the Commission approve this Petition at or before its Public Meeting

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<sup>3</sup> Main and Reply Briefs were filed by the parties affected by the remaining two issues not resolved by the Settlement. The reserved issues are not relevant to the subject of this Petition.

<sup>4</sup> *See Petition of PPL Utilities Corp. for Approval of a Default Service Program and Procurement Plan for the Period January 1, 2011 Through May 31, 2014*, Docket No. P-2008-2060309, Slip Op. at p. 10 (Order Entered June 30, 2009).

Scheduled for June 16, 2010, which would allow this change in allocation of ARRs to be effective for the DSP Plan solicitation scheduled for July 20, 2010. For the reasons that follow, the proposed Addendum to the DSP Plan SMA is proper and in the public interest.

## **II. PROPOSED MODIFICATION TO THE SMA**

### **A. Overview of Financial Transmission Rights and Auction Revenue Rights.**

14. Congestion occurs on a transmission system when sufficient transfer capacity is not available to simultaneously implement all of the preferred schedules for electric generation resources. When transmission congestion occurs on the bulk power grid, locational marginal prices will vary throughout the system. Congestion creates uncertainty for market participants, especially for those responsible for serving load in congested areas.

15. Under the PJM market design, wholesale suppliers receive the locational marginal price at the point at which they inject power into the market (“source”) and the load serving entity pays the locational market price at the point at which they withdraw power from the market (“sink”). When the source price is different from the sink price, the wholesale supplier may incur “congestion costs,” *i.e.*, the difference in the locational market prices between the wholesale supplier (source) and the load serving entity (sink) locations.

16. To hedge, or protect, against the potential adverse effects of having to pay higher locational marginal prices caused by transmission congestion, market participants can use ARRs and FTRs. ARRs and FTRs can operate as a hedge against paying the higher price of generation during congestion periods. ARRs and FTRs do not guarantee that power will be delivered; rather, they provide financial protection to market participants in the face of variations in locational marginal prices by helping them offset potentially higher costs caused by congestion.

17. The value of ARR is determined in PJM's annual FTR auction. ARR is allocated annually to firm transmission customers based on historical relationships between electric generation resources and load. Once allocated, ARR can be used by their holders to either convert the ARR to an FTR, or as a source of revenue received from FTRs purchased by others in PJM's annual auction.

18. FTRs are sold by PJM primarily through its annual auction process (there are also residual monthly auctions for a small number of FTRs). These auctions have been very competitive with numerous participants involved in managing congestion risk.

19. FTR value in the auction is determined by the bidders' expectations of differences between day-ahead locational marginal prices at the source and sink locations defined for each right. Holders of FTRs receive their value day-by-day throughout a year based upon actual day-ahead market congestion costs that may occur.

20. Both ARR and FTRs provide potential hedges to offset congestion costs. ARR and FTRs can have either positive or negative value. If locational marginal prices at the source are lower than they are at the sink, an ARR or FTR will have positive value. However, if locational marginal prices at the source are higher than they are at the sink, an ARR or FTR will have a negative value. It is thus important that ARR holders and FTR auction participants carefully evaluate congestion patterns to avoid potential charges for negative value ARR or FTRs.

**B. Modification of PPL Electric's Allocation of Auction Revenue Rights.**

21. Under its currently-effective, one-year Competitive Bridge Plan, the SMA provides for PPL Electric to proportionally transfer ARR to participating wholesale suppliers

for the term of the Competitive Bridge Plan on a *pro rata* basis. Article 4.1 of the Competitive Bridge Plan SMA provides as follows:

Congestion and Congestion Management. Seller is responsible for any congestions costs incurred to supply the Specified Percentage. Because PJM Planning Period does not correspond exactly with the supply term of this POLR SMA, Buyer, in its capacity as LSE for POLR Load during the Year 2009, will ensure that rights to CRRs for the period designation as LSE for POLR Load will be provided to Seller as described herein. Buyer shall transfer or assign to Seller, Buyer's rights to CRRs for the period of January 1, 2010 through May 31, 2010 to which Buyer is entitled as LSE pursuant to PJM Agreements, provided such rights are related to the service being provided to meet the Sellers' Specified Percentage. All rights and obligations associated with such CRRs will accrue to the Seller through the transfer or assignment from Buyer to Seller including the ability of Seller to request or nominate such CRRs when applicable. The Seller is responsible for nominating or obtaining CRRs for the period June 1, 2010 through December 31, 2010. Seller, as the LSE serving POLR Load, shall have the right to request and nominate CRRs provided all Transactions for the Seller's Specified Percentage of POLR Load have been executed and are in full force and effect. Effective January 1, 2011 all CRR rights will transfer back to the Buyer.<sup>5</sup>

22. Under its current DSP Plan SMA, which governs procurements for default service during the period of January 1, 2011 through May 31, 2013, PPL Electric eliminated the *pro rata* assignment of ARRs. Article 4.1 of the DSP Plan SMA currently provides as follows:

Congestion and Congestion Management. Seller is responsible for any congestion costs incurred to supply the Specified Percentage.

Therefore, PPL Electric, as a firm transmission customer, will receive the revenues resulting from their allocated ARRs, which will ultimately flow through to default service customers as a credit to generation supply charges.

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<sup>5</sup> In the Competitive Bridge Plan SMA, ARRs were defined as Congestion Revenue Rights or CRRs. See Competitive Bridge Plan SMA, Article 1.

23. At the time PPL Electric filed the DSP Plan, the Company believed that it would be difficult to manage assignment of ARRs to different wholesale suppliers over multiple time periods. Specifically, ARRs are allocated to firm transmission service customers once a year, while the DSP Plan proposed a “layered” procurement strategy in which a portion of the wholesale supplier contracts are replaced quarterly. Thus, each quarter a portion of the ARRs would be reassigned to new wholesale suppliers.

24. PPL Electric also originally assumed that retaining the ARRs would be a simple approach for accommodating the DSP’s layered procurement. However, upon further analysis, PPL Electric concluded that rights to ARRs are more appropriately allocated to wholesale suppliers. Under the SMA, suppliers are responsible for managing congestion risk, and all tools for mitigating that risk should be made available to the suppliers. Additionally, as explained below, PJM’s ability to accommodate the assignment of the ARRs is becoming the conventional approach as other Pennsylvania EDCs transition to default service procurement.

25. PPL Electric is herein requesting that the Commission approve an Addendum to the DSP Plan SMA, as set forth in the *pro forma* Addendum attached hereto as Appendix A, to reinstate the allocation of ARRs under the Competitive Bridge Plan SMA and allow PPL Electric to proportionally assign the ARRs to wholesale suppliers on a prospective basis. The proposed Addendum will be applicable to Transaction Confirmations to the Default Service and Default Service Spot Market SMAs issued subsequent to Commission approval of this Petition. Specifically, PPL Electric seeks to modify Article 4.1 of the DSP Plan SMA through an Addendum that provides as follows:

Congestion and Congestion Management. Seller is responsible for any congestion costs incurred to supply the Specified Percentage. For Transaction Confirmations issued on or after July 20, 2010, Buyer, in its capacity as LSE for Default Service load, will ensure

that rights to Auction Revenue Rights (“ARRs”) obtained in conjunction with Buyers designation as LSE for Default Service load will be transferred or assigned to Seller as described herein. The Buyer shall transfer or assign to Seller, Buyers rights to ARR for the period applicable to the Transaction Confirmation issued under this SMA, provided such rights are related to the service being provided to meet the Sellers’ Specified Percentage and such rights are for the applicable term. All rights and obligations associated with such ARR will accrue to the Seller through the transfer or assignment from Buyer to Seller including the ability of the Seller to request or nominate such ARR when applicable. The Seller is responsible for nominating or obtaining ARR for the applicable period pursuant to the Transaction Confirmation(s). Seller, as the LSE serving Default Service load, shall have the right to request and nominate ARR provided all Transactions for the Seller’s Specified Percentage of Default Service load have been executed and are in full force and effect. Effective with the end of the applicable Transaction Confirmation period, all ARR will transfer back to Buyer. Should the conditions above not be met, the entity recognized by PJM as having the right to make nominations will nominate such ARR for the upcoming PJM planning period and such ARR will be allocated to the Seller in accordance with the PJM Agreements based upon the Seller’s Specified Percentage.

Notably, the proposed Addendum is substantially the same as the provisions of Article 4.1 of the Competitive Bridge Plan SMA that was previously approved by the Commission. The proposed Addendum will prospectively supersede and replace Article 4.1 of the DSP Plan SMA in its entirety.

26. If approved by the Commission, the proposed Addendum would become effective January 1, 2011, for supply awarded in solicitations following Commission approval, *i.e.*, the proposed Addendum would apply prospectively only. Contracts in place for 2011 prior to Commission approval of the proposed Addendum would not be affected.

**C. Further Reasons for the Modification of PPL Electric’s Allocation of Auction Revenue Rights.**

27. Under PPL Electric’s load-following, full-requirements contracts, the Company does not face congestion risks, which are the obligations of wholesale suppliers. Further, EDCs

generally do not have the level of market knowledge, expertise, and tools necessary to efficiently and effectively manage congestion costs on behalf of their customers. It was never PPL Electric's intention to manage congestion risks. Rather, PPL Electric intended to collect and distribute any revenue received from the ARR that resulted from the FTR auction in an effort to simplify supply management.

28. Under the PJM market design, wholesale suppliers take on and manage congestion risk as part of their supply obligation. Because they bear the risk, wholesale suppliers are the parties better suited to manage various market risks, including congestion costs. Wholesale suppliers are active in the physical electric and financial markets daily and have invested significant resources to develop the sophisticated analytical tools necessary to manage congestion risks. ARRs and FTRs represent important tools to manage congestion risk.

29. Under the DSP Plan SMA, wholesale suppliers have an obligation to provide full requirements service and account for congestion risks in their competitive bid prices. Assigning ARRs to wholesale suppliers ensures they have a complete portfolio of options available to manage congestion risk associated with full-requirements default service supply obligations. In addition to providing rights to annual auction revenues, ARRs provide suppliers with the option to exercise preferential rights to obtain FTRs in PJM's annual auctions. Thus, suppliers can be expected to optimize the rights associated with ARRs and determine the most effective mixture of FTRs to hedge the congestion risk they face. Under the proposed Addendum, wholesale suppliers would be provided an incentive to optimize their ARR allocation because they are at risk for the congestion costs.

30. As explained above, wholesale suppliers have the knowledge, expertise, and tools to properly hedge congestion costs. By providing ARRs to wholesale suppliers, as set forth in

the proposed Addendum, wholesale suppliers will be provided with an important tool to manage their obligation for congestion risks. PPL Electric's retention of ARRs cannot be as effective a tool in managing congestion costs as would be the case if wholesale suppliers received ARRs.

31. PPL Electric further notes that the proposed modification of the DSP Plan SMA harmonizes the Company's SMA with those used by other Pennsylvania EDCs. In particular, the SMAs of PECO Energy Company, Metropolitan Edison Company, and Pennsylvania Electric Company provide for ARR assignment as appropriate. See "Appendix B." Therefore, modifying PPL Electric's DSP Plan SMA to require the Company to proportionally transfer its ARRs to participating wholesale suppliers will create greater consistency in the SMAs of EDCs operating within the Commonwealth. Such consistency will likely allow wholesale suppliers to manage congestion risk more effectively and lower costs associated with managing congestion.

32. For these reasons, PPL Electric believes that proportionally transferring ARRs to participating wholesale suppliers on a *pro rata* basis is proper and provides important public benefits.

### **III. REQUEST FOR EXPEDITED TREATMENT**

33. As noted previously, PPL Electric's next DSP solicitation is scheduled for July 20, 2010. It would be in the public interest for the modification of the DSP Plan SMA proposed in this Petition to be effective for that solicitation. In order for this modification to be effective for bidders qualifying for the next solicitation, PPL Electric requests that the Commission act upon this Petition at its Public Meeting scheduled for June 16, 2010.

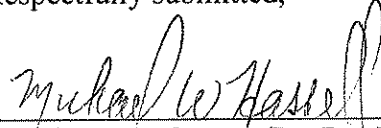
34. PPL Electric requests that the Commission direct that answers to this Petition be filed within 10 days of the date of filing, or by May 10, 2010, to support expedited treatment of this Petition.

#### IV. CONCLUSION

35. Based on the foregoing, PPL Electric requests that the Commission approve an Addendum to the DSP Plan SMA, as set forth in the *pro forma* Addendum attached hereto as Appendix A, to modify the allocation of ARRs to permit PPL Electric to proportionally assign ARRs to participating wholesale suppliers on a *pro rata* basis. The allocation of ARRs to wholesale suppliers will provide an important tool and incentive for the suppliers to optimize their ARR allocation to manage their obligation for congestion costs. Accordingly, for the many reasons set forth herein, the proposed Addendum is proper and in the public interest.

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission: (1) approve an Addendum to the Default Service Procurement Plan Supply Master Agreement to permit PPL Electric Utilities Corporation to proportionally assign Auction Revenue Rights to participating wholesale suppliers on a *pro rata* basis; and (2) consider this Petition on an expedited basis and act upon this Petition at its Public Meeting scheduled for June 16, 2010.

Respectfully submitted,



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Of Counsel:

Post & Schell, P.C.

Dated: April 30, 2010

*Attorneys for PPL Electric Utilities Corporation*

## VERIFICATION

I, Dennis A. Urban Jr., being the Manager – Energy Acquisition of PPL Electric Utilities Corporation, hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief and that I expect that PPL Electric Utilities Corporation to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Date: 4-29-2010

Dennis A. Urban, Jr.

**ADDENDUM 1**  
**DEFAULT SERVICE SPOT MARKET**  
**SUPPLY MASTER AGREEMENT**

THIS ADDENDUM to the Default Service Spot Market Master Supply Agreement (“DSSM SMA”), is made and entered into as of \_\_\_ (“Effective Date”), by and between \_\_\_, hereinafter referred to as “Seller,” and PPL Electric Utilities Corporation, hereinafter referred to as “Buyer” (each hereinafter referred to individually as “Party” and collectively as “Parties”).

**WITNESSETH:**

WHEREAS, the Parties have executed and agreed to be bound by the terms and conditions of the DSSM SMA; and

WHEREAS, under Article 16.10 of the DSSM SMA, the Parties shall not amend, modify, or supplement any provision of the DSSM SMA unless mutually agreed, in writing, by the Parties; and

WHEREAS, the Parties desire to prospectively amend, modify, or supplement certain provisions of the DSSM SMA to permit Buyer to proportionally assign certain Auction Revenue Rights (“ARRS”) to Seller, as more fully described herein; and

NOW, THEREFORE, and in consideration of the foregoing, and of the mutual promises, covenants, and conditions set forth herein, and other good and valuable consideration, the Parties hereto, intending to be legally bound by the terms and conditions set forth in this Addendum to the DSSM SMA, hereby agree as follows:

1. Term

- 1.1 The Effective Date of this Addendum shall be the date first written above, subject only to the receipt of any required regulatory approvals from the Pennsylvania Public Utility Commission. The Parties acknowledge and agree that this Addendum is subject to and contingent upon the prior approval of the Pennsylvania Public Utility Commission.
- 1.2 This Addendum will apply prospectively to Transaction Confirmations executed on or after July 20, 2010. Contracts in place for 2011 prior to Commission approval of the proposed Addendum would not be affected.
- 1.3 Unless otherwise agreed upon by the Buyer and Seller, this Addendum shall continue in full force and effect pursuant to Article 5 of the DSSM SMA.

2. Scope of Addendum.

2.1 Article 4.1 of the DSSM SMA is superseded and replaced, in its entirety, as follows:

*4.1 Congestion and Congestion Management.* Seller is responsible for any congestion costs incurred to supply the Specified Percentage. For Transaction Confirmations issued on or after July 20, 2010, Buyer, in its capacity as LSE for Default Service load, will ensure that rights to Auction Revenue Rights (“ARRs”) obtained in conjunction with Buyers designation as LSE for Default Service load will be transferred or assigned to Seller as described herein. The Buyer shall transfer or assign to Seller, Buyers rights to ARR for the period applicable to the Transaction Confirmation issued under this SMA, provided such rights are related to the service being provided to meet the Sellers’ Specified Percentage and such rights are for the applicable term. All rights and obligations associated with such ARR will accrue to the Seller through the transfer or assignment from Buyer to Seller including the ability of the Seller to request or nominate such ARR when applicable. The Seller is responsible for nominating or obtaining ARR for the applicable period pursuant to the Transaction Confirmation(s). Seller, as the LSE serving Default Service load, shall have the right to request and nominate ARR provided all Transactions for the Seller’s Specified Percentage of Default Service load have been executed and are in full force and effect. Effective with the end of the applicable Transaction Confirmation period, all ARR will transfer back to Buyer. Should the conditions above not be met, the entity recognized by PJM as having the right to make nominations will nominate such ARR for the upcoming PJM planning period and such ARR will be allocated to the Seller in accordance with the PJM Agreements based upon the Seller’s Specified Percentage.

2.2 All other provisions of the DSSM SMA shall remain in full force and effect unless otherwise modified in accordance with Article 16.10 of the DSSM SMA.

2.3 This Addendum is incorporated into the DSSM SMA and made a part thereof, as may be modified, amended, or supplemented, from time to time, in accordance with Article 16.10 of the DSSM SMA.

2.4 This Addendum represents the entire agreement of the Parties with respect to its subject matter. Except as otherwise provided in Article 16.10 of the DSSM SMA, no change, amendment or modification of this Agreement shall be valid or binding upon the Parties unless made in a writing signed by all Parties.

IN WITNESS WHEREOF, the Parties hereto have executed this ADDENDUM to be effective as of the day and year first written above.

ATTEST:

PPL ELECTRIC UTILITES CORPORATION

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**ADDENDUM 1  
DEFAULT SERVICE  
SUPPLY MASTER AGREEMENT**

THIS ADDENDUM to the Default Service Supply Agreement (“Default SMA”), is made and entered into as of \_\_\_ (“Effective Date”), by and between \_\_\_, hereinafter referred to as “Seller,” and PPL Electric Utilities Corporation, hereinafter referred to as “Buyer” (each hereinafter referred to individually as “Party” and collectively as “Parties”).

**WITNESSETH:**

WHEREAS, the Parties have executed and agreed to be bound by the terms and conditions of the Default SMA; and

WHEREAS, under Article 16.10 of the Default SMA, the Parties shall not amend, modify, or supplement any provision of the Default SMA unless mutually agreed, in writing, by the Parties; and

WHEREAS, the Parties desire to prospectively amend, modify, or supplement certain provisions of the Default SMA to permit Buyer to proportionally assign certain Auction Revenue Rights (“ARRS”) to Seller, as more fully described herein; and

NOW, THEREFORE, and in consideration of the foregoing, and of the mutual promises, covenants, and conditions set forth herein, and other good and valuable consideration, the Parties hereto, intending to be legally bound by the terms and conditions set forth in this Addendum to the Default SMA, hereby agree as follows:

1. Term

- 1.1 The Effective Date of this Addendum shall be the date first written above, subject only to the receipt of any required regulatory approvals from the Pennsylvania Public Utility Commission. The Parties acknowledge and agree that this Addendum is subject to and contingent upon the prior approval of the Pennsylvania Public Utility Commission.
- 1.2 This Addendum will apply prospectively to Transaction Confirmations executed on or after July 20, 2010. Contracts in place for 2011 prior to Commission approval of the proposed Addendum would not be affected.
- 1.3 Unless otherwise agreed upon by the Buyer and Seller, this Addendum shall continue in full force and effect pursuant to Article 5 of the Default SMA.

2. Scope of Addendum.

2.1 Article 4.1 of the Default SMA is superseded and replaced, in its entirety, as follows:

*4.1 Congestion and Congestion Management.* Seller is responsible for any congestion costs incurred to supply the Specified Percentage. For Transaction Confirmations issued on or after July 20, 2010, Buyer, in its capacity as LSE for Default Service load, will ensure that rights to Auction Revenue Rights (“ARRs”) obtained in conjunction with Buyers designation as LSE for Default Service load will be transferred or assigned to Seller as described herein. The Buyer shall transfer or assign to Seller, Buyers rights to ARR for the period applicable to the Transaction Confirmation issued under this SMA, provided such rights are related to the service being provided to meet the Sellers’ Specified Percentage and such rights are for the applicable term. All rights and obligations associated with such ARR will accrue to the Seller through the transfer or assignment from Buyer to Seller including the ability of the Seller to request or nominate such ARR when applicable. The Seller is responsible for nominating or obtaining ARR for the applicable period pursuant to the Transaction Confirmation(s). Seller, as the LSE serving Default Service load, shall have the right to request and nominate ARR provided all Transactions for the Seller’s Specified Percentage of Default Service load have been executed and are in full force and effect. Effective with the end of the applicable Transaction Confirmation period, all ARR will transfer back to Buyer. Should the conditions above not be met, the entity recognized by PJM as having the right to make nominations will nominate such ARR for the upcoming PJM planning period and such ARR will be allocated to the Seller in accordance with the PJM Agreements based upon the Seller’s Specified Percentage.

2.2 All other provisions of the Default SMA shall remain in full force and effect unless otherwise modified in accordance with Article 16.10 of the Default SMA.

2.3 This Addendum is incorporated into the Default SMA and made a part thereof, as may be modified, amended, or supplemented, from time to time, in accordance with Article 16.10 of the Default SMA.

2.4 This Addendum represents the entire agreement of the Parties with respect to its subject matter. Except as otherwise provided in Article 16.10 of the Default SMA, no change, amendment or modification of this Agreement shall be valid or binding upon the Parties unless made in a writing signed by all Parties.

IN WITNESS WHEREOF, the Parties hereto have executed this ADDENDUM to be effective as of the day and year first written above.

ATTEST:

PPL ELECTRIC UTILITES CORPORATION

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## APPENDIX B

Explanation of Congestion Management from MetEd, Penelec and PECO:

### MetEd & Penelec

- Both companies have the same wording in their article on congestion. (Both are pages 12-13 of the DSP SMA)

#### **“2.3 Congestion and Congestion Management**

The DS Supplier is responsible for any congestion costs incurred to meet the DS Supplier Responsibility Share. The Company shall transfer or assign to the DS Supplier the Company's rights to Auction Revenue Rights (ARRs) to which the Company is entitled as an LSE pursuant to the PJM Agreements, including the rights to ARRs for the period January 1, 2011 through May 31, 2011, provided that such rights are related to the service being provided to meet the DS Supplier Responsibility Share and such rights are for the applicable term. All rights and obligations associated with such ARRs will accrue to the DS Supplier through the transfer or assignment from the Company to the DS Supplier including the responsibility and ability of the DS Supplier to request or nominate such ARRs when applicable and feasible. Should the conditions above not be met, the entity recognized by PJM as having the right to make the nominations will nominate such ARRs for the upcoming PJM planning period and such ARRs will be allocated to the DS Supplier in accordance with the PJM Agreements based upon its DS Supplier Responsibility Share.”

### PECO

- DSP SMA, Page 13

#### **“2.3 Congestion and Congestion Management.**

Seller is responsible for any congestion costs incurred to supply the Specified Percentage. Buyer shall transfer or assign to Seller Buyer's rights to Auction Revenue Rights (ARRs) to which Buyer is entitled as an LSE pursuant to the PJM Agreements, including the rights to ARRs for the period January 1, 2011 through May 31, 2011, provided that such rights are related to the service being provided to the Specified Percentage and for the applicable term hereunder. All rights and obligations associated with such ARRs will accrue to the Seller through the transfer or assignment from Buyer to Seller including the responsibility and ability of Seller to request or nominate such ARRs when applicable. Seller shall have the right to request and nominate ARRs if: (i) all Transactions for Default Service Load have been executed and are in full force and effect; and (ii) the Delivery Period under each Transaction Confirmation is inclusive of the PJM Planning Period for which the ARRs are being requested or nominated. Should the conditions above not be met, the entity recognized by PJM as having the right to make the nominations will nominate such ARRs for the upcoming PJM Planning Period and such ARRs will be allocated to Seller in accordance with the PJM Agreements based upon its Specified Percentage.”