

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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IRWINA. POPOWSKY
Consumer Advocate

May 21, 2012

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

RE: Petition of PPL Electric Utilities
Corporation for Approval of Default Service
Program and Procurement Plan for the
Period June 1, 2013 through May 31, 2015
Docket No. P-2012-2302074

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Answer in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "James A. Mullins".

James A. Mullins
Assistant Consumer Advocate
PA Attorney I.D. # 77066

Enclosures

cc: Office of Administrative Law Judge
Office of Special Assistance
Certificate of Service

156348

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation :
for Approval of a Default Service Program : Docket No. P-2012-2302074
and Procurement Plan for the Period June 1, :
2013 through May 31, 2015 :

ANSWER OF THE
OFFICE OF CONSUMER ADVOCATE

I. INTRODUCTION

On May 1, 2012, PPL Electric Utilities Corporation (PPL or Company) filed a Petition with the Pennsylvania Public Utility Commission (PUC or Commission) requesting approval of the Company's second Default Service Program and Procurement Plan (DSP II Program) to establish the terms and conditions under which PPL will acquire and supply Default Service commencing on June 1, 2013 and ending on May 31, 2015. The proposed DSP II Program consists of: 1) an approach to obtain competitive procurement of Default Service supply and related Alternative Energy Credits (AECs), 2) a proposed rate design, including a Time-of-Use (TOU) rate for Default Service customers, 3) an explanation of compliance and consistency with applicable Regional Transmission Organization (RTO) provisions and 4) a contingency plan for the DSP II Program. Additionally, the Company's Petition contains several proposals designed to enhance retail competition in the Company's service territory. PPL requests that the PUC enter a final order approving the DSP II Program no later than February 1, 2013. The

Company has yet to provide any testimony in support of its filing, but the Petition states that such testimony will be filed shortly.

II. ANSWER

According to the Company, the four main goals of its Petition are: 1) to simplify Default Service procurements, while retaining the basic structure of the previous post-rate cap procurement processes, 2) to implement a revised TOU rate option for Default Service, 3) to comply with applicable Commission Orders issued in the Commission's Retail Electricity Market Investigation and, 4) to structure the DSP II Program procurements in a manner that will be responsive to alternative "end state" structures for Default Service.

The OCA has preliminarily reviewed the Company's Petition and identified a number of significant issues presented by the filing. The OCA anticipates that additional issues will arise as a more comprehensive review of the Company's filing is undertaken and discovery is conducted. The preliminary issues identified by the OCA include:

A. Procurement Methodology

PPL proposes to obtain Default Service supply separately for the Residential class, Small Commercial and Industrial (Small C&I) class, and Large Commercial and Industrial class. Petition at ¶ 4. PPL intends to acquire 100% of the Residential and Small C&I Customer Class Default Service supply (exclusive of supply previously committed under block contracts for Residential customers), through a series of load-following supply contracts, inclusive of energy, capacity, transmission (other than Non-market-based Transmission Services), ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply Default Service to the Company's retail customers. Petition at ¶ 5. The load-following supply will be obtained primarily through a

series of nine- and twelve-month term procurements beginning in April 2013. In October 2014, procurements are scheduled for six and three-month products so that all fixed-price contracts will end on May 31, 2015. *Id.* Further, the Company proposes to procure approximately 3 MW of energy through PJM Interconnection, LLC's (PJM)¹ spot market, for the first six months of the DSP II Program (June through November 2013), but does not propose to procure any additional spot supply for the Residential Customer class in the DSP II Program. Petition at ¶ 39.

The OCA submits that further consideration must be given to whether the type of load following products that PPL proposes to solicit represent a prudent mix of contracts that will provide least cost service for residential customers over times as required by the statute. PPL's procurement methodology should be thoroughly analyzed to determine if it meets all of the requirements of Act 129 of 2008 and the Commission's regulations, and will result in least cost service to customers over time.

B. Contingency Plan

The Company's proposed DSP II Program contains several contingency provisions. Specifically, according to the Petition, if the Commission rejects all bids for a given product in any solicitation, or if some tranches of a given product in a particular solicitation do not receive bids, PPL will seek guidance and approval from the Commission to address the short fall in procurement. Petition at ¶ 85. But, to the extent that unfilled tranches remain at the commencement of delivery for a given product, the Company will obtain Default Service supply through the spot market administered by PJM. *Id.* The Company will supply the unserved load by purchasing energy and all other necessary services through the PJM-administered markets to serve the load (and any Alternative Energy Portfolio Standards (AEPS) requirements). All

¹ PJM is the Regional Transmission Organization that coordinates wholesale electric supply movements over several states, including Pennsylvania.

associated costs will be recovered from Default Service customers in the retail rates charged for the service for which the purchases are made. Petition at ¶ 85.

Similarly, if a supplier defaults, PPL Electric will offer full requirements supply assignment to other winning bidders for the same product. Petition at ¶ 86. If this assignment is not sufficient, the Company will offer full requirements supply assignment to all Default Service suppliers consistent with the Default Service Supply Master Agreement. Id. The OCA submits that all facets of the contingency plan must be thoroughly reviewed prior to final Commission approval.

C. Rate Design

PPL proposes to charge flat Default Service rates which will be calculated separately for the Residential and Small C&I Customer Classes under the Generation Supply Charge-1 (GSC-1) rate fixed-rate option. Petition at ¶¶ 51 and 61. This rate will be recalculated, reconciled and adjusted every six months to reflect the then-current Default Service supply contracts for the upcoming six-month period. Petition at ¶ 52. The OCA submits that each cost component as well as the operation of the adjustment and reconciliation mechanism must be reviewed. In addition, the impact of reconciliation on both shopping and non-shopping customers must be considered.

D. Alternative Energy Portfolio Standards Act Procurement

PPL intends to procure certain AEPS Act credits to meet its obligation under the AEPS Act as a component of the Company's fixed-price and spot-market Default Service supply contracts. Petition at ¶ 44. The seller will be required to provide its proportional share of AEPS credits to fulfill PPL's AEPS obligation. Id. The Company proposes to solicit at least three pricing offers from AEC brokers in both June of 2013 and June of 2014 for Tier I non-solar and

Tier II credits. Petition at ¶ 45. The Company will accept the least-cost offer, document the entire process and recover the costs of these AECs through the GSC-1. *Id.* The OCA submits that the Commission must review PPL's proposal to ensure that it meets the requirements of the AEPS Act and results in the least cost service to customers.

E. Retail Opt-in Auction

As part of its DSP II, PPL proposes to implement an Opt-In Auction in 2013 that will provide for participating Electric Generation Suppliers (EGSs) to offer Residential customers a 6-month, fixed price product, at a minimum 5% discount off the then-current PTC at the time of the auction. Petition at ¶ 95. Also, customers participating in the auction will receive a \$50 cash payment from the EGS who acquires the customer in the auction. *Id.* The Company intends to provide more details of its proposal in its direct testimony. The OCA submits that this opt-in auction program must be thoroughly analyzed to ensure that the program benefits consumers and does not harm the procurement process for remaining default service customers.

F. Customer Referral Mailing

As part of its DSP II Program, PPL proposes to conduct a one-time customer referral mailing to all Residential Default Service customers. Petition at ¶ 94. Any EGS licensed to provide service in the PPL Electric service territory will be able to participate in the mailing by providing a standard 5" x 8" size offering to Residential customers. The Company will include, (along with the EGS offers) a letter describing the contents of the mailing. *Id.* The total cost per mailing will be determined in advance and shared among the participating EGSs. Petition at ¶ 94. The OCA submits that the Commission should review the proposed Customer Referral Program. Further, implementation of both a Customer Referral Program and Retail

Opt-In Auction must be carefully coordinated in order to avoid customer confusion. These issues will need to be thoroughly examined in this proceeding.

G. Customer Education Mailings

PPL's DSP II program provides for two customer education mailings to be undertaken in 2012. Petition at ¶ 87. These mailings are to be sent to residential and small business customers. Id. The OCA submits that it will be necessary to review: 1) any costs that may arise from these mailings, and 2) the substantive content of the mailings. The PUC will need to ensure that the costs of such mailings are reasonable and are allocated appropriately among stakeholders.

H. Standard Offer Program

As part of its DSP II Program, PPL proposes to implement a Standard Offer Program which would be available to residential customers with a standard 7% discount off the then-current PTC for a term of six months. Petition at ¶ 100. The Program is intended to run on a monthly basis until May 31, 2015, and interested EGSs would actively elect to continue to participate on a monthly basis. Id. If the PTC changes, any new offers by an EGS must also change to reflect a 7% discount off of the new/current PTC. Petition at ¶ 100. If no EGSs elect to participate for a particular month, the program would not be offered until such time that at least one EGS chooses to participate. Id.

Participating customers who do not choose a specific EGS will be randomly assigned to an EGS for the Standard Offer Program. Petition at ¶ 101. Also, a customer may exit a Standard Offer contract at any time, without penalty, either to select another EGS or return to the Company's Default Service. Id. The costs of implementing and administering the Standard Offer Program will be recovered from the participating EGSs, and PPL will publish

estimated costs of the program. Petition at ¶ 102. The OCA submits that all facets of the Company's Standard Offer Program should be carefully examined prior to implementation.

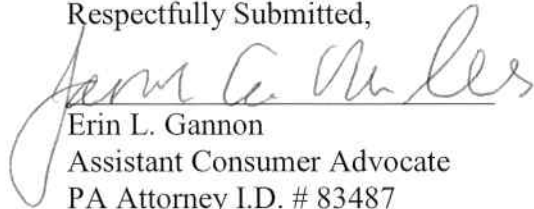
I. Other Issues

The OCA also intends to address other issues raised in the Petition, such as:

- the Company's proposed administrative costs;
- the operation of the Company's TOU rate option;
- the Company's proposal to discontinue its Green Power Program;
- the Company's RFP process; and
- the Company's Supply Master Agreement.

WHEREFORE, the Office of Consumer Advocate respectfully requests that the issues raised in this Answer and other issues identified through the course of this proceeding be thoroughly addressed to ensure that the default service rates that will be charged commencing on June 1, 2013 are just and reasonable and that the default service program approved by the Commission is in the public interest and fully consistent with Pennsylvania law.

Respectfully Submitted,



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Dated: May 21, 2012
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CERTIFICATE OF SERVICE

Petition of PPL Electric Utilities :
Corporation for Approval of a Default : Docket No. P-2012-2302074
Service Program and Procurement Plan for :
the Period June 1, 2013 through May 31, :
2015 :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Answer, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 21st day of May 2012.

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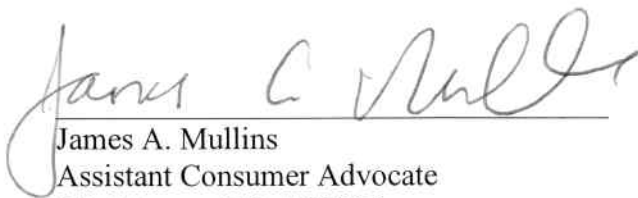
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