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File #: 2507/151904

December 17, 2012

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 June 1, 2013 through May 31, 2015**  
**Docket No. P-2012-2302074**

Dear Secretary Chiavetta:

Enclosed for filing please find the PPL Electric Utilities Corporation Replies to Exceptions to the Recommended Decision issued on November 15, 2012 for the above-referenced proceeding. Copies will be provided as indicated.

Respectfully Submitted,

Michael W. Hassell

MWH/skr

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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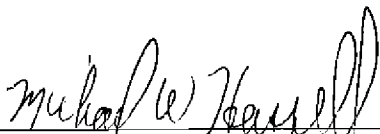
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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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 :

**REPLIES OF  
PPL ELECTRIC UTILITIES CORPORATION  
TO EXCEPTIONS TO THE RECOMMENDED DECISION OF  
ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL**

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## I. INTRODUCTION

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) files these Replies to Exceptions in response to Exceptions of OCA, RESA, FES and DES/IGS. The Exceptions of these parties provide no basis for overruling the well-reasoned Recommended Decision (“R.D.”).

As is evident with several Exceptions, other parties to this case not only oppose determinations made in the R.D., but often are diametrically opposed to each other in their positions on issues. The fundamental flaw in these divergent positions is that they fail to take a holistic view of PPL Electric’s default service procurements and products, retail market enhancement initiatives and the advanced state of customer shopping on the PPL Electric system. The R.D. appropriately did undertake such a holistic view, and in general recognized that PPL Electric, alone among the parties, presented a series of coordinated proposals, in which default service terms work in concert with the retail market enhancement programs to further develop the already robust retail competitive market in the Company’s service area.

PPL Electric observes that various parties rely on the Commission’s decisions in the *FirstEnergy Order*<sup>1</sup> and in the *PECO DSP II Order*<sup>2</sup> as though the decisions are binding precedent when favorable to their position (*see, e.g.*, FES Exc. p. 10; RESA Exc. p. 19; OCA Exc., p. 19), but are silent on the decisions when the rulings are adverse to their position (*see, e.g.*, FES Exc. p. 13; RESA Exc. p. 24; OCA Exc. p. 11). As explained in PPL Electric’s Exceptions, the Commission’s decisions in those cases should not be considered binding precedent on any of the issues presented in this case. Consistent with the approach followed by the ALJ, the Commission should examine PPL Electric’s proposals as a whole, and not just as

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<sup>1</sup> *Joint Petition of Metropolitan Edison, et al. for Approval of Their Default Service Plans*, Docket No. P-2011-2273650, 2012 Pa. PUC LEXIS 1348 (August 16, 2012) (“*FirstEnergy Order*”).

<sup>2</sup> *Petition of PECO Energy Company for Approval of Its Default Service Program*, Docket No. P-2012-2283641 (October 12, 2012).

individual components, and adopt the Company's proposals as being in the best interest of both default service and shopping customers in PPL Electric's service territory.

For the reasons summarized below, and explained in greater detail in PPL Electric's Main Brief ("MB") and Reply Brief ("RB"), the Exceptions of other parties should be denied.

## **II. REPLIES TO EXCEPTIONS**

### **A. DEFAULT SERVICE PROCUREMENT ISSUES**

#### **1. Proposals To Lengthen Or Shorten The Terms Of Residential Default Procurements Should Be Rejected (FES Exc. 1, RESA Exc. 1).**

Because Residential customer shopping has continued to increase on PPL Electric's system, the Company decided to simplify and shorten the term of its default service contracts for this class. PPL Electric's proposed DSP II Program eliminates real-time spot market full-requirements, load-following ("FRLF") contracts,<sup>3</sup> phases out the majority of the current 350 MW of block contracts as they expire, and eliminates further procurement of 2-year fixed-price FRLF contracts. As DSP I FRLF contracts expire, they will be replaced with laddered 12-month and 9-month fixed-price FRLF contracts, procured every 6 months.<sup>4</sup> The R.D. recommends approval of PPL Electric's residential default service procurement proposal.

FES and RESA have excepted to the R.D. FES advocates the addition of longer term contracts into the Residential procurement mix, and RESA advocates the inclusion of shorter term contracts into the mix. Both Exceptions should be denied.

The central issue with respect to the proposals of FES and RESA is the appropriate balance between market reflectivity and price stability in setting default service rates for remaining Residential Default Service customers. RESA's fundamental position is that market

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<sup>3</sup> Due to a legacy block contract issue, PPL Electric will procure about 3 MW of spot supply from June through November, 2013. (PPL Electric St. 1, pp. 11-12).

<sup>4</sup> The Company proposes to procure 6-month and 3-month fixed-price FRLF contracts in its final DSP II Program procurement, which would end all fixed-price FRLF contracts by May 31, 2015. (PPL Electric St. 2, pp. 15-16.)

reflectivity should be given paramount importance, with little or no consideration given to price stability. (RESA Exc. p. 5). The Commission has unequivocally rejected this interpretation of Act 129. (PPL Electric RB, pp. 5-7). FES, on the other hand, argues that PPL Electric's proposed procurements do not provide sufficient price stability. PPL Electric disagrees. As residential shopping has increased, continuing 2-year contracts will reduce the market reflectivity of PPL Electric's residential default service rates. Thus, the Company has proposed to use 9-month and 12-month fixed-price FRLF contracts, which will provide adequate price stability.<sup>5</sup> (PPL Electric MB, pp. 16-18). Extending the length of FRLF contracts is not appropriate.<sup>6</sup>

Both RESA and FES contend that their completely divergent proposals will better transition PPL Electric's residential procurements to the Commission's proposed "end state" for default service. (RESA Exc., p. 6; FES Exc., p. 5). It is premature to consider possible "end state" designs in assessing the reasonableness of PPL Electric's proposed procurements for the DSP II Program. Based upon the Commission's recent statements in the *Act 129 Final Rulemaking Order*<sup>7</sup> and the Commission's Tentative Order regarding the End State of Default Service,<sup>8</sup> statutory amendments may be necessary before the Commission's end-state proposal may be implemented. Moreover, a "transition" should be a process that considers not just the possible future structure of default service procurements, but also the status of procurements coming out of the current DSP I Program. PPL Electric's proposal is a far better transition than

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<sup>5</sup> FES' proposal endorses the elimination of spot market-price contracts, but proposes that 70% of residential fixed-price PFR procurements be for terms greater than 12 months. This is an increase over PPL Electric's current DSP I Program, where only 45% of FRLF contracts have terms greater than 12 months. (PPL Electric RB, pp. 11-12).

<sup>6</sup> FES further supports its proposed term lengths by reference to the *FirstEnergy Order*. (FES Exc., pp. 4-5). However, FES fails to note that the Commission's adoption of a mix of 12- and 24-month contracts shortened the overall term length of the FirstEnergy Companies' default service contracts. FES also makes no reference to the substantially lower level of shopping that exists on the FirstEnergy Company systems. *FirstEnergy Order*, at 26.

<sup>7</sup> *Final Rulemaking Order, Implementation of Act 129 of 2008*, Docket No. L-2009-209564, 2011 Pa. PUC LEXIS 114 (October 4, 2011) ("*Act 129 Final Rulemaking Order*").

<sup>8</sup> *Investigation of Pennsylvania's Retail electricity Market: End State of Default Service*, Docket No. I-2011-2337952, Order entered November 8, 2012 (Order at pp. 12-18).

either FES' or RESA's proposals. FES' and RESA's exceptions regarding residential class procurements should be denied. (PPL Electric MB, pp. 12-26; PPL Electric RB, pp. 8-16).

**2. Proposals To Lengthen Or Shorten The Terms Of Small C&I Default Procurements Should Be Rejected (FES Exc. 2; RESA Exc. 2).**

PPL Electric also proposed to simplify and shorten its default service procurements for the Small C&I Class. PPL Electric's proposed DSP II Program eliminates spot FRLF contracts and 2-year fixed-price FRLF contracts, and will procure all supplies with laddered 12-month and 9-month fixed-price FRLF contracts, procured every 6 months. The R.D. recommends approval of PPL Electric's procurement proposal.

FES and RESA have excepted to the R.D. and, like the Residential Class procurements, take diametrically opposed positions. PPL Electric has explained in Subsection II.A.1 of these Replies to Exceptions and in its Briefs why FES' and RESA's Exceptions should be denied (PPL Electric MB, pp. 12-26, 30-33; PPL Electric RB, p. 19), and PPL Electric will not repeat those explanations here. PPL Electric offers just a few short additional responses.

FES asserts that because shopping in the Small C&I Class is already robust under PPL Electric's DSP I Program, FES' proposal to continue longer contract terms for this Class will support and encourage further shopping. (FES Exc., p. 8). However, FES' procurement proposal lengthens the net term of PPL Electric's contracts, by eliminating spot contracts and including a higher percentage of contracts with terms longer than 12 months. (PPL Electric RB, p. 19). PPL Electric believes its shorter contracts will provide the right balance of market reflectivity and price stability to encourage more Small C&I customers to shop.

RESA further defends its proposal that PPL Electric acquire only 3-month term contracts for Small C&I customers under the DSP II Program on the basis that it would result in rate volatility that "would not be any worse than what these customers have experienced

historically”, citing OSBA witness Knecht. This hardly qualifies as praise for RESA’s proposal. Mr. Knecht was criticizing PPL Electric’s current rate process (not its procurements plan),<sup>9</sup> because the current system of quarterly reconciliation causes extreme variations in the PTC that are not market based and that encourage Small C&I customers to swing on and off default service. (PPL Electric MB, pp. 52-56; OSBA MB, pp. 14-16).

RESA further asserts that unlayered 3-month contracts will not expose customers to price spikes. (RESA Exc., p. 9). However, as the Commission is well aware, without layered procurements, there is increased risk of an unusual event causing a substantial price change. See *Petition of Direct Energy Services LLC for Order Approving a Retail Aggregation Bidding Program for Customers of Pike County Light & Power Company*, Docket No. P-00062205, 2006 Pa. PUC LEXIS 3 (April 20, 2006) (“*Pike County*”). This is a risk that must be considered in assessing RESA’s procurement plan. FES’ and RESA’s Exceptions should be denied.

**3. RESA’s Exception To PPL Electric’s Proposal To Undertake Twice Yearly Procurements Should Be Denied (RESA Exc. 3).**

RESA excepts to the R.D.’s recommended approval of PPL Electric’s proposal to adopt twice yearly procurements. Under PPL Electric’s proposal, the Company will undertake simultaneous procurements for 12-month and 9-month contracts.<sup>10</sup>

RESA contends that lessening the number of procurements may lead to less market-reflective rates. PPL Electric disagrees. With the amount of laddering that occurs with four solicitations per year, default service prices under the DSP I Program change more slowly over time, and thus may be less market responsive than initially anticipated. In addition, with the success of shopping and continuation of long-term block supplies, four solicitations per year will

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<sup>9</sup> See OSBA MB, p. 6.

<sup>10</sup> The contracts will be entered into about one month prior to the start date for delivery under the 12-month contracts and about four months prior to the start date for delivery under the 9-month contracts. This is shorter than the lead time for procurement of 1- and 2-year contracts for the FirstEnergy Companies. *FirstEnergy Order* at 26.

result in tranche sizes that serve very small amounts of actual load, which can discourage wholesale bidder interest. (PPL Electric RB, pp. 17-18).

RESA also challenges PPL Electric's proposal on the basis that, on a per customer basis, reducing annual procurement costs by \$500,000 produces small savings. However, RESA fails to consider that PPL Electric's default service customer base will continue to decline as even more customers shop under the Company's proposed market enhancement proposals. The result will magnify the benefit from reducing the number of procurements. RESA's Exception should be denied. (PPL Electric MB, pp. 16-28; PPL Electric RB, pp. 16-17).

**4. The Commission Should Reject RESA's Proposal For A 50% Load Cap On Wholesale Suppliers (RESA Exc. 4).**

RESA excepts to the R.D.'s rejection of RESA's proposal to institute a 50% cap on the aggregate residential load that may be under contract with any single wholesale supplier.

RESA argues that a 50% load cap is needed to encourage a healthy level of wholesale supplier diversity. However, such a low load cap is not needed for PPL Electric's default service procurements. PPL Electric currently has an Aggregate Load Cap of 70% for wholesale suppliers providing supply for Residential customers.<sup>11</sup> There are currently 22 different suppliers providing products to meet PPL Electric's default service requirements. (PPL Electric St. 1-R, p. 20), demonstrating that a low load cap is not needed to encourage diversity.

RESA claims that PPL Electric asserted that a lower supplier load cap may discourage participation by wholesale suppliers who could offer lower prices. (RESA Exc., p. 11). This is an incorrect statement of PPL Electric's position. PPL Electric explained that the load cap could disqualify a lower priced bid that exceeded the load cap, resulting in an increase to default service costs. No party refuted this contention. (PPL RB, p. 18). RESA's Exception should be

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<sup>11</sup> The Company also has an 85% Solicitation Load Cap, which will remain under PPL Electric's proposal.

denied. (PPL Electric MB, pp. 28-29; PPL Electric RB, pp. 18-19).<sup>12</sup>

**5. PPL Electric's Proposal Responds To OCA's Concern With A Hard Stop To Default Service Contracts On May 31, 2015 (OCA Exc. 1).**

OCA has excepted to the expiration of all fixed-price FRLF contracts on May 31, 2015. PPL Electric appreciates OCA's concern, which is why PPL Electric has built in optionality to the final scheduled fixed-price FRLF contract procurement. That procurement, scheduled for November 2014, will obtain about 45% of PPL Electric's requirements for terms of 6- and 3-months, to end May 31, 2015. There is sufficient time in 2014 to modify those contracts for a longer term if desired. PPL Electric believes this is consistent with the Commission's decision in the *PECO DSP II Order*, cited by OCA, wherein the Commission concluded that the terms of scheduled procurements in 2014 could be modified to accommodate any end-state decision.<sup>13</sup>

**B. DEFAULT SERVICE RATE DESIGN ISSUES**

**1. The Commission Should Adopt PPL Electric's Proposal For Semi-Annual PTC Changes (DES/IGS Exc. 1; RESA Exc. 5).**

DES/IGS and RESA have excepted to the ALJ's recommendation that PPL Electric revise its Price to Compare ("PTC") on a semi-annual basis. These Exceptions should be denied.

RESA contends that the ALJ erred in concluding that semi-annual PTC changes will further encourage shopping and provide greater assurances of measurable savings off the PTC under PPL Electric's proposed Opt In and Standard Offer Referral Program. RESA characterizes the ALJ's conclusions as "musings" based simply on "personal opinion." (RESA Exc., p. 12). RESA's disparagement of the ALJ's conclusions is unfair and inaccurate. In fact, there is substantial record support for the conclusion that semi-annual PTC changes will support

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<sup>12</sup> It was argued in briefs, but not Exceptions, that the 50% load cap would provide protection in the event of a supplier default. However, PPL Electric's performance assurance requirements provide protection in the event of a rare supplier default. (PPL Electric MB, p. 29).

<sup>13</sup> PPL Electric's proposal also accommodates any future proposal that may remove PPL Electric from the default service provider role.

shopping and result in measurable savings, when viewed in the context of PPL Electric's coordinated proposals for 6-month Opt In Program contracts and 6-month Standard Offer Referral Program contracts. Limiting the frequency of PTC changes to twice per year unequivocally will give these generally first-time shopping customers greater assurance (and in the case of Opt In Program participants an effective guarantee) that the offers that they consider under these Programs will result in real savings off PTC rates for the initial term of their contracts. (PPL Electric MB, pp. 115-116, 124-25). Such assurances, perhaps more than any other aspect of the retail market enhancements, will further encourage shopping by providing new shoppers comfort that they got a real deal. The one-year head start that PPL Electric has had for real competition,<sup>14</sup> and the large number of customers who are shopping in PPL Electric's service territory compared to other EDCs, indicates a population that is more sophisticated in shopping basics and an increased likelihood that those not shopping have done so as a result of a conscious decision. (PPL Electric St. 4-R, p. 15). A program structure where PTCs change semi-annually can provide just the assurance needed to move another large segment of the remaining default service customers into the competitive market.

DES/IGS contends that PPL Electric's proposed semi-annual pricing does not mirror procurements. (DES/IGS Exc., p. 2). The Company disagrees. The Company will be undertaking procurements twice yearly, which DES/IGS supported. (DES/IGS MB, p. 11). These procurements, along with prices from contracts carried over from DSP I, will provide the basis for establishing the semi-annual price changes that will become effective about a month after the procurements. Thus, there will not be a misalignment of pricing, and DES/IGS's

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<sup>14</sup> PPL Electric's generation rate caps ended one year earlier than other major EDCs. (PPL Electric St. No. 1, p. 5; PPL Electric Ex. 1, pp. 13-15).

concern of some sort of “boom and bust cycle” is without merit.<sup>15</sup> The Exceptions of RESA and DES/IGS should be denied. (PPL Electric MB, pp. 49-50; PPL Electric RB, pp. 24-25).

**2. RESA’s Exception That Final PTC Rates Be Published 45 Days In Advance Should Be Rejected (RESA Exc. 6).**

PPL Electric has a two-step process for publicizing its PTC rates. Approximately 90 days prior to the date new PTC rates become effective, PPL Electric provides a preliminary PTC rate. About 15 days prior to the rate effective date, PPL Electric provides a final rate. By waiting until about 15 days before the rate effective date to publish a final rate, PPL Electric is able to incorporate the most recent month’s over/undercollection activity and updated load forecasts. The R.D. recommends that this process continue to be used for the DSP II period. RESA excepts.

RESA contends that publishing a final rate 45 days in advance will allow EDCs to better educate customers and allow customers to make more informed shopping decisions. Given that shopping on PPL Electric’s system is the highest among all major EDCs, it is difficult to perceive that customers are ill-informed about shopping. Rather than providing more information, RESA’s proposal will result in less accurate rates. The result can be distortions to the E-Factor and resulting PTC prices, resulting in PTCs that are less market reflective.<sup>16</sup> RESA’s proposal should be denied. (PPL Electric MB, pp. 61-63).

**3. Parties’ Objections To Rolling 12 Month Reconciliations Should Be Denied (RESA Exc. 7; DES/IGS Exc. 1).**

RESA and DES/IGS have excepted to the R.D.’s recommendation that the Company’s proposed 12-month rolling average reconciliation be adopted. These parties contend that a

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<sup>15</sup> DES/IGS also raises issues about reconciliation in its first Exception. PPL Electric’s response to reconciliation exceptions is presented in Section II B 3 of these Replies to Exceptions. PPL Electric notes that the proposal for a 12-month rolling average reconciliation process is a distinct issue from semi-annual PTC changes.

<sup>16</sup> RESA proposal would also require that procurements be undertaken earlier than PPL Electric has proposed, to meet RESA’s 45 day deadline.

quarterly reconciliation results in more market-reflective pricing. PPL Electric disagrees.

The evidence shows conclusively that, in PPL Electric's case, shorter term reconciliation is producing less market reflective rates. Differences between prior period revenues and costs are alternately decreasing and increasing default service rates by a factor of 20% or more. (OSBA St. 1, p. 4). PPL Electric demonstrated that a 12-month rolling average reconciliation will smooth rate swings unrelated to current market prices, which will result in rates that better track current costs. (PPL Electric MB, pp. 54-55). Smoothing prior period E-Factors will support shopping, as default service rates better reflect current costs. The Company's proposal should be adopted. (PPL Electric MB, pp. 52-58; PPL Electric RB, pp. 26-27).

### C. TIME-OF-USE ("TOU") ISSUES

#### 1. RESA's Proposals for TOU Are Not Consistent With Act 129 And Will Not Ensure Availability Of A TOU Rate Option (RESA Exc. 8).

RESA excepted to the R.D.'s rejection of its two TOU proposals. RESA contends that the ALJ erred by rejecting its proposal that PPL Electric only certify that one or more EGSs have agreed to offer a TOU rate in the Company's service territory, or alternatively, that the Company bid out the TOU program to an EGS. RESA exception should be rejected.

As a threshold matter, both of RESA's proposals should be rejected because they are inconsistent with the statutory requirements of Act 129. Pursuant to 66 Pa. C.S. § 2807(f)(5), a default service provider has an obligation to offer one or more TOU or real time rates.<sup>17</sup> The statute requires the default service provider (not an EGS or any other entity) to submit TOU rates to the Commission and requires the default service provider (not an EGS or any other entity) to "offer" TOU rates. Moreover, in *Pa. P.U.C. v. PPL Electric Utilities Corporation*, Docket No.

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<sup>17</sup> 66 Pa. C.S. § 2807(f)(5) (" . . . a default service provider shall submit to the commission one or more proposed time-of-use rates and real-time price plans. . . . The default service provider shall offer the time-of-use rates and real-time price plan to all customers that have been provided with smart meter technology").

R-2011-2264771 at p. 23, 2012 Pa. P.U.C. LEXIS 1383 (August 30, 2012), the Commission held that the TOU is a form of default service. Therefore, pursuant to the plain language of 66 Pa. C.S. § 2807(f)(5), PPL Electric, as the default service provider, is required to offer a TOU default service rate option. (PPL Electric MB, pp. 85-86; PPL Electric RB, pp. 38-39).

RESA simply ignores the requirement that the “default service provider shall offer the time-of-use rates and real-time price plan to all customers...”<sup>18</sup> If PPL Electric were to simply certify that an EGS is offering a TOU rate in its service territory, or bid out the TOU service to an EGS, then the EGS, by definition, would be providing this service and the Company would not be meeting its statutory obligation to offer a TOU rate option. This would violate the plain language of the statute because the obligation to offer TOU rates to default service customers lies with the default service provider, *i.e.*, PPL Electric.

RESA also challenges the R.D.’s determination that the certification approach is complicated, confusing, and requires actions outside the scope of PPL Electric’s normal activities, because it would only require the Company to solicit and gather information. (RESA Exc., p. 15). RESA’s certification proposal, however, would require more than RESA indicates in its exceptions. For example, RESA’s proposal would require the Company to survey EGSs, post EGS TOU information on a clearinghouse website,<sup>19</sup> certify the EGS survey information to the Commission, and, draft and submit a report on any applicable EGS TOU service. (RESA MB, pp. 50-51; R.D., pp. 87-88).<sup>20</sup> The R.D. correctly determined these additional activities are outside of PPL Electric’s regular activities. (R.D., p. 88).

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<sup>18</sup> 66 Pa. C.S. § 2807(f)(5)(emphasis added).

<sup>19</sup> RESA does not identify who would be required to create and/or maintain this clearinghouse website; however, it is assumed that RESA contemplates that the Company would create and maintain the website.

<sup>20</sup> Furthermore, RESA seeks to have the Commission’s Bureau of Conservation, Economics and Energy Planning or a consultant compile and analyze the EGSs’ TOU services effects on demand and consumption. (RESA MB, pp. 50-51; R.D., pp. 87-88).

Importantly, RESA's proposals would not ensure that a TOU rate option is available to default service customers. RESA has not explained what backstop responsibility PPL Electric would have if it cannot certify that a TOU service is available from an EGS or if no EGS bids to serve the default service TOU customers. RESA has failed to address this and other issues; therefore, there is no certainty under its proposals that a TOU rate option would be available. (PPL Electric MB, p. 88; PPL Electric RB, p. 46).

PPL Electric notes that under the TOU proposal recommended by the R.D., the Company will obtain bids from wholesale suppliers to provide the TOU service. Therefore, the benefits of market-based pricing are preserved, while PPL Electric remains compliant with Act 129.

#### **D. RETAIL MARKET ENHANCEMENT ("RME") ISSUES**

##### **1. FES' And RESA's Exceptions To The Timing Of The Company's RMEs Should Be Denied (FES Exc. 8; RESA Exc. 9).**

The R.D. recommends approval of the Company's schedule for the RMEs. FES and RESA except, contending that the Opt In and Standard Offer Programs should begin around June of 2013. FES and RESA discount the very real issues facing PPL Electric with respect to the timing of these RMEs. Both parties focus extensively on the issue of customer confusion that may arise from overlapping the two programs. (FES Exc. p. 18; RESA Exc. pp. 18-21). However, while important, the negative effect that customer confusion could have on the success of these programs was not the primary driver of the Company's proposed schedule. As explained in PPL Electric's Briefs, the primary reasons for the Company's proposal to delay the start of its Opt In Program until December 2013 were: (1) to avoid affecting several fixed-price FRLF contracts, which expire November 30, 2013, that were executed under the DSP I Program prior to the initiation of the Commission's Retail Markets Investigation, and (2) to allow several existing block supply contracts to expire. (PPL Electric MB, pp. 128-30; PPL Electric RB, p.

71). PPL Electric believes its position is consistent with the Commission's statement that it did not intend for the RMEs to disrupt default service supply contracts under Commission-approved plans. (*December 16 Order*, p. 63). In addition, given the high level of residential shopping, there is substantial risk that supply under block supply contracts entered into in DSP I would need to be sold at a loss if the Programs were to begin in June 2013. A short delay of 6 months to start the Opt In Program would allow 150 MW of block contracts to expire, substantially reducing the risk of losses being charged to Default Service customers. (PPL Electric MB, p. 129).

The primary driver of the Company's proposal to delay the start of its Standard Offer Referral until mid-2014 is to provide the Company time to make enhancements to its customer information and billing systems. (PPL Electric MB, p. 130; PPL Electric RB, pp. 73-74). Failure to implement these changes before starting the Standard Offer Program may result in enrollment and billing errors, because customer service representative, web and IVR systems will not have full functionality to enroll customers, randomly assign EGSs and create necessary enrollment transactions with EGSs. These computer modifications also are needed to accomplish the ""Day One Switch"" capability that RESA impatiently demands. (See Section II.D.2, below). FES' and RESA's Exceptions should be denied. (PPL Electric MB, pp. 128-31; PPL Electric RB, pp. 70-75).

**2. RESA's "Day One Switch" Proposal For The New/Moving Customer Referral Program Is Premature (RESA Exc. 12).**

RESA contends that the Company's existing New/Moving Customer Referral Program should be modified to include an immediate capability for a "Day One Switch." RESA defines "Day One Switch" capability as the ability for a customer to sign up for EGS service through PPL Electric at the time the customer signs up for distribution service, without any prior

customer contact with the EGS. (RESA MB, pp. 56-57).<sup>21</sup> RESA's proposal was properly rejected by the R.D.

PPL Electric does not oppose the concept of "Day One Switch". PPL Electric explained that "Day One Switch" is planned for the future under the Standard Offer Program. However, "Day One Switch" requires computer programming modifications and communications protocol changes to be implemented. (PPL Electric RB, p. 61). These modifications are planned to be completed in 2014. (PPL Electric St. No. 4-R, pp. 17-18). Although RESA claims that "already existing processes" could be used, RESA identified no such existing processes, and the record demonstrates such claim is not accurate. (PPL Electric St. 4, p. 31; Tr. 91-2).

There is a further reason why "Day One Switch" cannot be included in the New/Moving Customer Program. It is impossible for PPL Electric to sign up a customer to a specific EGS without knowing: (a) that the EGS is currently accepting new customers; and (b) what rates the EGS is offering to customers. Absent a standardized offer from an EGS, PPL Electric cannot know that a customer/provider relationship has been established, or advise the customer what their EGS rate will be.<sup>22</sup> (PPL Electric RB, p. 60). RESA appears to assert that the issue of actual rates can be worked out between the customer and EGS after service has been initiated (RESA Exc. p. 28); however, PPL Electric is being asked by a customer to initiate service and it must know whether the customer and EGS have agreed to a service arrangement.

Alternatively, RESA asserts that a collaborative should be initiated to develop a "Day One Switch." However, there is no need for a collaborative, because, as noted above, PPL Electric already plans to develop a "Day One Switch".<sup>23</sup> RESA's Exception should be denied.

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<sup>21</sup> PPL Electric's New/Moving Customer Program does provide for "hot transfers" of customers (Tr. 90).

<sup>22</sup> EGSs do offer various products with different price terms and different contract lengths. (FES Ex. TCB-4).

<sup>23</sup> RESA cites to the *PECO DSP II Order* as support for a collaborative. RESA appears to be confused, because PECO's collaborative proposal concerned "seamless moves," which concerns moving customers already served by

**3. RESA's Exception Regarding An Optional Customer Referral Mailing Should Be Rejected (RESA Exc. 10).**

RESA excepts to the portion of the R.D. concerning PPL Electric's proposal for an added Customer Referral Mailing in mid-2013. PPL Electric also filed an Exception related to this portion of the R.D. (PPL Electric Exc. 5). RESA's Exception should be denied.

As explained in PPL Electric's Exceptions, the only issue in dispute is whether the additional Customer Referral Mailing should be undertaken if the Commission modifies PPL Electric's proposed timelines for the Opt In and Standard Offer Programs. (PPL Electric Exc., pp. 16-18). PPL Electric opposes an additional referral program if it would be undertaken around the same time as either the Opt In Program or the Standard Offer Referral Program. Therefore, RESA's Exceptions should be denied to the extent it requests that the optional Customer Referral Mailing be undertaken if PPL Electric's proposed RME timeline is revised.

**4. DES/IGS' and FES' Exceptions To The 6-Month Contract Term For The Opt In Program Should Be Denied (DES/IGS Exc. 2, FES Exc. 3).**

DES/IGS and FES both support a 12-month contract term for the Opt In Program. PPL Electric supports a 6-month contract term, as recommended by the R.D.

PPL Electric acknowledges that the Commission's *FirstEnergy Order* and the *PECO DSP II Order* provide for an Opt In Aggregation Program structure that has a contract term of 12 months, although the customer has price certainty for only the first 4 months at a 5% discount off the PTC, with an unidentified price for the remaining 8-month term. PPL Electric respectfully recommends that the Commission reconsider this approach in PPL Electric's case. PPL Electric believes that its Opt In Program proposal (whether Auction or Aggregation) which provides for a

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an EGS. PPL Electric witness Krall testified that the seamless move issue concerns changing account numbers when a customer moves. Mr. Krall explained that PPL Electric is separately working on systems to establish account numbers in real time to allow a seamless continuation of EGS service at the customer's new residence. (Tr. 88-89).

six-month contract term, a 5% discount (or greater if an auction is used), and a \$50 bonus is reasonable, avoids uncertainty and questions of transparency concerning the price for the remaining contract term (DES/IGS MB, p. 18), eliminates concerns expressed by some that customers might perceive changes in price terms to be a “bait and switch” offer (FES MB, p. 45), and otherwise avoids contentions that customers were disadvantaged if they are randomly assigned to an EGS that has a higher 8-month price than other participating EGSs. (PPL Electric MB, p. 112). PPL Electric’s basic structure for the Opt In Program has been endorsed by several parties, including RESA and OCA. (RESA MB, p. 61; OCA MB, p. 41). PPL Electric asks that the Commission further consider this alternative.

DES/IGS contends that a 6-month program may tend to dissuade EGSs from participating due to program costs. However, DES/IGS offered no evidence that EGSs would refuse to participate if contracts are for 6 months. Many EGSs in PPL Electric’s service territory currently offer discounts off the PTC that exceed the 5% discount under the Opt In Program, and the EGSs must obtain customers through their own marketing efforts. The Opt In Program will provide an opportunity for EGSs to sign up large numbers of customers without advertising. Moreover, DES/IGS’ contention fails to consider the real goal of an Opt In Program – to present an easy to understand product, with some certainty of real savings, for a midrange term, which would encourage even more customers to try shopping. PPL Electric’s proposal, more than any other proposal presented in this case, achieves that goal.

FES argues that a 12-month contract term will increase the likelihood of customer participation because this provides 12 months of price stability. However, the Opt In Program design in the *FirstEnergy Order* and the *PECO DSP II Order*, which FES appears to endorse (FES Exc., p. 10), does not provide 12 months of price stability, but only 4 months. Thus, FES’

endorsed program design does not support its argument.

The R.D.'s recommendation that the Opt In Program be for a 6-month contract term should be adopted. (PPL Electric MB, pp. 115-17; PPL Electric RB, pp. 63-65).

**5. OCA's Proposal For A 20% Customer Enrollment Limit On The Opt In Program Should Be Denied (OCA Exc. 2).**

OCA excepts to the R.D.'s recommendation to approve PPL Electric's proposal for a 50% customer enrollment cap for the Opt In Program. OCA has offered no new arguments, not previously considered by the Commission in the *Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan*, Docket No. I-2011-2237952, 2012 Pa. PUC LEXIS 324 (March 2, 2012) ("*RMI-IWP Final Order*"), to justify changing the 50% participant enrollment cap. For reasons explained in PPL Electric's briefs, OCA's Exceptions should be denied. (PPL Electric MB, p. 118).

**6. OCA's Proposal That Customers Be Guaranteed Savings Under The Opt In Program Is Substantially Mooted If PPL Electric's Proposals Are Adopted (OCA Exc. 3).**

OCA contends that the Company's Opt In Program should provide a guarantee of a 5% discount off the PTC throughout the term of the Opt In contract. OCA's proposal would be substantially mooted if the Commission adopts the Company's proposal for a 6-month Opt In contract term, coupled with PPL Electric's proposed schedule for the Opt In Program and semi-annual PTC rate changes. These coordinated proposals would assure that participants would achieve five months of certain savings off the PTC. (PPL Electric MB, p. 116). The Commission should adopt PPL Electric's proposals, and moot OCA's exception.

**7. Proposals By OCA And RESA To Include Further Company Notices As Part Of The Opt In Program Should Be Denied (OCA Exc. 4; RESA Exc. 11.3).**

OCA excepts to the R.D.'s rejection of OCA's proposal that the Company send a third

notice to customers, in addition to the two required EGS notices, prior to the end of the customer's Opt In contract. RESA excepts to the R.D.'s rejection of RESA's proposal that the Company send at least one additional mailing, in addition to the mailings already proposed by PPL Electric, informing customers about the Opt In Program.

Program costs, and the recovery of those costs from either EGSs or customers, have been major concerns of most parties to this proceeding. (See Section III.D.18 of these Replies to Exceptions). With such concerns about costs, it is not logical to add to program costs by increasing customer mailings. Based upon experience, the Company estimates mailing costs to be about \$1.00 per customer. (Exh. CHK-1). Thus, each additional mailing proposed by RESA to default service customers would increase costs by over \$600,000. Costs also would increase under OCA's proposal.

The proposals for additional notices were not accepted in the *RMI-IWP Final Order*, and they should not be adopted here. (*RMI-IWP Final Order*, pp. 9-13, 51-56, 71-72).

**8. OCA's Proposal That An Opt In Customer Should Be Placed On A Fixed Price Month-To-Month Contract At Term End Should Be Denied (OCA Exc. 5).**

OCA contends that the R.D. erred in not requiring that EGSs place Opt In Program customers on a fixed price, month-to-month contract at the end of the program term, if the customer has not made an affirmative choice to remain with their EGS. PPL Electric disagrees.

OCA's proposal was not adopted in the *RMI-IWP Final Order* (Order pp. 71-72), and OCA has not offered any new arguments, not previously considered, to justify adoption of its proposal here.

**9. Customers Should Not Be Asked To Opt In Before Discount Terms Are Known (DES/IGS Exc. 3).**

In its third Exception, DES/IGS criticizes the R.D.'s recommendation that customers not

be required to elect the Opt In Program before discount terms are known. DES/IGS's exception is confusing, as it appears to actually be an Exception favoring the use of an Aggregation process over the use of an Auction process. (DES/IGS Exc., p. 5). However, an Aggregation process does not require customers to elect the Program before knowing discount terms. Rather, an aggregation process just eliminates the auction in favor of a fixed percentage discount. If the crux of DES/IGS' Exception is that they endorse an Aggregation approach because it reduces costs, PPL Electric notes that it has offered simple modifications to its Auction process to convert it into an Aggregation process. (PPL Electric MB, pp. 114-15). An aggregation process does not necessitate wholesale rejection of PPL Electric's Opt In Program design.

However, if DES/IGS is proposing that customers be asked to elect to participate in an Opt In Program without certainty of terms, PPL Electric opposes that proposal. PPL Electric believes the greatest chance for success of an Opt In Program will result if customers are given certainty of price. The Commission in the *RMI-IWP Final Order* rejected proposals to have customers sign up before the results of an Opt In Auction process were known. (Order at p. 55). Such a proposal should similarly be rejected here.<sup>24</sup>

**10. The High Level Of Small C&I Customer Shopping On PPL Electric's System Does Not Justify The Added Expense Of Including Small C&I Customers In The Opt In Program (FES Exc. 5, RESA Exc. 11b).**

FES and RESA have excepted to the R.D. recommendation that small business customers<sup>25</sup> not be included in the Opt In Program. FES and RESA contend that the record does not support a conclusion that the costs to include small business customers in the program

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<sup>24</sup> Similarly, PPL Electric is concerned that if Opt In Program prices are not known and certain for the full contract term, customers may not be interested. In addition, those who do elect the Program may discover that they have been randomly assigned to an EGS with higher rates, leading to complaints and negative impressions about their first shopping experience. (PPL Electric St. 4-SR, p. 11).

<sup>25</sup> RESA defined small business customers as those under 25 kW or PPL Electric's "smallest existing rate class." PPL Electric's rate classes are not defined by kW demand, and thus a definition of small business customers based on demand would include multiple rate schedules. PPL Electric's GS-1 Rate is for single phase non-residential service at secondary voltage; there may be customers with demand over 25 kW on this schedule. (PPL RB, p. 67).

outweigh the benefits.

PPL Electric disagrees. There is a cost involved in soliciting customers for the Opt In Program, which has been estimated at \$1.00 per mailing piece, plus the costs of identifying eligible non-shopping customers and undertaking a separate auction. Nearly 90% of PPL Electric's commercial customer load is shopping, as well as over 64% of the load of non-residential customers under 25 kW. These are substantially higher levels of shopping than in the service territories of either the FirstEnergy Companies or PECO. Thus, a robust market does exist for small business shopping, and the R.D. fairly concluded that an Opt In Program is not necessary to further boost shopping in this customer segment, after consideration of the additional program costs. FES' and RESA's Exceptions should be denied.

**11. RESA's Exception To Permitting Existing Shopping Customers To Participate In The Opt In Program Should Be Denied (RESA Exc. 11.1).**

RESA excepts to the R.D. recommendation that PPL Electric not solicit shopping customers for the Opt In Program, but permit shopping customers to participate if they make an affirmative request. (R.D. 119-20).

RESA's proposal to absolutely prohibit shopping customers from participating in the RMEs was considered and rejected in the *RMI-IWP Final Order*. (*RMI-IWP Final Order* at pp. 41-42). RESA has offered no reasons, not previously considered and rejected by the Commission, for preventing shopping customers from participating in the Opt In Program. RESA's Exception should be denied. (PPL Electric MB, pp. 117-18; PPL Electric RB, p. 66).

**12. The R.D. Properly Rejected RESA's Proposal To Undertake Multiple Opt In Enrollments (RESA Exc. 11.3).**

The R.D. rejected RESA's proposal, made for the first time in briefs, that if the Opt In process generates less than a 10% response rate, then PPL Electric should undertake a second

enrollment process. (R.D. 125). RESA's Exception properly should be denied.

The Commission should not set an arbitrary floor for success at this time, or direct at this time what should occur in the event an Opt In Program is deemed insufficiently successful. PPL Electric emphasizes that the cost of mailings is substantial, and repeating the process may not be an efficient use of financial resources, whether it is EGSs or customers who must bear that cost. PPL Electric further notes that the Commission will be provided a report following the conclusion of the Opt In process. (*RMI-IWP Final Order*, p. 83). At that time, the Commission can decide, based upon a review of results, whether the program has been successful or whether something else should be done. RESA's proposal to trigger a second Opt In Program mailing based upon an arbitrary participation rate should be rejected.

**13. RESA Has Submitted An Unnecessary Exception Contending That PPL Electric Should Provide Multiple Options To Elect The Opt In Program (RESA Exc. 11.3).**

RESA contends that customers should be permitted to elect the Opt In Program by notifying PPL Electric "by mail, phone or web." (RESA Exc., p. 26). RESA's Exception on this point is unnecessary, because the R.D. recommends approval of PPL Electric's proposed Program, which already includes these sign up options. (PPL Electric MB, p. 112; PPL Electric St. 4, p. 22). RESA's Exception should be disregarded.

**14. OCA's Proposal That Customers Receive Guaranteed Discounts For The Term Of The Standard Offer Referral Program Should Be Denied (OCA Exc. 8).**

OCA has excepted to the R.D.'s recommendation to not adopt OCA's proposal that the Standard Offer Referral Program provide a guaranteed percentage discount off the PTC.

OCA's proposal for a guaranteed discount is contrary to the *RMI-IWP Final Order*. (Order at p. 31). OCA has offered no reasons, not previously considered by the Commission, to require a guaranteed discount. However, as noted in the next section of these Replies to

Exceptions, the Company's proposal for a 6-month term for the Standard Offer Referral Program, in concert with its proposed semi-annual PTC changes, effects a compromise between competing proposals relating to term length and price guarantees. PPL Electric's proposal mitigates OCA's concerns about the effect of intervening PTC changes on the discount amount received by a customer electing a Standard Offer price. OCA's Exception should be denied.

**15. FES' And RESA's Exceptions To The Term Length Of A Standard Offer Contract Should Be Denied (FES Exc. 7; RESA Exc. 13.1).**

The R.D. recommends adoption of PPL Electric's proposal for a 6-month contract term, with a 7% discount off the then-current PTC, under the Standard Offer Referral Program. (R.D. 138). A 6-month term is consistent with the recommendation of the *RMI-IWP Final Order*, which established that the standard offer should be provided for a minimum of four months but should not exceed one year. (Order at p. 31).

FES excepts to the R.D. recommendation, and proposes a contract term of one year, with the fixed price set at a discount of 7% off the then-current PTC. RESA also excepts to the recommendation, and proposes a contract term of one year, but with a 7% discount for only the first four months.<sup>26</sup>

PPL Electric's proposal, as adopted by the ALJ, represents a compromise of competing positions related to the term of the Standard Offer contract, as well as OCA's concerns with respect to discounts under an introductory program. Under the Company's proposal, customers will not be sheltered from the reality of market price changes, but also would not experience multiple price changes during the term of what is intended to be an introductory program. The Company's position is explained in detail in its MB. (PPL Electric MB, pp. 124-125). FES' and

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<sup>26</sup> OCA argued in favor of a four month term for the Standard Offer contract, with a requirement that the 7% discount be guaranteed with relation to any PTC changes during the contract term. OCA did not file an exception with respect to the contract term, but did except with respect to the discount guarantee (see Section II.D.14 of these Replies to Exceptions).

RESA's exceptions should be denied.

**16. RESA's Exception To The Exclusion Of Small Business Customers From The Standard Offer Referral Program Should Be Denied (RESA Exc. 13.2).**

RESA excepts to the R.D.'s recommendations that small business customers not be included in the Standard Offer Referral Program. As explained in Section II.D.11 above, with respect to the proposal to include small business customers in the Opt In Program, PPL Electric believes the R.D. correctly concluded that such a proposal adds unnecessary costs, given the high level of Small C&I shopping in its service area, and RESA's Exception should be denied.

**17. OCA's Exception To The Types Of Calls That Are Included In The Standard Offer Referral Program Should Be Denied (OCA Exc. 9).**

OCA contends that the Standard Offer Referral Program should not be presented to customers on calls regarding high bill concerns. As the R.D. recognizes, PPL Electric intends to comply with the *RMI-IWP Final Order* directive that the Standard Offer Program be presented "only and explicitly after the customers concerns were satisfied." (R.D. 142-43; *RMI-IWP Final Order*, p. 32). The Company's plans are consistent with the Commission's directives, and OCA's Exception should be denied. (PPL Electric MB, p. 127).

**18. Parties' Exceptions To The R.D.'s Approval Of PPL Electric's Cost Recovery Plans Should Be Denied (OCA Exc. 6, OCA Exc. 10, DES/IGS Exc. 4, RESA Exc. 14).**

The R.D. recommends approval of PPL Electric's proposals for recovery of costs associated with the Opt in Program and the Standard Offer Referral Program. In summary, PPL Electric proposes that EGSs be primarily responsible for payment of the costs of the two programs. PPL Electric proposes that the cost of Customer Service Representative ("CSR") time to support the two programs not be charged to EGSs, because it is not practical to determine the proportion of CSR time incurred for discussions about the Programs. PPL Electric also proposes

that computer reprogramming costs for upgrades to implement the Standard Offer Program be recovered in a future base rate case, because these upgrades also can be used for other customer service functions unrelated to the RMEs. In addition, PPL Electric proposes that if any costs are not recoverable from EGSs (for example, if the Company incurs costs for an Opt In Auction and no EGSs participate), then such costs will be recovered from customers.

OCA, Dominion and RESA each have excepted to the R.D. As is evident from the Exceptions, and from the arguments presented in the case, the issue of cost recovery is primarily a dispute between parties representing customer interests (OCA, OSBA, PPLICA, CAUSE) who believe all retail market enhancement costs should be paid by EGSs, and parties representing EGS interests (RESA, FES, DES/IGS) who believe some or all of the retail market enhancements should be paid by customers.

PPL Electric emphasizes that its primary interest is that the Company be fully and promptly compensated for all costs incurred to implement the RMEs. If costs are not, or cannot be, recovered from EGSs, PPL Electric must be compensated by customers. To do otherwise would be contrary to law. *See Columbia Gas of Pennsylvania, Inc. v. Pa. PUC*, 613 A.2d 74 (Pa. Cmwlth. 1992). This includes any costs that may be incurred to implement the RMEs in the event no EGSs participate in such programs.<sup>27</sup>

For reasons explained in greater detail in PPL Electric's briefs, the Company's cost recovery proposals are reasonable and should be adopted. (PPL Electric MB, pp. 131-37; PPL Electric RB, pp. 75-76).

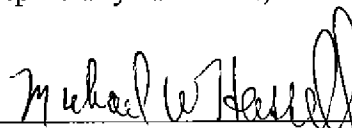
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<sup>27</sup> This also includes FES' proposal, set forth for the first time in briefs, that any cost recoveries from EGSs be based upon defined or capped per customer payments. (FES MB, p. 61). Such a mechanism could result in large unrecovered costs if the number of customers electing either of the market enhancement programs does not meet expectations used to develop any per customer payment amount. If a per customer payment approach is adopted, it must include a provision that costs not recovered from EGSs will be recovered from customers.

### III. CONCLUSION

PPL Electric respectfully requests that the Exceptions of other parties be denied as stated herein, that PPL Electric's Exceptions be granted, and that in all other respects the R.D. be adopted.

Respectfully submitted,



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