

PPL Electric Utilities Corporation
Provider of Last Resort (POLR)
Request for Proposals (RFP) Process and Rules

February 1, 2007

POLR RFP PROCESS AND RULES

TABLE OF CONTENTS

ARTICLE 1 INTRODUCTION.....4

 1.1 OVERVIEW4

 1.2 SUMMARY OF RFP DOCUMENTS8

 1.3 POLR LOAD AND SUPPLIER OBLIGATIONS8

ARTICLE 2 INFORMATION AND SCHEDULE.....9

 2.1 INFORMATION PROVIDED TO POTENTIAL BIDDERS9

 2.2 RFP SCHEDULE.....10

 2.3 MULTI-SOLICITATION PROCESS12

ARTICLE 3 GENERAL REQUIREMENTS FOR PROPOSALS12

 3.1 RFP GENERAL REQUIREMENTS.....12

ARTICLE 4 BIDDER QUALIFICATION14

 4.1 OVERVIEW OF BIDDER QUALIFICATION PROCESS14

 4.2 EXPRESSION OF INTEREST15

 4.3 CONFIDENTIALITY AGREEMENT.....15

 4.4 APPLICANT'S PJM AND FERC QUALIFICATIONS15

 4.5 CREDIT APPLICATION AND FINANCIAL INFORMATION16

 4.6 BINDING BID AGREEMENT16

 4.7 CURE TIME FOR DEFICIENCIES IN QUALIFICATION REQUIREMENTS16

 4.8 BID ASSURANCE COLLATERAL AND ALTERNATIVE LETTER OF CREDIT FORM17

 4.9 ALTERNATIVE FORMS OF PERFORMANCE ASSURANCE17

ARTICLE 5 BID PROPOSAL REQUIREMENTS18

 5.1 BID PROPOSAL FORMAT.....18

 5.2 SUBMITTAL OF BID PROPOSALS20

 5.3 CONFIRMATION AND PROPOSAL TAGGING PROCESS.....20

 5.4 CONFORMING PROPOSALS.....20

 5.5 EXPIRATION OF PROPOSALS21

 5.6 SUBMITTAL OF POLR SMA21

 5.7 ADDITIONAL REQUIREMENTS.....21

ARTICLE 6 INSTRUCTIONS FOR PREPARATION OF BIDDER QUALIFICATIONS AND BID PROPOSALS22

 6.1 GENERAL22

 6.2 PACKAGING.....23

ARTICLE 7 EVALUATION OF PROPOSALS24

 7.1 BIDDER QUALIFICATIONS PROCESSING24

 7.2 BIDDER QUALIFICATIONS EVALUATION.....24

 7.3 BID PROPOSALS PROCESSING25

 7.4 BID PROPOSAL EVALUATION26

 7.5 COMMISSION APPROVAL AND REVIEW27

ARTICLE 8 RESERVED RIGHTS.....28

 8.1 NON-BINDING RFP28

 8.2 PROPOSALS BECOME PPL ELECTRIC'S PROPERTY29

APPENDIX 2 EXPRESSION OF INTEREST FORM30

TABLE OF CONTENTS

APPENDIX 3 CONFIDENTIALITY AGREEMENT31

APPENDIX 4 PJM QUALIFICATION CERTIFICATION FORM.....36

APPENDIX 6 CREDIT APPLICATION.....38

APPENDIX 7 BID ASSURANCE LETTER OF CREDIT42

APPENDIX 8 BID PROPOSAL SPREADSHEET.....46

APPENDIX 9 BINDING BID AGREEMENT.....51

APPENDIX 10 BINDING BID WITHDRAWAL AGREEMENT52

ARTICLE 1 INTRODUCTION

1.1 Overview

- 1.1.1 Capitalized terms in this document, which are not defined explicitly herein, are defined in the PPL Electric Utilities Corporation Provider of Last Resort Supply Master Agreement (“POLR SMA”), attached hereto as Appendix 1.
- 1.1.2 PPL Electric Utilities Corporation (“Company” or “PPL Electric”) has proposed a competitive bidding process to obtain electric supply sufficient for the Company to meet its obligations as the Provider of Last Resort (“POLR”), pursuant to Chapter 28 of the Pennsylvania Public Utility Code, 66 Pa. C. S. §§ 2801-2812. This Request for Proposals (“RFP”) is being issued to select electricity suppliers and to determine POLR retail service rates for the period January 1, 2010, through December 31, 2010.
- 1.1.3 PPL Electric is issuing this RFP to procure full requirements electricity service for the period beginning January 1, 2010, through December 31, 2010, under the terms described below, for each of three groupings of rate classes (“Group”): Residential, Small Commercial and Industrial, and Large Commercial and Industrial. Each Group is defined on the basis of the Company’s existing specific rate schedules as shown in the following table. To the extent an existing rate schedule is modified, or replaced by successor rate schedules, PPL Electric, at its sole discretion, will place that rate schedule in the appropriate Group.

Group	Rate Schedule	Description
Residential	RS RTS RTD	RS – Residential Service RTS(R) – Residential Service – Thermal Storage RTD(R) – Residential Service – Time of Day
Small Commercial and Industrial	GS-1 GS-3 GH-1 GH-2 IS-1 BL SA SM SHS SE TS SI-1 Standby	GS-1 – Small General Service GS-3 – Large General Service GH-1(R) – Single Meter Com'l. Space Heating Service GH-2(R) – Separate Meter General Space Heating Service IS-1(R) – Interruptible Service – Greenhouses BL – Borderline Service – Electric Utilities SA – Private Area Lighting SM – Mercury Vapor Street Lighting SHS – High Pressure Sodium Street Lighting SE – Energy Only Street Lighting Service TS(R) – Municipal Traffic Signal Lighting Service SI-1(R) – Municipal Street Lighting Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules.
Large Commercial and Industrial	LP-4 ISP	LP-4 – Large General Service – 12 KV or Higher IS-P(R) – Interruptible Large General Service – 12 KV or Higher

Group	Rate Schedule	Description
	LP-5	LP-5 – Large General Service – 69 KV or Higher
	LP-6	LP-6 – Large General Service – 69 KV or Higher
	LPEP	Power Service to Electric Propulsion
	IST	IS-T(R) – Interruptible Large General Service – 69 KV or Higher
	ISM	Interruptible Service by Agreement (R)
	Standby	Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules.

- 1.1.4 The POLR Load for each of these Groups for purposes of this POLR RFP is the full requirements electricity service as recorded by PPL Electric and reported to the PJM Interconnection, LLC (“PJM”) of PPL Electric’s retail customers within that Group, excluding customers that have chosen to take service from an Electric Generation Supplier (“EGS”), and excluding customers that have elected to take POLR service from PPL Electric on an hourly pricing option to be included in PPL Electric’s retail tariff for qualifying customers (“Hourly Service”). For the purposes of this RFP, the POLR Load will be reduced by PPL Electric’s Year 2010 fractional percentage of committed capacity and energy obtained under long-term contracts (appropriate contract and performance data provided on PPL Electric’s RFP Web site).
- 1.1.5 An electricity supplier selected through this RFP to provide POLR Supply for a portion or all of a particular Group and approved by the Pennsylvania Public Utility Commission (“PUC” or “Commission”) becomes a POLR Supplier for that Group. A POLR Supplier may be selected to provide POLR Supply for one or more Groups. POLR Suppliers will be responsible for fulfilling all the requirements of a PJM Load Serving Entity including, without limitation, energy, capacity, transmission (including network integration transmission service), ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply POLR service to PPL Electric. In addition, POLR Suppliers will also be responsible for providing supply necessary for PPL Electric to meet its obligations under the Alternative Energy Portfolio Standards Act, 73 P.S. §§ 1648.1-1648.8, (“AEPS Act”), during the term of the supply agreement. PPL Electric will be responsible for complying with all PJM Active Load Management program operating rules.
- 1.1.6 A POLR Customer for the purposes of these RFP Rules is: 1) a PPL Electric retail customer in the Residential Group or the Small Commercial and Industrial Group that is not taking service from an EGS; or 2) a PPL Electric retail customer in the Large Commercial and Industrial Group that is not taking service from an EGS and that elects, by December 31, 2008, to receive annual fixed price POLR service in 2010. If a PPL Electric retail customer in the Large Commercial and Industrial Group has not elected annual fixed price POLR service for 2010 by December 31, 2008, that customer cannot return to the fixed-price POLR service during the term of the Delivery Period (January 1, 2010, to December 31, 2010). Such a retail customer in the Large Commercial and Industrial Group, however, may return to Hourly Service. Any other shopping customer (i.e., a customer served by an EGS) may return to POLR service on any meter reading date in accordance with the Company’s standard switching

requirements. Switching customers may be charged the Generation Rate Adjustment (“GRA”) consistent with PPL Electric’s General Tariff. Any GRA revenues collected by PPL Electric for service rendered during the Delivery Period to the Groups will be credited on a pro-rata basis to each POLR Supplier, consistent with the POLR Load served by that POLR Supplier, serving those rate schedules, subject to the GRA, within the Groups.

- 1.1.7 Each POLR customer in a Group will receive electric service from all POLR Suppliers for that Group, starting on 12:00:00 a.m. Eastern Prevailing Time (“EPT”) on January 1, 2010. POLR customers in a Group cease to be served by all POLR Suppliers for that Group selected through this RFP after December 31, 2010, at 11:59:59 p.m. EPT. POLR customers in a Group shall pay for retail service based on the bid prices.
- 1.1.8 POLR Load for each Group will be divided into tranches. A tranche in a Group represents a fixed percentage of the POLR Load for that Group and is approximately 50 megawatts (“MW”). A POLR Supplier serving one tranche in a particular Group is responsible for serving the percentage of that Group’s POLR Load represented by one tranche. The total number of tranches placed into each Group is based on that Group’s 2010 Projected Peak Load Contribution (“PLC”) on the PPL Electric system in accordance with PJM. Given the current PLC, tranches will be distributed among the three Groups as follows: 60 tranches for the Residential Group, 42 tranches for the Small Commercial and Industrial Group, and 38 tranches for the Large Commercial and Industrial Group. A figure in megawatts, called the MW-Measure, is calculated for reference purposes only, as the 2010 Projected PLC for the Group divided by the total number of tranches. The currently projected percentage size and projected MW-Measure of each tranche are shown in the following table:

Group	Total Tranches	% Size of a Tranche	Peak (MW)	MW-Measure
Residential	60	1.67%	3,001	50.0
Small Commercial and Industrial	42	2.38%	2,279	54.3
Large Commercial and Industrial	38	2.63%	1,890	49.7

- 1.1.9 The actual POLR Load for each Group will depend upon many factors including, but not limited to, customer migration to EGSs and weather conditions. The maximum peak load of each Group may be higher or lower than the 2010 Projected PLC utilized to determine the MW-Measure assigned to each Group. Respondents to this RFP (“RFP Bidders”) are responsible for evaluating the uncertainties associated with POLR Load for each of the Groups.
- 1.1.10 PPL Electric will issue a solicitation in March and September of 2007, 2008, and 2009 to competitively procure electric supply sufficient for the Company to meet its 2010

obligations as the POLR. Each of the six solicitations from 2007 through 2009 will obtain POLR Supply for the retail customers in the Residential Group and the Small Commercial and Industrial Group. Each of the two solicitations in 2009 will also obtain the POLR Supply for retail customers in the Large Commercial and Industrial Group that have elected annual fixed price POLR service for 2010 by December 31, 2008.

- 1.1.11 Any prospective supplier, including PPL Electric's unregulated generation supply affiliate PPL EnergyPlus, that believes it can meet the qualification standards established in this RFP and is willing to provide prices at which it will serve tranches of POLR Load for any Group may respond to any solicitation in this RFP.
- 1.1.12 Any prospective respondent to this RFP will meet the Bidder Qualification requirements provided in Article 4, and submit a Bid Proposal as described in Articles 5 and 6. The Bidder Qualification requirements generally require the prospective RFP Bidder to provide certain evidence of being a recognized electricity supplier and to submit documents establishing the RFP Bidder's credit. The Bid Proposal must include the RFP Bidder's "Bid(s)" for each Group, additional certifications, and an executed Bid Assurance Letter of Credit. A Bid Proposal is a price or prices, in 2010 U.S. Dollars per megawatt-hour ("MWh") at which the RFP Bidder is willing to serve a tranche or tranches, of a given Group.
- 1.1.13 All elements of this RFP will be carried out pursuant to the RFP Schedule provided in Article 2.2. In general, for each of the six solicitations to be conducted under this RFP, there will be a pre-specified time period prior to the submission of Bid Proposals wherein RFP Bidders can: 1) express interest in offering supplies; 2) obtain confidential data on supply obligations; 3) attend RFP Bidder Information Sessions; and 4) submit and receive answers to questions regarding the solicitation. In all instances, PPL Electric reserves the right to modify the RFP Schedule at its own discretion.
- 1.1.14 On the Bid Proposal Due Date of any solicitation, a qualified RFP Bidder may submit Bid Proposals for one or more Groups, subject to the restrictions of this article. In any solicitation, the RFP Bidder may only submit Bids for whole numbers of tranches. The number of tranches in a Group for which an RFP Bidder submits a Bid cannot exceed the product of the Load Cap for that Group and the Available Tranches for that Group in that solicitation. The Load Cap for each Group is provided in Article 2.3.1. In any solicitation, when an RFP Bidder submits a Bid to supply a number of tranches in a Group, the RFP Bidder must submit a price at which that RFP Bidder is willing to serve each number of tranches up to and including that number of tranches in that Group. No Bid for any number of tranches in any Group may be made contingent upon winning or losing another Bid for some number of tranches in another Group. Instructions for preparation of the Bid Proposal are addressed in Articles 6.1 and 6.2.
- 1.1.15 For each solicitation, the Bid Proposal Evaluation Team will present the results of that solicitation to the PUC within one business day of the Bid Proposal Due Date of that solicitation. At that time, the PUC will have two business days to consider the report of

the Bid Proposal Evaluation Team and to render a final decision on the results of that solicitation. The PUC may either accept or reject all of the Bid Proposals presented for a Group in their entirety.

- 1.1.16 If, for a given Group, the PUC rejects all Bids in any solicitation prior to the last scheduled solicitation, or if some tranches in any particular solicitation do not receive bids, the unfilled tranches from that solicitation will be included in the next solicitation as specified in Article 2.3. In the event that some load remains unserved after the last scheduled solicitation, or if a POLR Supplier defaults, PPL Electric will offer full requirements electricity supply assignment as specified in Article 7.5. After all solicitations, if Bids are received for all tranches in a given Group and the PUC accepts those Bids, the resulting retail rates will be effective for a given customer in that Group for POLR service provided from January 1, 2010 at 12:00:00 a.m. EPT through December 31, 2010, at 11:59:59 p.m. EPT.

1.2 Summary of RFP Documents

- 1.2.1 The following documents are appended to, and shall be considered an integral part of, this RFP:

Appendix 1: PPL Electric Utilities Corporation POLR SMA
 Appendix 2: Expression of Interest Form
 Appendix 3: Confidentiality Agreement
 Appendix 4: PJM Qualification Certification Form
 Appendix 5: FERC Authorization Certification Form
 Appendix 6: Credit Application
 Appendix 7: Bid Assurance Letter of Credit
 Appendix 8: Bid Proposal Spreadsheets
 Appendix 9: Binding Bid Agreement
 Appendix 10: Binding Bid Withdrawal Agreement

1.3 POLR Load and Supplier Obligations

- 1.3.1 This section contains a general description of the POLR Load for each Group, and a POLR Supplier's obligations. It is only a summary and is subject to and qualified in its entirety by the POLR SMA, attached hereto as Appendix 1.
- 1.3.2 POLR Suppliers for a Group shall serve the Company's POLR Load for that Group. POLR Load for a Group is the Company's full requirements electricity service including, without limitation, energy, capacity, transmission (including network integration transmission service), ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply the POLR load. In addition, as a qualification requirement, each RFP

Bidder submitting a Bid for a Group must accept the obligations and associated rights to provide POLR service defined in the POLR SMA.

- 1.3.3 POLR Suppliers are also responsible for providing supply necessary for PPL Electric to meet its obligations under the AEPS Act during the term of the supply agreement. In order to comply with the AEPS Act and the Commission's Orders in Docket No. P-00052188, Electricity Distribution Companies ("EDCs") must supply a portion of their POLR load consistent with the requirements set forth in the AEPS Act and the Commission's Orders. POLR Suppliers will be required to participate exclusively in the PJM-Environmental Information System ("EIS") and Generation Attribute Tracking System ("GATS") to demonstrate proof of performance and will be responsible for any costs incurred by PPL Electric associated with non-performance.
- 1.3.4 Each POLR Supplier for a Group will be paid a supplier-specific price for each MWh of electric load served as specified in a Transaction Confirmation to the POLR SMA. The supplier-specific price will be the average of the POLR Supplier's winning prices for each and every tranche in the Group that the POLR Supplier has been awarded. The price(s) will be expressed in U.S. Dollars per MWh and reported in a Transaction Confirmation.

ARTICLE 2 INFORMATION AND SCHEDULE

2.1 Information Provided to Potential Bidders

2.1.1 PPL Electric and its RFP Manager have established a Web site that will be the main source of information for this RFP. Prospective bidders are requested to use this Web site for current data and information about all aspects of this RFP and to access all essential RFP-related documents. Certain data will be password-protected at PPL Electric's sole discretion. Passwords will be provided upon execution of the Confidentiality Agreement as described in Article 4.3.

2.1.2 The information on the Web site will be organized in the following sections:

Home: This section provides announcements of interest to prospective bidders and other interested parties regarding the RFP process.

Regulatory Information Page: This section provides presentations regarding this RFP prepared by PPL Electric and/or its RFP Manager, as well as the Orders from the PUC in the proceeding.

PPL Electric Rate Categories and Load Data: This section provides data pertinent to prospective bidders, such as retail and POLR hourly load data by Group, switching data, retail tariffs, load profiles by rate class, etc.

Supplier Documents: This section provides RFP-related documents including all the RFP Rules and the POLR SMA. It also provides all credit instruments necessary for prospective bidders and for POLR Suppliers, including the standard form for the Bid Assurance Letter of Credit, the standard form for the Letter of Credit for the term of the POLR SMA, and the standard Guaranty for the term of the POLR SMA.

Ask a Question: In this section, all stakeholders, including prospective bidders, will be able to ask questions via a web form. The RFP Manager will post the question and an answer on the Web site so that all stakeholders and prospective bidders have access to the same information. After the question and answer are posted on the Web site, the RFP Manager will also email the answer to the questioner.

FAQs: In this section, the RFP Manager posts the questions and answers received through the Web site and their answers.

Register Page: In this section, all stakeholders, including prospective bidders, will be able to register to receive announcements directly from the RFP Manager via email.

Calendar: This section provides prospective bidders with all crucial dates in the RFP process.

2.2 RFP Schedule

The schedule for this RFP is below. The time for all deadlines and due dates is 12:00:00 p.m. EPT.

PPL Electric Utilities Corporation POLR RFP Schedule

Activity	Date
PPL Electric Utilities Issues RFP	Thursday, February 1, 2007
Bidder Interest Form and Confidentiality Agreement Available	Thursday, February 1, 2007
RFP Data Room Opens	Thursday, February 8, 2007
Bidder Information Session	Thursday, February 22, 2007
Solicitation # 1	
Bidder Qualifications Due	Monday, March 5, 2007
Cure Deficiency Deadline	Wednesday, March 14, 2007
Qualified Bidders Notified	Monday, March 19, 2007
Bid Proposals Due	Monday, March 26, 2007
PUC Decision	Thursday, March 29, 2007
Execute Transaction Confirmation	Thursday, March 29, 2007
Solicitation # 2	
RFP Addendum Issued	Monday, August 27, 2007
Bidder Interest Form and Confidentiality Agreement Available	Monday, August 27, 2007
Bidder Information Session	Wednesday, September 5, 2007

PPL Electric Utilities Corporation POLR RFP Schedule

Bidder Qualifications Due	Monday, September 10, 2007
Cure Deficiency Deadline	Wednesday, September 19, 2007
Qualified Bidders Notified	Monday, September 24, 2007
Bidder Proposals Due	Monday, October 1, 2007
PUC Decision	Thursday, October 4, 2007
Execute Transaction Confirmation	Thursday, October 4, 2007

Solicitation # 3

RFP Addendum Issued	Tuesday, February 19, 2008
Bidder Interest Form and Confidentiality Agreement Available	Tuesday, February 19, 2008
Bidder Information Session	Wednesday, February 27, 2008
Bidder Qualifications Due	Monday, March 3, 2008
Cure Deficiency Deadline	Wednesday, March 12, 2008
Qualified Bidders Notified	Monday, March 17, 2008
Bidder Proposals Due	Monday, March 24, 2008
PUC Decision	Thursday, March 27, 2008
Execute Transaction Confirmation	Thursday, March 27, 2008

Solicitation # 4

RFP Addendum Issued	Monday, August 25, 2008
Bidder Interest Form and Confidentiality Agreement Available	Monday, August 25, 2008
Bidder Information Session	Wednesday, September 3, 2008
Bidder Qualifications Due	Monday, September 8, 2008
Cure Deficiency Deadline	Wednesday, September 17, 2008
Qualified Bidders Notified	Monday, September 22, 2008
Bidder Proposals Due	Monday, September 29, 2008
PUC Decision	Thursday, October 2, 2008
Execute Transaction Confirmation	Thursday, October 2, 2008

Solicitation # 5

RFP Addendum Issued	Monday, February 23, 2009
Bidder Interest Form and Confidentiality Agreement Available	Monday, February 23, 2009
Bidder Information Session	Wednesday, March 4, 2009
Bidder Qualifications Due	Monday, March 9, 2009
Cure Deficiency Deadline	Wednesday, March 18, 2009
Qualified Bidders Notified	Monday, March 23, 2009
Bidder Proposals Due	Monday, March 30, 2009
PUC Decision	Thursday, April 2, 2009
Execute Transaction Confirmation	Thursday, April 2, 2009

Solicitation # 6

RFP Addendum Issued	Monday, August 31, 2009
Bidder Interest Form and Confidentiality Agreement Available	Monday, August 31, 2009
Bidder Information Session	Wednesday, September 9, 2009
Bidder Qualifications Due	Monday, September 14, 2009
Cure Deficiency Deadline	Wednesday, September 23, 2009
Qualified Bidders Notified	Monday, September 28, 2009
Bidder Proposals Due	Monday, October 5, 2009
PUC Decision	Thursday, October 8, 2009

PPL Electric Utilities Corporation POLR RFP Schedule

Execute Transaction Confirmation

Thursday, October 8, 2009

Post Bid Activities

Post Revised Tariff with POLR Rates

Monday, November 2, 2009

Begin Delivery of POLR Supply

Friday, January 1, 2010

2.3 Multi-Solicitation Process

2.3.1 In each of the solicitations in 2007 through 2009, PPL Electric will seek to procure POLR Supply for the Residential Group and Small Industrial and Commercial Group. In each of the solicitations in 2009, PPL Electric will also seek to procure POLR Supply for the Large Industrial and Commercial Group. The Available Tranches for each Group in a solicitation are the maximum number of tranches the Company seeks to procure for that Group in that solicitation. In the event that PPL Electric is unable to obtain POLR Supply for all of the Available Tranches for a Group in a solicitation, POLR Supply for the unfilled tranches in that solicitation will be added to the Available Tranches for that Group in the subsequent solicitation. Therefore, the Available Tranches for each Group in the solicitations in the table below may change depending on the results of prior solicitations. In each solicitation, an RFP Bidder's maximum number of tranches offered must be a whole number that does not exceed the product of the Load Cap for that Group and Available Tranches for that Group.

Group	Solicitation #1 Available Tranches	Solicitation #2 Available Tranches	Solicitation #3 Available Tranches	Solicitation #4 Available Tranches	Solicitation #5 Available Tranches	Solicitation #6 Available Tranches	Load Cap
Residential	10	10	10	10	10	10	85%
Small Commercial and Industrial	7	7	7	7	7	7	85%
Large Commercial and Industrial	-	-	-	-	19	19	85%

**ARTICLE 3
GENERAL REQUIREMENTS FOR PROPOSALS**

3.1 RFP General Requirements

3.1.1 A party that submits a Proposal to PPL Electric in response to this RFP is an "RFP Bidder." A qualified RFP Bidder can submit a maximum of one Bid Proposal for each

Group on each Bid Proposal Due Date in response to this RFP.

- 3.1.2 Bidder Qualifications and Bid Proposals must: (i) adhere to this RFP's terms and conditions; and (ii) fulfill all requirements in Articles 3 through 6 of this RFP.

Bidder Qualifications and Bid Proposals that do not adhere to the terms and conditions of this RFP and/or do not fulfill all requirements set forth in Articles 3 through 6 of this RFP, will not be considered.

- 3.1.3 It is the intention, but not the obligation, of the Company to enter into a POLR SMA with two or more winning RFP Bidders.

- 3.1.4 The RFP Bidder, at its own cost and expense, shall defend PPL Electric, its parent company, and its subsidiaries, affiliates, successors and assigns, and each and every one of their respective past, present, or future officers, directors, trustees, employees, shareholders, executors, administrators, successors and assigns, against any and all manner of past, present, or future claims, demands, disputes, controversies, complaints, suits, actions, proceedings, or allegations of any kind which in any manner relate to, arise out of, or result from any false statements or misrepresentations, intentional or unintentional, in the Bidder Qualifications and Bid Proposal or breach of any covenant by the RFP Bidder set forth herein. The RFP Bidder shall indemnify and hold harmless PPL Electric, its parent company, subsidiaries, affiliates, successors and assigns, and each and every one of their respective past, present, or future officers, directors, trustees, employees, shareholders and agents, as well as the heirs, executors, administrators, successors and assigns against any and all liens, judgments, liabilities, losses, injuries, damages, fees, fines, costs or expenses which in any manner relate to, arise out of, or result from any false statements or misrepresentations, intentional or unintentional, in the Bidder Qualifications and Bid Proposal or breach of any warranty by the RFP Bidder as set forth herein.

- 3.1.5 The submission of a Bid Proposal to the Company constitutes the RFP Bidder's acknowledgement and acceptance of all the terms and conditions of this RFP, regardless of the outcome of this RFP or the ultimate fate of such Proposal.

- 3.1.6 An Officer of the RFP Bidder is an individual empowered to undertake contracts and bind the RFP Bidder. The RFP Bidder must provide the name, title, and full contact information (address, phone number, fax number, email address) of the Officer of the RFP Bidder who will be making the representations in the RFP.

- 3.1.7 Each RFP Bidder must comply with all the qualification standards described in Article 4.

- 3.1.8 All information provided and certifications made in the Bidder Qualifications must remain valid and remain in full force until five business days after the applicable Bid Proposal Due Date. Regardless of the reason, if any information provided in the Bidder Qualifications changes or any previous certification fails to remain valid, it is the sole

responsibility of the RFP Bidder to notify the Qualification Evaluation Team of such change at least three business days before the submission of any Bid Proposal on a Bid Proposal Due Date. Failing to do so may result in disqualification of the RFP Bidder and the Bid Proposal. The Qualification Evaluation Team reserves the right to vary the assessment of qualifications based on the revised information provided by the RFP Bidder.

ARTICLE 4 BIDDER QUALIFICATION

4.1 Overview of Bidder Qualification Process

- 4.1.1 The purpose of the Bidder Qualification process is to determine the applicant's eligibility to bid. An applicant is qualified to bid if, in a timely fashion, it fully completes the following: 1) submits an Expression of Interest Form; 2) executes the Confidentiality Agreement; 3) certifies that it meets the PJM membership and federal Energy Regulatory Commission ("FERC") authorization requirements stated in Article 4.4 (Applicant's PJM and FERC Qualifications); 4) demonstrates that its, or its guarantor's, unsecured senior long-term debt is currently rated by Standard & Poor's Ratings Group, Fitch Investor Services, or Moody's Investor Services; 5) submits the Credit Application and associated financial information requested in Article 4.5 (Credit Application and Financial Information); and, 6) submits an executed copy of the Binding Bid Agreement provided as Appendix 9. Upon submission of a Bid Proposal, qualified bidders will be required to post bid assurance collateral in an amount directly proportional to the amount of load bid upon. The bid assurance collateral will be returned to the bidder subsequent to contract execution or the rejection of its bid(s), as described in Article 4.8 (Bid Assurance Collateral and Alternative Letter of Credit Form).
- 4.1.2 Applicants are urged to provide the materials necessary to establish eligibility as soon as practicable. PPL Electric will endeavor, on a best efforts basis, to notify applicants of any deficiencies in their submittals in accordance with Article 7.2 no later than forty-eight hours before the Cure Deficiency Deadline for the appropriate solicitation as indicated in Article 2.2 (RFP Schedule). However, PPL Electric does not bear any responsibility for failure to notify applicants of deficiencies prior to the Cure Deficiency Deadline indicated in Article 2.2 (RFP Schedule), and PPL Electric assumes no liability or obligation for a defective submission or for notifying any bidder of a defective submission. Early submittal of materials will provide the greatest flexibility to correct deficiencies prior to the Cure Deficiency Deadline and applicants are encouraged to submit Bidder Qualification documents as soon as possible following the issuance of the RFP, or RFP Addendum. PPL Electric will notify applicants as soon as PPL Electric has determined that they have met the Bidder Qualification requirements.

- 4.1.3 After an RFP Bidder is qualified for a solicitation in the RFP, that RFP Bidder can qualify for a subsequent solicitation by verifying, in writing, that the previously submitted credit and financial information is up-to-date and accurate, and by submitting the appropriate Bid Assurance Collateral for the subsequent solicitation. It is the sole responsibility of the RFP Bidder to notify PPL Electric of any changes to the RFP Bidder's previously submitted qualification materials.

4.2 Expression of Interest

- 4.2.1 Applicants interested in participating in this RFP are required to express their non-binding interest to bid by completing and submitting the Expression of Interest Form (Appendix 2). An electronic copy of the Expression of Interest Form can be found on PPL Electric's RFP Web site. The applicant will not be eligible to submit a Bid Proposal until the completed Expression of Interest Form has been provided to PPL Electric. The applicant should send the completed Expression of Interest Form by fax to the number below:

PPL Electric Utilities Corporation
Two North Ninth Street
Allentown, PA 18101
Attn: PPL Electric POLR RFP Manager
[Fax number to be provided]

4.3 Confidentiality Agreement

- 4.3.1 An applicant and PPL Electric will be required to execute the Confidentiality Agreement (Appendix 3). The applicant will not be eligible to submit a Bid Proposal until such agreement has been executed. An electronic copy of the Confidentiality Agreement can be found on PPL Electric's RFP Web site. The applicant should send the executed agreement as directed in Article 6.1.2. Upon submission of the executed Confidentiality Agreement, an applicant will be issued a password to access additional data and information on the RFP Web site. Once the Confidentiality Agreement is received from the applicant, PPL Electric will complete the execution of the agreement and send a copy of the fully executed agreement to the applicant by mail or courier service.

4.4 Applicant's PJM and FERC Qualifications

- 4.4.1 An applicant must certify that it is a member of PJM and qualified as a market buyer and market seller in good standing able to secure generation or otherwise obtain and deliver electricity in PJM through compliance with all applicable requirements of PJM to fulfill a full requirements obligation. In addition, an applicant must certify that it has been authorized by the FERC to make sales of energy, capacity and ancillary services at

market-based rates. The PJM Qualification Certification Form (Appendix 4) and the FERC Authorization Certification Form (Appendix 5) can be found on PPL Electric's RFP Web site. Such certifications must be signed by a signatory with the authority to act on behalf of the applicant. Applicants are required to submit such certifications no later than the Bidder Qualifications Due Date, noted in Article 2.2 (RFP Schedule). The applicant should send such certifications as directed in Article 6.1.2. The applicant will not be eligible to submit bids until such certifications have been provided to PPL Electric.

4.5 Credit Application and Financial Information

4.5.1 Applicants are required to submit the Credit Application (Appendix 6) and associated financial information to PPL Electric. An electronic copy of the Credit Application can be found on PPL Electric's RFP Web site. Applicants are required to submit the Credit Application no later than the Bidder Qualifications Due Dates noted in Article 2.2 (RFP Schedule). The applicant should send the completed application and the associated financial information as directed in Article 6.1.2.

4.5.2 All submitted information must be in the English language. Financial data must be denominated in U.S. Dollars and conform to Generally Accepted Accounting Principles ("GAAP") in the United States. If the applicant's financial information is consolidated with other entities, then it is the applicant's responsibility to extract and submit as separate documents all data and information related solely to the applicant. This must include all financial information, associated notes, and all other information that would comprise a full financial report conforming to GAAP.

4.6 Binding Bid Agreement

4.6.1 An applicant must certify that as an RFP Bidder it agrees to be bound by the price quotes entered on any Bid Proposal Spreadsheet(s) submitted by the RFP Bidder, which shall constitute a firm offer to supply service in accordance with the POLR SMA. The signatory to the Binding Bid Agreement must certify that he/she has the authority to act on behalf of, and to bind, the RFP Bidder to perform the terms and conditions of the POLR SMA at the prices and for the load amounts specified in its proposal(s). In addition, by submitting the Binding Bid Agreement, the RFP Bidder certifies that it has met the conditions stipulated in Article 5.7 of this RFP. An electronic copy of the Binding Bid Agreement can be found on PPL Electric's RFP Web site. Applicants are required to submit such certification no later than the Bidder Qualifications Due Date noted in Article 2.2 (RFP Schedule). The applicant should send such certification as directed in Article 6.1.2.

4.7 Cure Time for Deficiencies in Qualification Requirements

- 4.7.1. In the event that an RFP Bidder has not met all of the Bidder Qualification requirements under Article 4 (Bidder Qualification), PPL Electric will endeavor, on a best efforts basis, to notify the RFP Bidder no later than forty-eight hours before the Cure Deficiency Deadline. It is understood and agreed that PPL Electric has no liability for any failure to notify an RFP bidder of a bid deficiency. If the RFP Bidder fails to remedy any deficiencies by the Cure Deficiency Deadline for a solicitation so as to not be qualified to submit proposals in that solicitation, such applicant will be allowed to cure any such deficiency and participate in subsequent solicitations, if the deficiency is cured no later than the Cure Deficiency Deadline for the next solicitation.

4.8 Bid Assurance Collateral and Alternative Letter of Credit Form

- 4.8.1 Accompanying each Bid Proposal, each RFP Bidder must provide liquid Bid Assurance Collateral. The purpose of this collateral is to assure commitment of the bidder to execute the POLR SMA and/or transaction confirmations for the tranches awarded to the RFP Bidder. The form of collateral must be either cash or an irrevocable letter of credit ("LOC"). An acceptable Bid Assurance LOC form is provided as Appendix 7; an electronic copy can be found on PPL Electric's RFP Web site. Applicants are required to submit an acceptable Bid Assurance LOC form as directed in Article 6.1.2.
- 4.8.2 The amount of the Bid Assurance Collateral is \$500,000 per tranche. PPL Electric will hold the Bid Assurance Collateral until either the RFP Bidder's proposal is rejected in whole, or the RFP Bidder executes the POLR SMA and/or transaction confirmations. Upon either of the above two conditions, Bid Assurance Collateral in the form of cash will be returned within one business day, and Bid Assurance Collateral in the form of an LOC will be returned within two business days. The RFP Bidder may request that the Bid Assurance Collateral reside with PPL Electric through the entire multi-solicitation period. A bidder that is awarded tranche(s) and does not execute the POLR SMA and/or transaction confirmations associated with such tranches shall forfeit its Bid Assurance Collateral.
- 4.8.3 If an applicant prefers to use an alternative LOC form for the Bid Assurance Collateral, the applicant must provide such form along with its Credit Application and financial information. The acceptability of such an alternative LOC form will be at PPL Electric's sole discretion, and such acceptability will be communicated to the applicant no later than forty-eight hours before the Cure Deficiency Deadline indicated in Article 2.2 (RFP Schedule).

4.9 Alternative Forms of Performance Assurance

- 4.9.1 Subsequent to the return of a supplier's Bid Assurance Collateral, another instrument of performance assurance to secure PPL Electric's exposure during the term of the POLR SMA may be required, as set forth in the POLR SMA. Any performance assurance required of the supplier determined in accordance with the POLR SMA may be in the

form of cash, LOC, or other security acceptable to PPL Electric. An acceptable Performance Assurance LOC form is provided as Exhibit C in the POLR SMA. If an applicant prefers to use an alternative LOC form for the performance assurance, the applicant must provide such alternative form along with its Credit Application and financial information. If an applicant intends to use security other than cash or LOC, PPL Electric requests that the applicant describe such other security at the time it submits its Credit Application and financial information. The acceptability of such alternative LOC form or such other form of security will be at PPL Electric's sole discretion, and such acceptability will be communicated to the applicant no later than forty-eight hours before the Cure Deficiency Deadline indicated in Article 2.2 (RFP Schedule).

ARTICLE 5 BID PROPOSAL REQUIREMENTS

5.1 Bid Proposal Format

- 5.1.1 RFP Bidders shall submit their proposals using only the Bid Proposal Spreadsheets attached to this RFP as Appendix 8; an electronic copy is available on PPL Electric's RFP Web site. There is a separate Bid Proposal Spreadsheet for each solicitation and each Group, as indicated in the title area of each Bid Proposal Spreadsheet. The Bid Proposal Spreadsheets contain sections of information labeled Bidder Information, Tranche Information, and Bid Information. The Bid Proposal Spreadsheets contain shaded cells in which RFP Bidders provide information and their offers. **In order to prevent any misunderstanding of an RFP Bidder's proposal, all shaded cells within a Bid Proposal Spreadsheet must be completed by the RFP Bidder. A Bid Proposal Spreadsheet submitted by an RFP Bidder that contains blank shaded cells will be deemed a non-conforming proposal, and will be eliminated from further consideration. Therefore, if it is the intent of an RFP Bidder to offer to supply a particular total number of tranches, the RFP Bidder must enter a price quote in the price cells associated with each of the total number of tranches up to and including that particular total number of tranches and must enter an "X" in price cells associated with each of the total number of tranches beyond that particular total number of tranches.** The non-shaded cells are read-only cells containing either fixed or computed amounts. All formulas in cells in which computations are performed can be viewed by simply placing the cursor on the cell.
- 5.1.2 No proposal can be conditioned in any manner. PPL Electric reserves the right to accept or reject any RFP Bidder's Bid Proposals in accordance with the proposal evaluation criteria set forth in Article 7 (Evaluation of Proposals).
- 5.1.3 Bidder Information – These cells are **RFP bidder input cells** and include Company Name, Contact Name, Phone Number, and Fax Number and must be provided by the

RFP Bidder. As set forth in Article 5.3 (Confirmation and Proposal Tagging Process), such information may be used to confirm receipt of the RFP bidder's offer(s).

- 5.1.4 **Tranche Information** – The contents of these cells are provided by PPL Electric and include the Available Tranches, Load Cap, Tranche Size (% of Total Group Load), and MW-Measure (based on Projected 2010 PLC). The Available Tranches represents an initial target consistent with the multi-solicitation structure described in Article 2.3 (Multi-Solicitation Process). However, as discussed in Article 2.3 (Multi-Solicitation Process), such targets are subject to change depending on the results of prior solicitations. In the event that the initial target for the Available Tranches changes, PPL Electric will, prior to the next solicitation, revise such targets in the Bid Proposal Spreadsheets accordingly as indicated in Article 2.2 (RFP Schedule). The Load Cap is the maximal percent of the Group's Available Tranches that each RFP Bidder can win that solicitation. The Tranche Size (% of Total Group Load) represents the share of the Group's load measured by one tranche. The Tranche Size (% of Total Group Load) is applicable to each rate schedule within the Group. For example, if there are three rate schedules being bid in aggregate within a Group, and the Tranche Size is 2%, the RFP Bidders awarded those tranches will supply 2% of each of the three rate schedules in that Group. The MW-Measure (based on Projected 2010 PLC) is provided in terms of PLC and is consistent with the reporting of PLC to PJM (as shown in Article 1.1.8).
- 5.1.5 **Total Tranches Supplied** – These cells show the number of total tranches the RFP Bidder offers to supply.
- 5.1.6 **Bid Assurance Collateral Amount** – The contents of these cells are computed as the product of the Total Tranches Supplied Offered and \$500,000.
- 5.1.7 **Price (2010 US\$/MWh)** – These cells are **RFP Bidder input cells** for the RFP Bidder's price offer corresponding to each Total Tranches Supplied. The energy price offers shall be in terms of 2010 US\$/MWh. All MWh energy shall be at the customer premise or retail meter-level. As set forth in the POLR SMA, the MWh of energy shall be equivalent to the amount of energy reported as the supplier's obligation by PPL Electric to PJM adjusted for losses in accordance with PPL Electric's initial and subsequent retail load settlement process. All price quotes are limited to two decimal places. An RFP Bidder that wishes to offer to supply a particular Total Tranches Supplied must: 1) provide a price quote in the Price (2010 US\$/MWh) cell corresponding to each of the Total Tranches Supplied up to and including that particular Total Tranches Supplied; and 2) mark an "X" in the Price (2010 US\$/MWh) cell corresponding to each of the Total Tranches Supplied beyond that particular Total Tranches Supplied. For example, if an RFP Bidder wishes to offer to supply six Total Tranches Supplied, then the RFP Bidder must provide a price quote for each Total Tranches Supplied from one to six and mark an "X" for all Total Tranches Supplied greater than six.
- 5.1.8 **Complete/Incomplete Flag** – The content of this cell is computed and indicates whether or not the Bid Proposal Spreadsheet has been fully completed in accordance with

Article 5.1 (Bid Proposal Format). An incomplete Bid Proposal Spreadsheet will be deemed non-conforming, as set forth in Article 5.4 (Conforming Proposals).

- 5.1.9 Tag Number – The content of this cell will be provided by PPL Electric and will represent a unique identification for each Bid Proposal Spreadsheet submitted by the RFP Bidders. This identification will be communicated to the RFP Bidder at the time PPL Electric confirms receipt of the RFP Bidder's Bid Proposal, as described in Article 5.3 (Confirmation and Proposal Tagging Process).
- 5.1.10 The RFP Bidder may choose to bid in one or several of the three Groups, subject to the restrictions of this article. On any Bid Proposal Due Date, the number of tranches in a Group for which an RFP Bidder submits a Bid must be a whole number and cannot exceed the product of the Load Cap for that Group and the number of Available Tranches for that Group in that solicitation. The Load Caps and the number of Available Tranches for each Group and each solicitation are provided in the table in Article 2.3 (Multi-Solicitation Process).

5.2 Submittal of Bid Proposals

- 5.2.1 Each RFP Bidder shall only submit its Bid Proposal using the Bid Proposal Spreadsheet described in Article 5.1 by secure electronic file transfer to the secure server on PPL Electric's RFP Web site by 12:00:00 p.m. EPT, on the Bid Proposal Due Date for each solicitation as indicated in Article 2.2 (RFP Schedule). An RFP Bidder may only withdraw its proposal before 12:00:00 p.m. EPT on the Bid Proposal Due Date by submitting the Binding Bid Withdrawal Agreement, provided as Appendix 10, to the fax number provided in 6.1.2. The signatory to the Binding Bid Withdrawal Agreement must certify that he/she has the authority to act on behalf of the bidder in such a manner. Upon receipt of a Binding Bid Withdrawal Agreement, PPL Electric will provide the RFP Bidder with a notice by phone of receipt of such withdraw.

5.3 Confirmation and Proposal Tagging Process

- 5.3.1 PPL Electric will confirm receipt of an RFP Bidder's proposal and communicate the RFP Bidder's tagging number by phone. As indicated on each Bid Proposal Spreadsheet, the RFP Bidder will provide a contact name and phone number, which will be used for the receipt confirmation.

5.4 Conforming Proposals

- 5.4.1 In order for a proposal to be conforming, the proposal must be: (i) submitted using the Bid Proposal Spreadsheet, completed in full and without modification; (ii) submitted by the due date(s) and due time; and (iii) submitted by an eligible applicant.

Proposals deviating from the above criteria will be deemed non-conforming and eliminated from further consideration. Any such elimination of proposals will be communicated by PPL Electric to the relevant RFP Bidder(s) as soon as practicable.

5.5 Expiration of Proposals

- 5.5.1 An RFP Bidder's proposal shall expire the earlier of the time PPL Electric notifies the RFP Bidder that its proposal has been rejected or at midnight EPT on the scheduled day of awarding bids within each solicitation, as indicated in Article 2.2 (RFP Schedule).

5.6 Submittal of POLR SMA

- 5.6.1 For the first solicitation in which an RFP Bidder submits a Bid Proposal, the RFP Bidder must also submit the POLR SMA as instructed in Article 6.1.5.

5.7 Additional Requirements

- 5.7.1 The RFP Bidder certifies by its submission of a Binding Bid Agreement that it is bidding independently and that it has no knowledge of any Proposal being submitted by another RFP Bidder in response to this RFP.
- 5.7.2 The RFP Bidder certifies by its submission of a Binding Bid Agreement that, except for any communication with its financial institution for the purpose of preparing the Bid Assurance Letter of Credit, the RFP Bidder has not disclosed and will not disclose publicly or to any other party before the PUC has rendered a decision on the RFP results any information relating to its Proposal, which could have an effect on whether another party submits a Bid Proposal to this RFP or on the contents of such Bid Proposal that another RFP Bidder would be willing to submit in response to this RFP. Such information includes, but is not limited to: the fact that the RFP Bidder is submitting a Bid Proposal in response to this RFP; the RFP Bidder's Bids; the RFP Bidder's number of tranches bid; the RFP Bidder's estimation of the value of a tranche; the RFP Bidder's estimation of the risks associated with serving POLR Load; the RFP Bidder's preference for bidding on one or several Groups; the RFP Bidder's preference for bidding on one or another Bid Proposal Due Date; and the RFP Bidder's contractual arrangements for power with a party to serve the POLR Load were the RFP Bidder to become a POLR Supplier.

ARTICLE 6
INSTRUCTIONS FOR PREPARATION OF BIDDER QUALIFICATIONS
AND BID PROPOSALS

6.1 General

- 6.1.1 An RFP Bidder must submit its Bidder Qualifications and Bid Proposal separately. The RFP Bidder will first submit its Bidder Qualifications (responses to Qualifications standards) as required in Article 4 of this RFP. RFP Bidders that are notified as qualified bidders are qualified to submit a Bid Proposal for each Group on the Bid Proposal Due Dates as indicated in Article 2.2 (RFP Schedule).
- 6.1.2 For each solicitation, each RFP Bidder must deliver its Bidder Qualifications described in Article 4 by certified mail, registered mail, hand delivery, or courier service to PPL Electric at the following address:
- PPL Electric Utilities Corporation
Two North Ninth Street
Allentown, PA 18101
Attn: PPL Electric POLR RFP Manager
[Fax Number to be provided]
- 6.1.3 Bidder Qualifications must be delivered to the address designated in Article 6.1.2 above by the Bidder Qualifications Due Date for the appropriate solicitation as specified in Article 2.2 (RFP Schedule). Bidder Qualifications received after the due date specified in Article 2.2 will be considered for the next solicitation if there are remaining solicitations; otherwise Bidder Qualifications will be returned to the RFP Bidder unopened, the Bidder Qualification(s) will be rejected, and the RFP Bidder will have failed to qualify for submitting a Bid Proposal. Each RFP Bidder assumes full responsibility for timely delivery to the location specified in Article 6.1.2 above.
- 6.1.4 Bid Assurance Collateral must be sent by certified mail, registered mail, hand delivery, or courier-service to the address specified in Article 6.1.2 for delivery on the Bid Proposal Due Dates specified in Article 2.2 (RFP Schedule), and at a time on that date prior to the submission of Bid Proposal Spreadsheets. Bid Assurance Collateral received after the Bid Proposal Due Date specified in Article 2.2 will result in the rejection of the corresponding Bid Proposal. Each RFP Bidder assumes full responsibility for timely delivery to the address specified in Article 6.1.2 above.
- 6.1.5 For the first solicitation in which an RFP Bidder is qualified and submits a Bid Proposal Spreadsheet, the RFP Bidder must have signed the POLR SMA and sent it by certified mail, registered mail, hand delivery, or courier service to the address specified in Article 6.1.2 for delivery on or before the Bid Proposal Due Date specified in Article 2.2 (RFP Schedule). If the RFP Bidder is awarded any tranches in any solicitation in this RFP, the signed POLR SMA that was initially submitted will be executed upon the

exchange of the Transaction Confirmation form. The execution of a Transaction Confirmation is all that will be required in subsequent solicitations wherein a RFP Bidder that has previously executed the POLR SMA is awarded additional tranches.

- 6.1.6 Bid Proposals must be completed in the full legal name of the party that will execute the POLR SMA(s) with the Company should the party be a winning RFP Bidder and should the PUC approve the RFP results. Each RFP Bidder shall submit its Bid Proposal using the Bid Proposal Spreadsheet described in Article 5.1 by secure electronic file transfer to the secure server on PPL Electric's RFP Web site by 12:00:00 p.m. EPT, on the Bid Proposal Due Date for each solicitation as indicated in Article 2.2 (RFP Schedule).

6.2 Packaging

- 6.2.1 In response to this RFP, each RFP Bidder must provide the RFP Manager three originals of its Bidder Qualification materials on the Bidder Qualifications Due Date. In response to this RFP, if the RFP Bidder is qualified and submits Bid Proposals on a given Bid Proposal Due Date, the RFP Bidder must also provide the RFP Manager three originals of the Binding Bid Agreement for the appropriate solicitation and an executed Bid Assurance Letter of Credit supporting its bid. In response to this RFP, if the RFP Bidder is submitting Bid Proposals for the first time, the RFP Bidder must provide three originals of the POLR SMA by the Bid Proposal Due Date. Each original must bear original signatures.
- 6.2.2 The three original Bidder Qualifications must be provided in one box or envelope clearly bearing the name of the RFP Bidder and the appropriate Bidder Qualifications Due Date.
- 6.2.3 Only Proposals using the Bid Proposal Spreadsheet submitted by secure electronic file transfer to the secure server on PPL Electric's RFP Web site will receive consideration.
- 6.2.4 The three originals of the Binding Bid Agreement and an executed Bid Assurance Letter of Credit must be provided in one box or envelope clearly bearing the name of the RFP Bidder and the appropriate Bid Proposal Due Date.
- 6.2.5 The three originals of the POLR SMA must be provided in one box or envelope clearly bearing the name of the RFP Bidder and the appropriate Bid Proposal Due Date only for the first solicitation in which an RFP Bidder submits a Bid Proposal.

ARTICLE 7 EVALUATION OF PROPOSALS

7.1 Bidder Qualifications Processing

- 7.1.1 The Bidder Qualification Evaluation Team will consist of representatives of the RFP Manager, a credit representative from PPL Electric, and representatives on behalf of PPL Electric.
- 7.1.2 All boxes containing Bidder Qualifications will be opened privately by the Bidder Qualification Evaluation Team. A representative from the PUC may be present. PPL Electric assumes no liability for any failure to notify bidders of a deficiency in a submission prior to the Cure Deficiency Deadline.
- 7.1.3 A Bidder Qualification of an RFP Bidder that does not comply with the packaging instructions will be returned to the RFP Bidder.
- 7.1.4 Each Bidder Qualification must include all documents and information required to satisfy the Qualification Standards as set out in Article 4 for Bidder Qualifications.
- 7.1.5 The Bidder Qualification Evaluation Team will review Bidder Qualifications upon receipt until the Qualified Bidders Notified Date as specified in Article 2.2 (RFP Schedule). The Bidder Qualification Evaluation Team will assess the Bidder Qualifications for completeness and compliance with the terms and conditions of this RFP, in accordance with the procedure in Article 7.2.

7.2 Bidder Qualifications Evaluation

- 7.2.1 The Bidder Qualification Evaluation Team will deem a response to the Bidder Qualification to be complete and compliant if: (i) all financial information specified in Article 4 has been provided; (ii) a proposed alternative Bid Assurance Letter of Credit is for the account of the RFP Bidder and is in a form acceptable to the Company; and (iii) all certifications and other requirements have been provided and are signed by an Officer of the RFP Bidder.
- 7.2.2 The Bidder Qualification Evaluation Team will review Bidder Qualifications upon receipt as specified in Article 2.2 (RFP Schedule). If the Bidder Qualification Evaluation Team determines that some portion of the RFP Bidder's response to the Bidder Qualification is deficient because the response is incomplete or is not compliant with the terms of this RFP, the Bidder Qualification Evaluation Team will endeavor, on a best efforts basis, to issue a deficiency notice requesting that the RFP Bidder cure the deficiency with respect to that particular aspect of its qualifications. The Bidder Qualification Evaluation Team will endeavor, on a best efforts basis, to notify RFP Bidders of any deficiencies in their Bidder Qualifications, including aspects of any

proposed alternative Bid Assurance Letter of Credit that are not acceptable, no later than forty-eight hours before the Cure Deficiency Deadline. PPL Electric assumes no liability for any failure to notify bidders of a deficiency in a submission prior to the Cure Deficiency Deadline. The Bidder Qualification Evaluation Team will review all responses to deficiencies submitted by the specified Cure Deficiency Deadline in Article 2.2 (RFP Schedule). If a response to a deficiency is provided by an RFP Bidder before the Cure Deficiency Deadline specified in Article 2.2 (RFP Schedule) and the response is not sufficient to cure the deficiency, the RFP Bidder may continue to provide the required clarification or additional information to cure the deficiency until the Cure Deficiency Deadline for that solicitation.

- 7.2.3 A deficiency notice may be issued in connection with the credit instruments (i.e., an alternative Bid Assurance Letter of Credit or any another aspect of the Bidder Qualification).
- 7.2.4 If a deficiency notice is sent and the RFP Bidder does not respond by the Cure Deficiency Deadline established by the Bidder Qualification Evaluation Team in accordance with the procedure specified in Article 7.2.2, or does not address the deficiency in a manner that is deemed satisfactory at the Bidder Qualification Evaluation Team's sole discretion, the RFP Bidder will not be qualified for that solicitation.
- 7.2.5 When the evaluation of the responses to the Bidder Qualifications is completed for all RFP Bidders, RFP Bidders will be either qualified or disqualified. RFP Bidders whose responses to the Bidder Qualifications, as may be supplemented or amended in response to a deficiency notice by the Bidder Qualification Evaluation Team, are found to be complete and compliant will be deemed qualified for that solicitation; all other RFP Bidders will be disqualified for that solicitation.
- 7.2.6 Bidders will be notified on the Qualified Bidders Notified Date in the RFP Schedule if they qualify to submit Bid Proposal(s) on the Bid Proposal Due Date. (i) Only those RFP Bidders whose response to the Bidder Qualification on Qualifications Standards is complete and compliant with the terms of this RFP will be invited to submit a Bid Proposal for Bid. (ii) An RFP Bidder acting in concert with another RFP Bidder may be disqualified by the Company in its sole and exclusive discretion at any point in the process.

7.3 Bid Proposals Processing

- 7.3.1 Bid Proposals will only be considered for those RFP Bidders that qualify as a result of the prior submission of a Bidder Qualification.
- 7.3.2 The Bid Proposal Evaluation Team will consist of representatives of the RFP Manager and representatives on behalf of the Company.

- 7.3.3 A Bid Proposal that does not comply with the submission instructions in Article 6.1.5 will be returned to the RFP Bidder.
- 7.3.4 All Bid Proposals will be electronically and privately opened by the Bid Proposal Evaluation Team and will be opened at the same time. A representative of the PUC may be present to attend the opening of the Bid Proposals. Information regarding the content or status of any Bid Proposal will not be released during the evaluation process.
- 7.3.5 The Bid Proposal Evaluation Team will assess the Bid Proposal for completeness and compliance with the terms and conditions of this RFP, in accordance with the procedure in Article 7.4.

7.4 Bid Proposal Evaluation

- 7.4.1 Proposals received from RFP Bidders may be eliminated from further consideration at any point, at the Bid Proposal Evaluation Team's sole and exclusive discretion, for any of the following reasons including (but not limited to): (i) failure to provide clarification of, or additional information relating to, a Bid Proposal as requested by the Bid Proposal Evaluation Team subsequent to the submission of a Bid Proposal; (ii) illegal conduct, attempts or the appearance of attempts to improperly influence the consideration or ranking of the Bids; and (iii) failure to honor representations made in a Bid Proposal.
- 7.4.2 The Bid Proposal Evaluation Team will assess that all certifications required in the Bid Proposal, as specified in Article 5, have been submitted. If they have not, the Bid Proposal will be rejected.
- 7.4.3 Any Bid Proposal will be removed from consideration if: (i) it is not submitted electronically using the Bid Proposal Spreadsheet that the RFP Bidder was instructed to use in Article 5.1; or (ii) it is on a Bid Proposal Spreadsheet that includes extraneous information; or (iii) it is not supported by a Bid Assurance Letter of Credit acceptable to the Company; or (iv) the RFP Bidder has not submitted the signed POLR SMA.
- 7.4.4 The Bid Proposal Evaluation Team will ensure that sufficient financial guarantees are provided to support the Bids. Financial guarantees will be sufficient if the amount of Bid Assurance Collateral is sufficient given the sum of the maximum number of tranches offered in each Group by the RFP Bidder as specified in Article 4.8.
- 7.4.5 If a qualified RFP Bidder's Bid Assurance Collateral is insufficient to support the sum of the maximum number of tranches offered in each Group by the RFP Bidder, the Bid Proposal Evaluation Team will modify that RFP Bidder's Bid Proposal Spreadsheets. The Bid Proposal Evaluation Team will determine for each such RFP Bidder the greatest number of whole tranches that its amount of Bid Assurance Collateral is sufficient to support. The Bid Proposal Evaluation Team will strike a Bid from a Bid Proposal Spreadsheet for any Total Tranches Supplied that is not supported by the

amount of Bid Assurance Collateral. The Bid Proposal Evaluation Team will remove a Bid first from the Group where there is the most competition. By submitting a Bid Proposal in response to this RFP, each RFP Bidder is authorizing the Bid Proposal Evaluation Team to modify the RFP Bidder's Bid Proposal documents as specified in and as required by this article.

- 7.4.6 The remaining Bid Proposals will be evaluated on a price-only basis as follows. The Bid Proposal Evaluation Team will, for each Group, consider all combinations of Bid(s) (across RFP Bidders) whose sum of Total Tranches Supplied is equal to the Available Tranches for that Group in that solicitation. In the event that the greatest sum of Total Tranches Supplied for any combination in that Group is less than the Available Tranches for that Group, the Bid Proposal Evaluation Team will consider all combinations of Bids in that Group whose sum of Total Tranches Supplied equal the most obtainable given those Bids. For each combination, the Bid Proposal Evaluation Team will calculate the Combination Average Price ("CAP") equal to the average Price (2010 US\$/MWh) of the Bids in the combination weighted by their corresponding Total Tranches Supplied. The winning Bid(s) will be the Bid(s) contained in the combination with the lowest CAP. An RFP Bidder that is awarded tranches shall receive the Price (2010 US\$/MWh) corresponding to the winning Bid as stated in its Bid Proposal Spreadsheet under the Bid Information section.
- 7.4.7 In the event that two or more combinations have the lowest CAP for a given Group, the winning Bid(s) will be the Bid(s) contained in the combination that is drawn randomly from the set of combinations with the lowest CAP.
- 7.4.8 After sufficient financial guarantees are determined, all combinations of Bid(s) are ranked from lowest to highest for each of the Groups, and the tied combinations, if any, are resolved, the Bid Proposal Evaluation Team will communicate with each RFP Bidder that has submitted at least one of the Bid(s) for a Group in the winning combination that will be presented to the Commission. For each such RFP Bidder for a Group, the Bid Proposal Evaluation Team will: (i) communicate the CAP of the winning combination for that Group being presented to the PUC; and (ii) identify the Bids submitted by such RFP Bidder that will be presented to the PUC for that Group.

The Bid Proposal Evaluation Team will also communicate to the Company the average of all Bids in each Group weighted by the number of tranches associated with each Bid and the number of Bids presented to the PUC.

- 7.4.9 An RFP Bidder acting in concert with another RFP Bidder may be disqualified by the Company at its sole and exclusive discretion.

7.5 Commission Approval and Review

- 7.5.1 The Bid Proposal Evaluation Team will prepare a report that presents the results of a Bid Proposal Due Date to the PUC for approval. The Bid Proposal Evaluation Team's

report will summarize the Bidder Qualification process and the Bid Proposals that were considered on the Bid Proposal Due Date. The PUC will have two business days to decide whether to approve the results. If the results are approved by the PUC, the Bid Proposal Evaluation Team will notify all RFP Bidders of the PUC's decision. The winning RFP Bidders will then receive a transaction confirmation from PPL Electric on the date of the PUC's approval. The winner RFP Bidders must follow the transaction confirmation directions in the POLR SMA. If a winning RFP Bidder fails to execute the transaction confirmation as required under Article 2.8 of the POLR SMA, the winning RFP Bidder may forfeit its Bid Assurance Collateral.

- 7.5.2 In the event that results for any solicitation are rejected by the PUC or that some tranches are unfilled in a particular solicitation, those tranches will be offered in next scheduled solicitation. In the event that some load remains un-served for a Group after the last scheduled solicitation, or in the event that a POLR Supplier for a Group defaults, PPL Electric will offer full requirements supply assignment to other winning RFP Bidders for the same Group consistent with the Step-Up process described in the POLR SMA. If this assignment is not successful, PPL Electric will offer full requirements supply assignment to all POLR Suppliers consistent with the Step-Up process described in the POLR SMA, even if a POLR Supplier does not serve tranches for that Group. These assignments will be offered at the original bid price in the event of default(s), or at the average price from the last successful bid for that Group in the event of insufficient bids.

ARTICLE 8 RESERVED RIGHTS

8.1 Non-Binding RFP

- 8.1.1 At any time prior to the execution of the POLR SMA, PPL Electric has the exclusive right to withdraw and terminate this RFP without any liability or responsibility to any RFP Bidder or any other party, for reasonable cause including, but not limited to, adverse statutory changes or interpretations, issuance of new PUC orders and/or regulations, market conditions, etc., that preclude this RFP from being implemented in substantially the manner described herein.
- 8.1.2 Subject to PUC approval, the Company reserves the right to accept or reject, in whole or in part, any and all Proposals, without any liability or responsibility to any RFP Bidder or any other party, for reasonable cause including, but not limited to, adverse statutory changes or interpretations, issuance of new PUC orders and/or regulations, market conditions, etc., that preclude this RFP from being implemented in substantially the manner described herein.
- 8.1.3 PPL Electric will not be liable to any RFP Bidder or any other party for failure to execute a POLR SMA. Nothing herein may be construed to bind the Company unless

and until the PUC has approved winning Bid(s), and each POLR SMA with an RFP Bidder has been executed and is effective. Once effective, the POLR SMA will govern the relationship between and the responsibilities of the parties to that agreement and not the RFP or any documents relating thereto.

- 8.1.4 Pursuant to these RFP rules, PPL Electric or the Bid Proposal Evaluation Team shall reject Proposals submitted in response to this RFP that are incomplete, or do not conform to the requirements of this RFP, or are submitted beyond the deadline for submission.

8.2 Proposals Become PPL Electric's Property

- 8.2.1 All Proposals submitted by RFP Bidders in response to this RFP will become the exclusive property of PPL Electric upon the receipt of such document(s).

Appendix 2

Expression of Interest Form

FAX TO: [Insert Contact Info]

Note that completion of all information is required.

This response is an indication of our interest in PPL Electric Utilities Corporation's Request for Proposals to provide wholesale full requirements service beginning January 1, 2010.

Company:

Contact Name:

Contact Title:

Address:

City:

State:

Zip:

Phone Number

Fax Number:

Email Address:

Appendix 3

Confidentiality Agreement

[Name and Address of Bidder]

[Date]

Ladies and Gentlemen,

This letter is a Confidentiality Agreement between PPL Electric Utilities Corporation ("PPL Electric") and _____ ("RFP Bidder") in connection with the RFP Bidder's intent to participate in the Request for Proposals ("RFP") to provide full requirements electricity service to serve a portion of PPL Electric's obligation as the Provider of Last Resort Service ("POLR"). This Confidentiality Agreement also pertains to the rights and obligations of PPL Electric and the RFP Bidder in the event the RFP Bidder ultimately is selected as a winner in the RFP and provides service pursuant to PPL Electric's POLR Supply Master Agreement ("POLR SMA"). PPL Electric and the RFP Bidder hereby agree to accept, and to be bound by the terms of this Agreement.

DEFINITIONS:

(a) The following terms have the following meanings:

1. "Agreement" is this Confidentiality Agreement.
2. "Pennsylvania PUC" has the meaning set forth in Section 3(b).
3. "Confidential Information" has the meaning set forth in Section 5.
4. "Party" means PPL Electric or the RFP Bidder.
5. "Parties" means PPL Electric and the RFP Bidder collectively.
6. "Representatives" means the officers, directors, employees, advisors, lenders, and other persons, including but not limited to any affiliates who are actively and directly participating in evaluating, responding to, negotiating and consummating the RFP and/or the response to the RFP. A person or entity is not a "Representative" unless that person or entity agrees to preserve the confidentiality of the Confidential Information in accordance with the terms of this Agreement.

7. "Third Parties" means a party or parties other than PPL Electric, the RFP Bidder or their respective Representatives.
- (b) Other capitalized terms used in this Agreement have the meaning set forth in this Agreement and/or the Request for Proposals dated XXX, 2006, and/or the POLR SMA.

TERMS:

1. Condition Precedent. PPL Electric and the RFP Bidder shall execute this Agreement as a condition precedent to PPL Electric's furnishing to the RFP Bidder or the RFP Bidder furnishing to PPL Electric a copy of any Confidential Information.

2. Purpose. The purpose of this Agreement is to protect the confidentiality of the Confidential Information and to restrict the use and disclosure of that information in the manner set forth below.

3. Limitations on Use and Disclosure.

(a) A Party shall use the other Party's Confidential Information only for the purpose of evaluating, responding to, negotiating and consummating the RFP and/or the response to the RFP, and/or consummating the POLR SMA, and not for any other purpose. Neither Party shall disclose to Third Parties any information about PPL Electric's or RFP Bidder's participation in the RFP or execution of a POLR SMA, or the terms or conditions or any other facts relating thereto, including the fact that discussions are taking place with respect thereto, the status of those discussions, or the fact that Confidential Information has been made available by or to PPL Electric or RFP Bidder or their Representatives. Provided, however, that the identity of all (but no fewer than all) bidders who were awarded any load in the state may be released on a statewide basis on or after the first day of the service year, and that no winning bidder's name is to be associated with a particular PPL Electric or PPL Electric's POLR load.

(b) Notwithstanding the foregoing or any other provision of this Agreement, PPL Electric may share any Confidential Information with the Pennsylvania Public Utility Commission, its Staff, or the Consultant working for the Pennsylvania Public Utility Commission pursuant to Section 84 of the Settlement Agreement approved by the Commission in Order No. 78400 (collectively "Pennsylvania PUC"). Any such information shared will be designated as confidential, and PPL Electric will ask the Pennsylvania PUC to hold and use it on a confidential basis.

4. Disclosure upon Default. Notwithstanding the foregoing or any other provision of the Agreement, PPL Electric may disclose Confidential Information in the event of a Supplier Default, as provided for in the POLR SMA. PPL Electric may disclose to any RFP Bidder with whom it has executed the POLR SMA and who is not a Defaulting Supplier, the contract price of the Defaulting Supplier for the purpose of allowing the Bidder to make the election provided for in Section 4.11 of the POLR SMA.

5. Definition of Confidential Information. Confidential Information shall consist of oral, electronic and written information that is confidential, proprietary, or generally not available to the public. Whenever possible, such Confidential Information shall be marked prior to or at the time of disclosure as being "Confidential Information". Confidential Information in the case of information provided by PPL Electric to the RFP Bidder shall include, without limitation, all data, reports, interpretations, forecasts or records relating to PPL Electric and/or its customers, and any other document created by PPL Electric or others which directly or indirectly relates to all or any portion of the bid evaluation information provided to the RFP Bidder by PPL Electric. Confidential Information in the case of information provided by the RFP Bidder to PPL Electric shall include, without limitation, all data, reports, interpretations, forecasts, bids, credit information, credit collateral amounts, bidder identity, and shall also include information prepared by the RFP Bidder that includes directly or indirectly Confidential Information furnished by PPL Electric.

6. Non-Confidential Information. Notwithstanding the provisions of Section 5, information shall not be deemed confidential that: (i) becomes generally available to the public; (ii) is already known to the receiving Party at the time of receipt by the receiving Party; or (iii) is acquired after such receipt from a Third Party not known to the receiving Party to be prohibited from making disclosures. The receiving Party shall give prompt notice to the other Party in the event it believes that any of the other Party's information in its possession is not Confidential Information as a result of the provisions of this Section 6.

7. Property of PPL Electric or the RFP Bidder. Confidential Information belonging to PPL Electric shall consist of Confidential Information supplied by PPL Electric to the RFP Bidder and shall also include the portion of Confidential Information furnished by the RFP Bidder to PPL Electric that incorporates Confidential Information furnished to the RFP Bidder by PPL Electric. Confidential Information belonging to the RFP Bidder consists of all other Confidential Information supplied by the RFP Bidder to PPL Electric. PPL Electric and the RFP Bidder acknowledge that each Party's Confidential Information is and at all times remains the sole and exclusive property of that Party, who, it is agreed, has the exclusive right, title, and interest to its Confidential Information. Neither Party grants any right or license, by implication or otherwise, as a result of the provision of Confidential Information to the receiving Party.

8. Disclosure Prohibited Except Where Explicitly Permitted. Neither Party shall disclose or use the other Party's Confidential Information without the other Party's prior written consent except as explicitly stated in Sections 3, 4, 9 and 10 of this Agreement.

9. Disclosure For Bid Evaluation Purposes. A Party may disclose the other Party's Confidential Information to its Representatives for the purposes set forth in Section 3. The obligations and restrictions under this Agreement that apply to a Party also apply to a Party's Representatives.

10. Disclosure to Governmental Authorities.

(a) A Party (the "disclosing Party") may also disclose the other Party's Confidential Information to any governmental, judicial, or regulatory authority ("Authority") requiring such

Confidential Information; provided that, the disclosing Party a) promptly informs the other Party of the substance of any inquiries, requests or requirements in order to afford the other Party an opportunity to attempt to prevent or limit the disclosure of the Confidential Information; b) makes a good faith effort to persuade the Authority (i) that submission of the Confidential Information should not be required, or, if that effort fails, (ii) that submission of the Confidential Information on a non-public basis should be permitted; and c) endeavors in good faith to protect the Confidential Information provided to an Authority from disclosure to Third Parties. If an Authority orders the disclosing Party to disclose any documents containing the other Party's Confidential Information, the disclosing Party shall a) attempt to obtain from the other Party, if the Authority allows the time, a "Public Disclosure Copy", or b) if the Authority does not allow such time, shall prepare itself a "Public Disclosure Copy" in which the Confidential Information has been redacted to the extent that such redaction is permitted by the Authority requiring disclosure. Confidential Information disclosed pursuant to this Section 10 on a non-public basis shall not lose its status as Confidential Information by virtue of such non-public disclosure.

(b) Notwithstanding the foregoing, the Parties agree that either party may be required to provide Confidential Information to FERC in order to comply with FERC Form 1 or FERC transaction reporting requirements. Each Party agrees that to the extent it is required to provide FERC any such information, the Party required to provide such information will provide only the information that is reasonably necessary to comply with such reporting requirements and shall not be required to comply with the provisions of Section 10(a) of this Agreement unless there have been substantive changes to the information required for FERC reporting purposes.

11. Termination of RFP Participation. If the RFP Bidder determines that it does not wish to proceed with the RFP, or if PPL Electric excludes the RFP Bidder from the RFP for any of the reasons set forth in the RFP, it will immediately notify the other Party of that decision. In such case, or if the RFP is not consummated, upon the written request of the Party (the "requesting Party"), the other Party (the "receiving Party") shall not retain and shall promptly return to the requesting Party all the requesting Party's written Confidential Information in the possession of the receiving Party or its Representatives, except for the portion ("said portion") of the requesting Party's Confidential Information that may be found in analyses, compilations, or other documents prepared by, or for, the receiving Party and its Representatives. The said portion and any oral Confidential Information furnished by the requesting Party and not so requested or returned will be held by the receiving Party and kept subject to the terms of this Agreement, or destroyed.

12. Liability and Relief. A Party or any of its Representatives shall be liable for any breach of this Agreement. In the event a non-breaching Party or its Representatives shall have knowledge of any breach of the confidentiality of, or the misappropriation of, any of the Confidential Information, the non-breaching Party shall promptly give notice thereof to the breaching Party. The Parties agree that breach of this confidentiality agreement may cause damages to which a dollar amount may be difficult or impossible to ascribe, however, that such a breach would be irremediable by damages alone and specifically agree to equitable relief as appropriate. The non-breaching Party shall be entitled to specific performance or other equitable relief by way of injunction or otherwise, if the other Party or any of its Representatives breach or threaten to breach any of the provisions of this Agreement. Such remedy shall not be deemed to

be the exclusive remedy available to the non-breaching Party, but shall be in addition to all other available remedies. Neither failure nor delay by the non-breaching Party, in exercising any of its rights or privileges herein, shall operate as a waiver nor shall any single or partial exercise preclude any other or further exercise of any right, power or privilege.

13. Representatives, Successors and Assigns. This Agreement shall be binding upon and for the benefit of the Parties, and their respective Representatives, successors, and permitted assigns. Neither Party may assign its rights or obligations hereunder without prior written consent of the other Party.

14. Controlling Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to conflicts of laws rules or principles

15. Full Compliance Required. The failure in any instance to insist on full compliance with the terms of this Agreement shall not be deemed to be a waiver of the right to insist upon full compliance with these terms thereafter.

16. Signatures. The signatures below establish each Party's agreement to the terms hereof.

17. Termination. This Agreement shall terminate three years from the date hereof.

RFP BIDDER

PPL ELECTRIC UTILITIES CORPORATION

By _____

By _____

Title _____

Title _____

Appendix 4

PJM Qualification Certification Form

I, _____ ("Agent") am an authorized signatory for _____ ("Company") and hereby certify that Company is a member of the PJM Interconnection, LLC ("PJM") and is qualified as a market buyer and market seller in good standing able to secure generation or otherwise obtain and deliver electricity in PJM through compliance with all applicable requirements of PJM to fulfill a full requirements obligation.

Signed:

Date:

Type or Print Name:

Title:

Company:

Upon completion, please mail this form to:

PPL Electric Utilities Corporation
Xxxx x xxxxxx
Two North Ninth Street
Allentown, PA 18101

Or send by facsimile to Xxxxx X. Xxxx at the following number: (610) 774-xxxx

Appendix 5

FERC Authorization Certification Form

I, _____ (“Agent”) am an authorized signatory for
 _____ (“Company”) and hereby certify that Company has been
 authorized by the Federal Energy Regulatory Commission (“FERC”) to make sales of energy,
 capacity and ancillary services at market-based rates, pursuant to the Federal Power Act and the
 provisions of FERC’s regulations promulgated thereunder. The Company’s authorization to
 make such sales at market-based rates was granted in Docket No(s).

Signed:

Date:

Type or Print Name:

Title:

Company:

Upon completion, please mail this form to:

PPL Electric Utilities Corporation
 Xxxx x xxxxxx
 Two North Ninth Street
 Allentown, PA 18101

Or send by facsimile to Xxxxx X. Xxxx at the following number: **(610) 774-xxxx**

Appendix 6

Credit Application

1. Company Information

Type of Business

- Corporation
- Limited Liability Company
- Joint Venture
- Other (describe)

Applicant Organization

- Legal Corporate Name:
- Street Address:
- City, State, Zip Code:
- DUNS Number:
- Federal Tax ID Number:

Applicant Credit Contact Name

- Name:
- Title:
- Street Address:
- City, State, Zip Code:
- Phone Number:
- Fax Number:
- Email Address:

For Corporation/Limited Liability Companies

- Date and State of Incorporation/Registration:
- Registered Agent Name:
- Street Address:
- City, State, Zip Code:

For Limited Partnerships

- Name of General Partner:
- Address of General partner/Registered Agent:
- City, State, Zip Code:

2. Application for Credit

This application for credit is to be based on the creditworthiness of the Applicant indicated below.

- The Applicant listed under Section 1.
- The parent/guarantor company listed below.

Parent/Guarantor Company

Legal Corporate Name:
 Street Address:
 City, State, Zip Code:
 DUNS Number:
 Federal Tax ID Number:

3. Credit Information

The Applicant indicated in Section 2 is required to submit the most recent 2 years of financial statements audited by a firm of certified public accountants of national standing. Indicate below what statements are being submitted.

- Annual Report
- 10K
- 10Q
- Other (describe)

In the event the above information is inadequate to appropriately assess the Applicant's creditworthiness, the Applicant must provide evidence of its capability to provide collateral instruments, its capability to borrow and other sources of liquidity.

All submitted information must be in the English language, and financial data denominated in United States currency, and conform to generally accepted accounting principles ("GAAP") in the United States. If the Applicant's financial information is consolidated with other entities, then it is the Applicant's responsibility to extract and submit as separate documents all data and information related solely to the Applicant. This must include all financial information, associated notes and all other information that would comprise a full financial report conforming to GAAP.

Has the Applicant or predecessor company declared bankruptcy in the last 5 years?

- Yes
- No

Are there any pending bankruptcies or other similar state or federal proceedings, outstanding judgments or pending claims or lawsuits that could affect the solvency of the Applicant?

- Yes
- No

If the answer is "Yes" to either of the above questions, please provide an addendum to this application describing the situation and how it affects the Applicant's ability to meet or not to meet its credit obligations.

4. Bank Reference Information

Bank Name:
 Street Address:
 City, State, Zip Code:
 Contact Name:
 Phone Number:
 Fax Number:
 Account Number:
 Revolving Credit Facility? Yes No
 If Yes,
 Amount of Facility: \$
 Expiration Date:

Bank Name:
 Street Address:
 City, State, Zip Code:
 Contact Name:
 Phone Number:
 Fax Number:
 Account Number:
 Revolving Credit Facility? Yes No
 If Yes,
 Amount of Facility: \$
 Expiration Date:

Bank Name:
 Street Address:
 City, State, Zip Code:
 Contact Name:
 Phone Number:
 Fax Number:
 Account Number:
 Revolving Credit Facility? Yes No
 If Yes,
 Amount of Facility: \$
 Expiration Date:

5. Applicant's Credit Ratings

Standard & Poors

Last Rating Date:
 Senior Unsecured Long-Term Debt Rating:

Moody's

Last Rating Date:

Senior Unsecured Long Term Debt Rating:

Fitch

Last Rating Date:

Senior Unsecured Long Term Debt Rating:

Along with the above information, attach the latest review from each of the agencies.

6. Authorization

Applicant hereby represents and warrants that all statements and representations made herein, including any supporting documents, are true to the best of Applicant's knowledge and belief. The undersigned authorized official of the Applicant warrants that the Applicant agrees to be bound by these representations. The Applicant authorizes the above listed entities to release data requested by PPL Electric Utilities Corporation necessary to perform a credit check in connection with Applicant's interest to bid on this RFP.

Applicant's Company Name: _____

Signature of Authorized Official: _____

Name of Authorized Official (print): _____

Title of Authorized Official (print): _____

Date Signed: _____

APPENDIX 7

BID ASSURANCE LETTER OF CREDIT

**{TO BE ISSUED ON THE LETTERHEAD OF THE ISSUING BANK}
IRREVOCABLE LETTER OF CREDIT NO.**

ISSUE DATE _____ EXPIRY DATE _____
 APPLICANT _____
 [NAME]
 [ADDRESS]

BENEFICIARY
 [NAME]
 [ADDRESS]

CURRENCY AMOUNT
 USD *****\$

WE HEREBY ISSUE IN YOUR FAVOR OUR IRREVOCABLE LETTER OF CREDIT NO:
 _____ FOR THE ACCOUNT OF _____ (APPLICANT) FOR AN
 AMOUNT OR AMOUNTS NOT TO EXCEED IN THE AGGREGATE US DOLLARS
 _____ AVAILABLE BY YOUR DRAFT(S) AT SIGHT ON THE
 BANK OF _____ (“ISSUER”) _____ (ADDRESS),
 EFFECTIVE _____ AND EXPIRING AT OUR COUNTERS ON
 _____ WHICH IS 60 DAYS FROM THE DATE OF ISSUANCE, UNLESS
 TERMINATED EARLIER IN ACCORDANCE WITH THE PROVISIONS OF THE
 REQUEST FOR PROPOSALS FOR FULL REQUIREMENTS SERVICE DATED (DATE)
 OR OTHERWISE EXTENDED BY AMENDMENT.

THIS LETTER OF CREDIT IS PRESENTABLE AND PAYABLE AT OUR COUNTERS
 AND WE HEREBY ENGAGE WITH YOU THAT DRAFTS DRAWN UNDER AND IN
 COMPLIANCE WITH THE TERMS OF THIS LETTER OF CREDIT WILL BE HONORED
 ON PRESENTATION IF ACCOMPANIED BY THE REQUIRED DOCUMENTS
 PURSUANT TO THE TERMS OF THIS LETTER OF CREDIT.

THE BELOW MENTIONED DOCUMENT(S) MUST BE PRESENTED ON OR BEFORE
 THE EXPIRY DATE OF THIS INSTRUMENT IN ACCORDANCE WITH THE TERMS AND
 CONDITIONS OF THIS LETTER OF CREDIT.

1. YOUR SIGNED AND DATED STATEMENT, READING AS FOLLOWS:

“THE AMOUNT FOR THIS DRAWING, USD (INSERT AMOUNT), BEING
 MADE UNDER THE BANK OF _____ (BANK) LETTER OF
 CREDIT NUMBER (INSERT LETTER OF CREDIT REFERENCE NUMBER),
 REPRESENTS AN AMOUNT DUE AND PAYABLE TO BENEFICIARY
 FROM APPLICANT FOR BID ASSURANCE RELATED TO THE REQUEST

FOR PROPOSALS FOR PPL POLR SUPPLY MASTER AGREEMENT
DATED XX, 2006 (RFP)."

2. THIS ORIGINAL LETTER OF CREDIT AND ANY AMENDMENT(S).

IF PRESENTATION OF ANY DRAWING IS MADE ON A BUSINESS DAY (AS HEREIN DEFINED) AND SUCH PRESENTATION IS MADE ON OR BEFORE 11:00 A.M. NEW YORK TIME, ISSUER SHALL SATISFY SUCH DRAWING REQUEST ON THE NEXT BUSINESS DAY. IF THE DRAWING IS RECEIVED AFTER 11:00 A.M. NEW YORK TIME, ISSUER WILL SATISFY SUCH DRAWING REQUEST ON THE SECOND FOLLOWING BUSINESS DAY.

THIS LETTER OF CREDIT MAY BE TERMINATED UPON BENEFICIARY'S RECEIPT OF FULL PAYMENT FROM THE APPLICANT AND ISSUER'S RECEIPT OF A WRITTEN RELEASE FROM THE BENEFICIARY RELEASING THE ISSUER FROM ITS OBLIGATIONS UNDER THIS LETTER OF CREDIT.

THE TERM "BUSINESS DAY" AS USED HEREIN MEANS ANY DAY OTHER THAN (I) A SATURDAY, (II) A SUNDAY, OR (III) A DAY ON WHICH BANKING INSTITUTIONS LOCATED IN THE CITY OF NEW YORK, NEW YORK ARE REQUIRED OR AUTHORIZED BY LAW TO BE CLOSED.

APPLICANT'S FILING OF A BANKRUPTCY, RECEIVERSHIP OR OTHER DEBTOR-RELIEF PETITION, AND/OR APPLICANT'S DISCHARGE THEREUNDER, SHALL IN NO WAY AFFECT THE LIABILITY OF [BANK] UNDER THIS LETTER OF CREDIT AND [BANK] SHALL ALWAYS REMAIN LIABLE TO [BENEFICIARY] FOR THE FULL AMOUNT OF APPLICANT'S OBLIGATIONS HEREIN TO [BENEFICIARY] NOT TO EXCEED THE AVAILABLE AMOUNT IN THIS LETTER OF CREDIT.

ADDITIONAL TERMS AND CONDITIONS:

1. ALL COMMISSIONS AND OTHER BANKING CHARGES WILL BE BORNE BY THE APPLICANT.
2. THIS LETTER OF CREDIT MAY NOT BE TRANSFERRED OR ASSIGNED.
3. THIS LETTER OF CREDIT IS IRREVOCABLE.
4. THIS LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES (1998) OF THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590 ("ISP98") OR SUCH LATER REVISION (S) OF THE ISP AS MAY BE HEREAFTER ADOPTED. AS TO MATTERS NOT GOVERNED BY ISP98, THIS LETTER OF CREDIT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, INCLUDING, TO THE EXTENT NOT INCONSISTENT WITH ISP98, THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE

COMMONWEALTH OF PENNSYLVANIA. THIS LETTER OF CREDIT MAY NOT BE AMENDED, CHANGED OR MODIFIED WITHOUT THE EXPRESS WRITTEN CONSENT OF THE BENEFICIARY AND THE ISSUER.

5. THE BENEFICIARY SHALL NOT BE DEEMED TO HAVE WAIVED ANY RIGHTS UNDER THIS LETTER OF CREDIT, UNLESS THE BENEFICIARY OR AN AUTHORIZED AGENT OF THE BENEFICIARY SHALL HAVE SIGNED A DATED WRITTEN WAIVER. NO SUCH WAIVER, UNLESS EXPRESSLY SO STATED THEREIN, SHALL BE EFFECTIVE AS TO ANY TRANSACTION THAT OCCURS SUBSEQUENT TO THE DATE OF THE WAIVER, NOR AS TO ANY CONTINUANCE OF A BREACH AFTER THE WAIVER.

6. A FAILURE TO MAKE ANY PARTIAL DRAWINGS AT ANY TIME SHALL NOT IMPAIR OR REDUCE THE AVAILABILTY OF THIS LETTER OF CREDIT IN ANY SUBSEQUENT PERIOD OR OUR OBLIGATION TO HONOR YOUR SUBSEQUENT DEMANDS FOR PAYMENT MADE IN ACCORDANCE WITH THE TERMS OF THIS LETTER OF CREDIT.

AUTHORIZED SIGNATURE: _____

TITLE: _____

PLEASE DIRECT ANY WRITTEN CORRESPONDENCE, INCLUDING DRAWING OR INQUIRIES TO:

[BANK NAME, ADDRESS AND PHONE NUMBER]

**PPL Electric Utilities
POLR RFP Process and Rules**

**APPENDIX 8
Notes**

Instructions:

The RFP Bidder must complete the Bid Proposal Spreadsheet as directed in Article 5.

All required information must be entered in the shaded cells. The absence of any required information will be deemed a non-conforming bid and will be eliminated from further consideration.

Residential -- is comprised of the following rate schedules:

RS	RS – Residential Service
RTS	RTS(R) – Residential Service – Thermal Storage
RTD	RTD(R) – Residential Service – Time of Day

Small Commercial and Industrial -- is comprised of the following rate schedules:

GS-1	GS-1 – Small General Service
GS-3	GS-3 – Large General Service
GH-1	GH-1(R) – Single Meter Com'l. Space Heating Service
GH-2	GH-2(R) – Separate Meter General Space Heating Service
IS-1	IS-1(R) – Interruptible Service – Greenhouses
BL	BL – Borderline Service – Electric Utilities
SA	SA – Private Area Lighting
SM	SM – Mercury Vapor Street Lighting
SHS	SHS – High Pressure Sodium Street Lighting
SE	SE – Energy Only Street Lighting Service
TS	TS(R) – Municipal Traffic Signal Lighting Service
SI-1	SI-1(R) – Municipal Street Lighting
Standby	Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules.

Large Commercial and Industrial -- is comprised of the following rate schedules:

LP-4	LP-4 – Large General Service – 12 KV or Higher
ISP	IS-P(R) – Interruptible Large General Service – 12 KV or Higher
LP-5	LP-5 – Large General Service – 69 KV or Higher
LP-6	LP-6 – Large General Service – 69 KV or Higher
LPEP	Power Service to Electric Propulsion
IST	IS-T(R) – Interruptible Large General Service – 69 KV or Higher
ISM	Interruptible Service by Agreement (R)
Standby	Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules.

**PPL Electric Utilities
POLR RFP Process and Rules**

**APPENDIX 8
Bid Proposal Spreadsheet**

Solicitation #1

Bid Proposal Due Date: March 26, 2007

Residential

12-Month Term: January 1, 2010 - December 31, 2010

Bidder Information:

Company Name
Contact Name
Phone Number
Fax Number

* Required Field
* Required Field
* Required Field
* Required Field

Tranche Information:

Available Tranches 10
Load Cap 85%
Tranche Size (% of Total Residential Load) 1.67%
MW-Measure (based on Projected 2010 PLC) 50.0

Bid Information:

	Total Tranches Supplied	Bid Assurance Collateral Amount	Price (2010 US\$/MWh)
Bids	1	\$500,000	
	2	\$1,000,000	
	3	\$1,500,000	
	4	\$2,000,000	
	5	\$2,500,000	
	6	\$3,000,000	
	7	\$3,500,000	
	8	\$4,000,000	
	9	\$4,500,000	
	10	\$5,000,000	

* Required Field
* Required Field
* Required Field
* Required Field
* Required Field
* Required Field
* Required Field
* Required Field
* Required Field
* Required Field

Complete/Incomplete:

Tag Number:

**PPL Electric Utilities
POLR RFP Process and Rules**

**APPENDIX 8
Notes**

Instructions:

The RFP Bidder must complete the Bid Proposal Spreadsheet as directed in Article 5.

All required information must be entered in the shaded cells. The absence of any required information will be deemed a non-conforming bid and will be eliminated from further consideration.

Residential -- is comprised of the following rate schedules:

- | | |
|-----|--|
| RS | RS – Residential Service |
| RTS | RTS(R) – Residential Service – Thermal Storage |
| RTD | RTD(R) – Residential Service – Time of Day |

Small Commercial and Industrial -- is comprised of the following rate schedules:

- | | |
|---------|---|
| GS-1 | GS-1 – Small General Service |
| GS-3 | GS-3 – Large General Service |
| GH-1 | GH-1(R) – Single Meter Com'l. Space Heating Service |
| GH-2 | GH-2(R) – Separate Meter General Space Heating Service |
| IS-1 | IS-1(R) – Interruptible Service – Greenhouses |
| BL | BL – Borderline Service – Electric Utilities |
| SA | SA – Private Area Lighting |
| SM | SM – Mercury Vapor Street Lighting |
| SHS | SHS – High Pressure Sodium Street Lighting |
| SE | SE – Energy Only Street Lighting Service |
| TS | TS(R) – Municipal Traffic Signal Lighting Service |
| SI-1 | SI-1(R) – Municipal Street Lighting |
| Standby | Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules. |

Large Commercial and Industrial -- is comprised of the following rate schedules:

- | | |
|---------|---|
| LP-4 | LP-4 – Large General Service – 12 KV or Higher |
| ISP | IS-P(R) – Interruptible Large General Service – 12 KV or Higher |
| LP-5 | LP-5 – Large General Service – 69 KV or Higher |
| LP-6 | LP-6 – Large General Service – 69 KV or Higher |
| LPEP | Power Service to Electric Propulsion |
| IST | IS-T(R) – Interruptible Large General Service – 69 KV or Higher |
| ISM | Interruptible Service by Agreement (R) |
| Standby | Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules. |

**PPL Electric Utilities
POLR RFP Process and Rules**

**APPENDIX 8
Bid Proposal Spreadsheet**

Solicitation #1

Bid Proposal Due Date: March 26, 2007

Small Commercial and Industrial

12-Month Term: January 1, 2010 - December 31, 2010

Bidder Information:

Company Name
Contact Name
Phone Number
Fax Number

* Required Field
* Required Field
* Required Field
* Required Field

Tranche Information:

Available Tranches 7
Load Cap 85%
Tranche Size (% of Total Small Commercial and Industrial Load) 2.38%
MW-Measure (based on Projected 2010 PLC) 54.3

Bid Information:

	Total Tranches Supplied	Bid Assurance Collateral Amount	Price (2010 US\$/MWh)
Bids	1	\$500,000	
	2	\$1,000,000	
	3	\$1,500,000	
	4	\$2,000,000	
	5	\$2,500,000	
	6	\$3,000,000	
	7	\$3,500,000	

* Required Field
* Required Field
* Required Field
* Required Field
* Required Field
* Required Field
* Required Field

Complete/Incomplete:

Tag Number:

**PPL Electric Utilities
POLR RFP Process and Rules**

**APPENDIX 8
Notes**

Instructions:

The RFP Bidder must complete the Bid Proposal Spreadsheet as directed in Article 5.

All required information must be entered in the shaded cells. The absence of any required information will be deemed a non-conforming bid and will be eliminated from further consideration.

Residential -- is comprised of the following rate schedules:

RS	RS – Residential Service
RTS	RTS(R) – Residential Service – Thermal Storage
RTD	RTD(R) – Residential Service – Time of Day

Small Commercial and Industrial -- is comprised of the following rate schedules:

GS-1	GS-1 – Small General Service
GS-3	GS-3 – Large General Service
GH-1	GH-1(R) – Single Meter Com'l. Space Heating Service
GH-2	GH-2(R) – Separate Meter General Space Heating Service
IS-1	IS-1(R) – Interruptible Service – Greenhouses
BL	BL – Borderline Service – Electric Utilities
SA	SA – Private Area Lighting
SM	SM – Mercury Vapor Street Lighting
SHS	SHS – High Pressure Sodium Street Lighting
SE	SE – Energy Only Street Lighting Service
TS	TS(R) – Municipal Traffic Signal Lighting Service
SI-1	SI-1(R) – Municipal Street Lighting
Standby	Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules.

Large Commercial and Industrial -- is comprised of the following rate schedules:

LP-4	LP-4 – Large General Service – 12 KV or Higher
ISP	IS-P(R) – Interruptible Large General Service – 12 KV or Higher
LP-5	LP-5 – Large General Service – 69 KV or Higher
LP-6	LP-6 – Large General Service – 69 KV or Higher
LPEP	Power Service to Electric Propulsion
IST	IS-T(R) – Interruptible Large General Service – 69 KV or Higher
ISM	Interruptible Service by Agreement (R)
Standby	Rule 6A – Standby Service for Qualifying Facilities applicable to customers in the above listed rate schedules.

**PPL Electric Utilities
POLR RFP Process and Rules**

**APPENDIX 8
Bid Proposal Spreadsheet**

Solicitation #5
Bid Proposal Due Date: March 30, 2009

Large Commercial and Industrial
12-Month Term: January 1, 2010 - December 31, 2010

Bidder Information:

Company Name		* Required Field
Contact Name		* Required Field
Phone Number		* Required Field
Fax Number		* Required Field

Tranche Information:

Available Tranches	19
Load Cap	85%
Tranche Size (% of Total Large Commercial and Industrial Load)	2.63%
MW-Measure (based on Projected 2010 PLC)	49.7

Bid Information:

	Total Tranches Supplied	Bid Assurance Collateral Amount	Price (2010 US\$/MWh)	
Bids	1	\$500,000		* Required Field
	2	\$1,000,000		* Required Field
	3	\$1,500,000		* Required Field
	4	\$2,000,000		* Required Field
	5	\$2,500,000		* Required Field
	6	\$3,000,000		* Required Field
	7	\$3,500,000		* Required Field
	8	\$4,000,000		* Required Field
	9	\$4,500,000		* Required Field
	10	\$5,000,000		* Required Field
	11	\$5,500,000		* Required Field
	12	\$6,000,000		* Required Field
	13	\$6,500,000		* Required Field
	14	\$7,000,000		* Required Field
	15	\$7,500,000		* Required Field
	16	\$8,000,000		* Required Field
	17	\$8,500,000		* Required Field
	18	\$9,000,000		* Required Field
	19	\$9,500,000		* Required Field

Complete/Incomplete:

Tag Number:

Appendix 9

Binding Bid Agreement

In consideration for the privilege of submitting bids as part of the POLR SMA Requests For Proposals process, _____ (“RFP Bidder”) agrees to be bound by the price quotes entered on any Bid Proposal Spreadsheet(s), up to the expiration time of its proposal, as set forth in Article 5.5 (Expiration of Proposals) of this Request For Proposals (“RFP”), submitted to PPL Electric Utilities Corporation (“PPL Electric”), in response to this multi-solicitation process, which shall constitute a firm offer to supply service in accordance with the Provider of Last Resort Supply Master Agreement (“POLR SMA”) and applicable Pennsylvania Law and regulations. Any bid is not subject to any contingencies or conditions precedent and, if accepted by PPL Electric, the RFP Bidder agrees to execute the Transaction Confirmation in a timely manner as set forth in Article 2.8 (Transaction Confirmation) of the POLR SMA.

The submission of any binding offer to PPL Electric shall constitute the Bidder’s acknowledgment and acceptance of all the terms, conditions and requirements of this RFP.

The undersigned represents and warrants that he/she has the authority to act on behalf of, and to bind, the RFP Bidder to perform the terms and conditions and otherwise comply with all obligations stated herein.

Signature of Authorized Official: _____

Name of Authorized Official (*print*): _____

Title of Authorized Official (*print*): _____

Date Signed: _____

Appendix 10

Binding Bid Withdrawal Agreement

_____ (“RFP Bidder”) hereby freely and irrevocably withdraws the price quotes entered on the Bid Proposal Spreadsheet(s) previously submitted to PPL Electric Utilities Corporation (“PPL Electric”), and listed next to “Tag Number / Bid Proposal Filename”. This withdrawal of bid(s) is not subject to any contingencies or conditions precedent, and constitutes a final cancellation of the subject bid(s). RFP Bidder expressly acknowledges and agrees that the withdrawn bid(s) will not be considered by PPL Electric, and will not be accepted by PPL Electric under any circumstances.

The submission of this binding bid withdrawal to PPL Electric constitutes RFP Bidder’s continuing acknowledgement and acceptance of all the terms, conditions and requirements of this Request For Proposals.

The person submitting this bid withdrawal represents and warrants that he/she has the authority to act on behalf of, and to bind, the Bidder with respect to all actions and obligations stated herein.

Signature of Authorized Official: _____

Name of Authorized Official (*print*): _____

Title of Authorized Official (*print*): _____

Date Signed: _____

Tag Number / Bid Proposal Filename: _____

NOTE:

Please fax your completed form to Xxxx X. Xxxx at the following number: **610-774-xxxx**.

Please also send an e-mail alert to RFPCoordinator@pplweb.com and xxxx@pplweb.com.

Please note that all bid withdrawals must be received by PPL Electric before 12:00:00 p.m. EPT on the Bid Proposal Due Date.

APPENDIX 1

2006

PPL ELECTRIC UTILITIES CORPORATION

PROVIDER OF LAST RESORT

SUPPLY MASTER AGREEMENT

BETWEEN

[BUYER NAME]

AND

[SELLER NAME]

DATED [DATE]

PROVIDER OF LAST RESORT SUPPLY MASTER AGREEMENT

Articles and Provisions

Table of Contents

ARTICLE 1 DEFINITIONS	5
ARTICLE 2 TERMS AND CONDITIONS OF FULL REQUIREMENTS SERVICE	14
2.1 SELLER'S OBLIGATION TO PROVIDE SERVICE.....	14
2.2 BUYER'S OBLIGATION TO TAKE SERVICE.....	14
2.3 DISTRIBUTION SERVICE.....	15
2.4 CHANGES IN PJM CHARGES.....	15
2.5 STATUS OF SELLER.....	15
2.6 SALES FOR RESALE.....	15
2.7 GOVERNING TERMS.....	15
2.8 TRANSACTION CONFIRMATION.....	15
ARTICLE 3 SCHEDULING, FORECASTING, AND INFORMATION SHARING	15
3.1 SCHEDULING.....	15
3.2 LOAD FORECASTING.....	15
3.3 INFORMATION SHARING.....	16
ARTICLE 4 SPECIAL TERMS AND CONDITIONS	16
4.1 CONGESTION AND CONGESTION MANAGEMENT.....	16
4.2 LOAD RESPONSE PROGRAMS.....	16
4.3 PJM E-ACCOUNTS.....	16
4.4 ALTERNATIVE ENERGY PORTFOLIO STANDARDS OBLIGATION.....	16
4.5 TITLE TRANSFER.....	17
4.6 RELIABILITY GUIDELINES.....	17
4.7 PJM MEMBERSHIP.....	17
4.8 DECLARATION OF AUTHORITY.....	17
4.9 FERC AUTHORIZATION.....	17
4.10 DISCLOSURE IN THE EVENT OF SELLER DEFAULT.....	17
4.11 SELLER STEP-UP RIGHTS.....	18
ARTICLE 5 TERM AND SURVIVAL	18
5.1 TERM.....	18
5.2 SURVIVAL.....	18
ARTICLE 6 DETERMINATION OF DELIVERED QUANTITIES	19
6.1 MONTHLY SETTLEMENT LOAD.....	19
ARTICLE 7 BILLING AND SETTLEMENT	19
7.1 BILLING.....	19
7.2 PJM BILLING.....	19
7.3 PAYMENTS OF THE INVOICE.....	20
7.4 BILLING DISPUTES AND ADJUSTMENTS OF INVOICES.....	20
7.5 INTEREST ON UNPAID BALANCES.....	20
ARTICLE 8 TAXES	20

Table of Contents

8.1	COOPERATION.....	20
8.2	TAXES.....	20
8.3	DISCLOSURE OF TAX TREATMENT.....	21
ARTICLE 9 INDEMNIFICATION 21		
9.1	SELLER'S INDEMNIFICATION FOR THIRD-PARTY CLAIMS.....	21
9.2	BUYER'S INDEMNIFICATION FOR THIRD-PARTY CLAIMS.....	21
9.3	INDEMNIFICATION PROCEDURES.....	22
ARTICLE 10 LIMITATIONS ON LIABILITY 22		
ARTICLE 11 FORCE MAJEURE 23		
11.1	FORCE MAJEURE.....	23
11.2	NOTIFICATION.....	23
ARTICLE 12 EVENTS OF DEFAULT; REMEDIES 23		
12.1	EVENTS OF DEFAULT.....	23
12.2	REMEDIES.....	24
12.3	CALCULATION AND NET OUT OF SETTLEMENT AMOUNTS.....	25
12.4	NOTICE OF TERMINATION PAYMENT.....	26
12.5	DISPUTES WITH RESPECT TO TERMINATION PAYMENT.....	26
12.6	DUTY TO MITIGATE.....	26
ARTICLE 13 DISPUTE RESOLUTION 26		
13.1	INFORMAL DISPUTE RESOLUTION.....	26
13.2	FORMAL DISPUTE RESOLUTION.....	27
ARTICLE 14 PERFORMANCE ASSURANCE 27		
14.1	REQUIREMENT FOR PERFORMANCE ASSURANCE.....	27
14.2	PERFORMANCE ASSURANCE TRANSFERS/RETURNS.....	27
14.3	UNSECURED CREDIT.....	28
14.4	CREDIT RATING.....	29
14.5	TANGIBLE NET WORTH.....	29
14.6	AGGREGATE BUYER'S EXPOSURE.....	29
ARTICLE 15 REPRESENTATIONS AND WARRANTIES 30		
15.1	REPRESENTATIONS AND WARRANTIES.....	30
15.2	ADDITIONAL UNDERSTANDINGS.....	31
ARTICLE 16 MISCELLANEOUS 32		
16.1	NOTICES.....	32
16.2	GENERAL.....	32
16.3	RULES OF INTERPRETATION.....	32
16.5	CONFIDENTIALITY.....	33
16.6	SUCCESSORS.....	33
16.7	ASSIGNMENT/CHANGE IN CORPORATE IDENTITY.....	33
16.8	GOVERNING LAW.....	33
16.9	JURISDICTION AND VENUE.....	34
16.10	AMENDMENTS.....	34
16.11	PJM AGREEMENT MODIFICATIONS.....	34
16.12	DELAY AND WAIVER.....	34
16.13	REGULATORY APPROVALS.....	35
EXHIBIT A TRANSACTION CONFIRMATION EXAMPLE		36

Table of Contents

EXHIBIT B ALTERNATIVE ENERGY PORTFOLIO STANDARDS OBLIGATION	37
EXHIBIT C PERFORMANCE ASSURANCE EVERGREEN LETTER OF CREDIT	38
EXHIBIT D SAMPLE PJM INVOICE	41
EXHIBIT E METHODOLOGY FOR CALCULATION OF MARK TO MARKET (MTM) EXPOSURE	43
EXHIBIT F UNCONDITIONAL GUARANTY	46
EXHIBIT G FORM OF NOTICE	53
EXHIBIT H PJM DECLARATION OF AUTHORITY	54

PROVIDER OF LAST RESORT SUPPLY MASTER AGREEMENT

THIS PROVIDER OF LAST RESORT SUPPLY MASTER AGREEMENT ("Agreement" or "POLR SMA"), is made and entered into as of _____ ("Effective Date"), by and between _____, hereinafter referred to as "Seller" and _____, hereinafter referred to as "Buyer" (each hereinafter referred to individually as "Party" and collectively as "Parties").

WITNESSETH:

WHEREAS, the Pennsylvania Public Utility Commission Orders issued pursuant to the Electricity Generation Customer Choice and Competition Act, 66 Pa. C. S. Sections 2801-2182, direct Buyer to supply electric service to Provider of Last Resort Service Load ("POLR Load") within Buyer's Pennsylvania franchise service territory; and

WHEREAS, the Pennsylvania legislature has enacted a law establishing an Alternative Energy Portfolio Standard applicable to retail electricity suppliers serving customers in the Commonwealth of Pennsylvania; and

WHEREAS, Buyer has solicited offers for obtaining all or a portion of the supply it requires to serve its POLR Load pursuant to a Request for Proposal ("RFP") and the Seller is a winning bidder in that solicitation; and

WHEREAS, Seller desires to sell Full Requirements Service and Buyer desires to purchase such Full Requirements Service to supply a Specified Percentage in Buyer's Pennsylvania franchised service territory on a firm and continuous basis; 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 Agreement, hereby agree as follows:

ARTICLE 1 DEFINITIONS

In addition to terms defined elsewhere in this Agreement, the following definitions shall apply hereunder:

"Affiliate" means, with respect to any entity, any other entity that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such entity. For this purpose, "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

"Aggregate Buyer's Exposure" means all Buyer's Exposure for Aggregate Transactions.

“Aggregate Transactions” means all Transactions under this Agreement and all other transactions under Supply Master agreements executed between the Parties pursuant to the PUC Orders.

“Ancillary Services” shall have the meaning ascribed thereto in the PJM Agreements.

“Alternative Energy Portfolio Standards (“AEPS”) Obligation” shall have the meaning ascribed to it in Section 4.4 (Alternative Energy Portfolio Standards Obligation).

“Alternative Energy Portfolio Standards (“AEPS”)” shall have the meaning ascribed to it in the Pennsylvania Alternative Energy Portfolio Standards Act, 73 P.S. §§ 1648.1-1648.8.

“Amended and Restated PJM Operating Agreement” means the Operating Agreement of PJM or the successor, superceding or amended versions of the Operating Agreement that may take effect from time to time.

“Bankrupt” means, with respect to any entity, such entity: (i) voluntarily files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it by its creditors and such petition is not dismissed within sixty (60) calendar days of the filing or commencement; (ii) makes an assignment or any general arrangement for the benefit of creditors; (iii) otherwise becomes insolvent, however evidenced; (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (v) is generally unable to pay its debts as they fall due.

“Business Day” means any day except a Saturday, Sunday or a day that PJM declares to be a holiday, as posted on the PJM website. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. Eastern Prevailing Time (“EPT”).

“Buyer Downgrade Event” means that Buyer’s (or Buyer’s Guarantor’s) Credit Rating is less than BBB- by S&P, BBB- by Fitch or Baa3 by Moody’s.

“Buyer’s Exposure” during the term of a Transaction shall be deemed equal to the positive difference between: (i) the MtM Exposure pursuant to a Transaction under this Agreement; less (ii) the sum of any unpaid or unbilled amounts owed by Buyer to Seller pursuant to a Transaction under this Agreement. With respect to the preceding sentence, “unbilled amounts owed by Buyer” shall consist of a good faith estimate by Buyer as to any amounts which will be owed by Buyer for service already rendered by Seller under a Transaction.

“Capacity” means “Unforced Capacity” as set forth in the PJM Agreements, or any successor measurement of the capacity obligation of a Load Serving Entity as may be employed in PJM (whether set forth in the PJM Agreements or elsewhere).

“Capacity Forward Price” means the price, as reported by PJM, for Capacity stated in terms of \$/MWD associated with each month remaining in a Transaction Delivery Period.

“Capacity Initial Mark Price” means the Capacity Forward Price as of the Transaction Date.

“Capacity Obligation” means the product of the capacity obligation, consistent with PJM unforced capacity accounting and corresponding to the Current PLC Per Tranche, and the number of Tranches awarded to the Seller.

“Congestion Revenue Rights” or “CRR” means the current or any successor congestion management mechanism or mechanisms as may be employed by PJM (whether set forth in the PJM Tariff or elsewhere) for the purpose of allocating financial congestion hedges.

“Costs” means, with respect to the Non-Defaulting Party, brokerage fees, commissions, PJM charges, and other similar third party transaction costs and expenses reasonably incurred by such Party either in terminating any arrangement pursuant to which it has hedged its POLR Load obligations or entering into new arrangements which replace a Terminated Transaction; and all reasonable attorneys’ fees and expenses incurred by the Non-Defaulting Party in connection with the termination of a Transaction.

“Credit Rating” means, with respect to any entity, the rating then assigned to such entity’s unsecured, senior long-term debt obligations (not supported by third party credit enhancements) or if such entity does not have a rating for its senior unsecured long-term debt, then the rating then assigned to such entity as an issuer rating by S&P, Moody’s or Fitch.

“Current PLC Per Tranche” means, on any given Business Day, for each Transaction, the product of: (i) the aggregate PLC for an entire Service Type; and (ii) the quotient of (x) the Specified Percentage and (y) the number of Tranches.

“Declaration of Authority” shall have the meaning ascribed to it in Section 4.8 (Declaration of Authority).

“Default Damages” means, for the period of time specified in Section 12.2(b)(ii) (Remedies) any direct damages and Costs, calculated in a commercially reasonable manner, that the Non-Defaulting Party incurs with respect to the Specified Percentage as a result of an Event of Default. Direct damages may include, but are not limited to: (i) the positive difference (if any) between the price of Full Requirements Service hereunder and the price at which the Buyer or Seller is able to purchase or sell (as applicable) Full Requirements Service (or any components of Full Requirements Service it is able to purchase or sell) from or to third parties, including PJM; (ii) Emergency Energy charges; and (iii) additional transmission or congestion costs incurred to purchase or sell Full Requirements Service.

“Delivery Period” means the period of delivery for a Transaction as specified in a Transaction Confirmation.

“Delivery Point” means the PPL Zone as defined within PJM.

“Eastern Prevailing Time” or “EPT” means Eastern Standard Time or Eastern Daylight Savings Time, whichever is in effect on any particular date.

“Emergency Energy” shall have the meaning ascribed to it in the PJM Agreements.

“Energy” means three-phase, 60-cycle alternating current electric energy, expressed in units of

kilowatt-hours or megawatt-hours.

“Equitable Defenses” means any bankruptcy, insolvency, reorganization and other laws affecting creditors’ rights generally, and with regard to equitable remedies, the discretion of the court before which proceedings to obtain same may be pending.

“FERC” means the Federal Energy Regulatory Commission or its successor.

“Fitch” means Fitch Investor Service, Inc. or its successor.

“Force Majeure” “Force Majeure” means an event or circumstance which prevents one party from performing its obligations under one or more transactions, such riot or revolutions, demands or embargoes of the United States Government, fire, flood, drought, insurrection, acts of God which are not within the reasonable control of, or the result of the negligence of the affected party and which, by the exercise of due diligence, the Party is unable to mitigate or avoid or cause to be avoided. Notwithstanding the foregoing, under no circumstance shall an event of Force Majeure be based on: (i) the loss or failure of Seller’s supply; (ii) Seller’s ability to sell the Full Requirements Service at a price greater than that received under any Transaction; (iii) curtailment by a Transmitting Utility; (iv) Buyer’s ability to purchase the Full Requirements Service at a price lower than paid under any Transaction; or (v) Labor stoppage or lockout.

“Full Requirements Service” means all necessary Energy, Capacity, Transmission, Ancillary Services, Pennsylvania Alternative Energy Portfolio Standard (AEPS) requirement, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply the Specified Percentage of distribution service.

“Gains” means, with respect to any Party, an amount equal to the present value of the economic benefit to it, if any (exclusive of Costs), resulting from a Terminated Transaction, determined in a commercially reasonable manner.

“Generator Attribute Tracking System” or “GATS” means the system owned and operated by PJM Environmental Services, Inc. to provide environmental and emissions attributes reporting and tracking services to its subscribers in support of Pennsylvania Alternative Energy Portfolio Standard (AEPS) Act.

“Governmental Authority” means any federal, state, local, municipal or other governmental entity, authority or agency, department, board, court, tribunal, regulatory commission, or other body, whether legislative, judicial or executive, together or individually, exercising or entitled to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power over a Party or this Agreement.

“Guarantor” means any party, who agrees to guaranty Seller’s financial obligations under this Agreement pursuant to the guaranty agreement, attached hereto as Exhibit F, recognizing that such a party will be obligated to meet or exceed Buyer’s credit requirements for Seller and that the acceptability of such guaranty will be determined at Buyer’s sole discretion.

“Interest Rate” means, for any date, the lesser of: (i) the per annum rate of interest equal to the prime lending rate as may from time to time be published in *The Wall Street Journal* under “Money Rates” on such day (or if not published on such day on the most recent preceding day on

which published), plus two percent (2%); and (ii) the maximum rate permitted by applicable law.

“kWh” means one kilowatt of electric power over a period of one hour.

“Letter(s) of Credit” means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch, with such bank having a credit rating of at least A- from S&P or A3 from Moody’s and a minimum of \$10 billion in assets, in a form acceptable to the Party in whose favor the letter of credit is issued (for clarification, the form of Letter of Credit attached as Exhibit C hereto shall be considered an acceptable form). Costs of a Letter of Credit shall be borne by the applicant for such Letter of Credit. The Party to whom the Letter of Credit is in favor reserves the right to monitor the financial position of the issuing bank and, if the issuing bank’s Credit Rating is downgraded by any increment; or if the issuing bank’s Current, Quick, Return on Assets, or Price/Earnings ratios diminish (reflecting the financial stability of the bank); or if the Party determines, for any reason, at its sole discretion that the issuing bank’s position has deteriorated, then the Party has the right to demand and receive, from the applicant for the Letter of Credit, that the Letter of Credit be reissued from a bank that meets or exceeds the credit ratings and asset valuation listed above.

“Load Percentage” means the percentage of the Monthly Settlement Load that the Monthly Settlement Price is applicable to, as set forth in Section 6.2 (Load Percentages).

“Load Serving Entity” or “LSE” shall have the meaning ascribed to it in the PJM Agreements.

“Losses” means, with respect to any Party, an amount equal to the present value of the economic loss to it, if any (exclusive of Costs), resulting from the termination of a Terminated Transaction, determined in a commercially reasonable manner.

“Mark to Market Exposure” or “MtM Exposure” means, with respect to each month remaining in each Transaction Delivery Period, the sum of: (i) the relevant month On-Peak Forward Price minus the relevant month On-Peak Initial Mark Price, multiplied by the relevant month On-Peak Estimated Energy Quantity; (ii) the relevant month Off-Peak Forward Price minus the relevant month Off-Peak Initial Mark Price, multiplied by the relevant month Off-Peak Estimated Energy Quantity; and (iii) the relevant month Capacity Forward Price minus the relevant month Capacity Initial Mark Price, multiplied by the remaining Capacity Obligation.

The methodology for calculating the MtM Exposure and an example are included in Exhibit E.

“Monthly Settlement Amount” means with respect to any calendar month during the Delivery Period, the sum of: (i) the product of the applicable Monthly Settlement Price and Monthly Settlement Load; and (ii) any other adjustments as set forth in this Agreement.

“Monthly Settlement Price” means the price for Monthly Settlement Load for the applicable month of the Delivery Period as set forth in a Transaction Confirmation.

“Monthly Settlement Date” means, with respect to any calendar month of a Delivery Period, the date(s) determined to be the PJM Settlement Date(s) pursuant to the PJM Agreements.

“Monthly Settlement Load” means, with respect to any calendar month during an applicable Delivery Period, the product of Specified Percentage and POLR Load.

“Moody’s” means Moody’s Investor Services, Inc. or its successor.

“MWD” means one megawatts of electric power available over a period of one day which shall be rounded in a manner consistent with the standards in the PJM Agreements.

“MWh” means one megawatt of electric power used over a period of one hour which shall be rounded in a manner consistent with standards in the PJM Agreements. The current rounding standards are to the nearest one-thousandth of a megawatt hour.

“MW-Measure” means the estimated megawatt measure of PLC corresponding to a single Tranche.

“NERC” means the North American Electric Reliability Council or any successor organization thereto.

“Network Integration Transmission Service” shall have the meaning ascribed to it in the PJM Agreements.

“Non-Defaulting Party” means the Party not responsible for an Event of Default, as set forth in Article 12.

“Off-Peak Estimated Energy Quantity” means, for each month in each Transaction, the product of: (i) the relevant month Off-Peak Estimated Energy Quantity per MW-Measure; (ii) the quotient of the Current PLC Per Tranche divided by the MW-Measure; (iii) the number of Tranches awarded to the Seller per the Transaction Confirmation; and (iv) the percentage of Off-Peak Hours remaining (excluding current day) in each month.

“Off-Peak Estimated Energy Quantity Per MW-Measure” means the estimation of Energy, inclusive of electrical line losses, in the Off-Peak Hours for each of the twelve (12) calendar months, as set forth in the Transaction Confirmation.

“Off-Peak Forward Price” means the price, as provided by the Pricing Agent, for Off-Peak Hours, stated in terms of \$/MWh, associated with each month remaining in a Transaction Delivery Period, and based on the most recent publicly available information and/or quotes from Reference Market-Makers on forward Energy transactions occurring at the PJM Western HUB (as discussed in Exhibit E). If the publicly available information is not available from the Reference Market-Makers then the price shall equal the product of: (i) the relevant month Off-Peak Forward Price; and (ii) the relevant month Off-Peak Price Ratio.

“Off-Peak Hours” means those hours which are not On-Peak Hours.

“Off-Peak Initial Mark Price” means the Off-Peak Forward Price as of the Transaction Date.

“Off-Peak Price Ratio” means the ratio of the relevant month’s average off-peak price to the annual average off-peak price calculated using PJM’s reported day-ahead hourly prices as set forth by Buyer each month based on the previous 36-month rolling period.

The historical off-peak prices used to calculate the ratio will be the PJM Western Hub day-ahead

hourly prices for the Off-Peak Hours. The relevant month's average off-peak price will be calculated as the sum of all the off-peak hourly prices in all such months divided by the total amount of off-peak hours in all such months (e.g., for the month of January, there would be three such months). The annual average off-peak price will be calculated as the sum of all the off-peak hourly prices in the 36-month rolling period divided by the total amount of off-peak hours in the 36-month rolling period.

"On-Peak Estimated Energy Quantity" means, for each month in each Transaction, the product of: (i) the relevant month On-Peak Estimated Energy Quantity per MW-Measure; (ii) the quotient of the Current PLC Per Tranche divided by the MW-Measure; (iii) the number of Tranches awarded to the Seller per the Transaction Confirmation; and (iv) the percentage of On-Peak Hours remaining (excluding current day) in each month.

"On-Peak Estimated Energy Quantity Per MW-Measure" means the estimation of Energy, inclusive of electrical line losses, in the On-Peak Hours for each of the twelve (12) calendar months, as set forth in the Transaction Confirmation.

"On-Peak Forward Price" means the price, as provided by the Pricing Agent, for On-Peak Hours, stated in terms of \$/MWh, associated with each month remaining in a Transaction Delivery Period, and based on the most recent publicly available information and/or quotes from Reference Market-Makers on forward Energy transactions occurring at the PJM Western HUB (as discussed in Exhibit E). If the publicly available information is not available from the Reference Market-Makers then the price shall equal the product of: (i) the relevant month On-Peak Forward Price; and (ii) the relevant month On Peak Price Ratio.

"On-Peak Hours" means Hour Ending ("HE") 0800 through HE 2300 EPT, Monday through Friday, excluding Saturday, Sunday and PJM holidays.

"On-Peak Initial Mark Price" means the On-Peak Forward Price as of the Transaction Date.

"On-Peak Price Ratio" means the ratio of the relevant month's average on-peak price to the annual average on-peak price calculated using PJM's reported day-ahead hourly prices as set forth by Buyer each month based on the previous 36-month rolling period.

The historical on-peak prices used to calculate the ratio will be the PJM Western Hub day-ahead hourly prices for the On-Peak Hours. The relevant month's average on-peak price will be calculated as the sum of all the on-peak hourly prices in all such months divided by the total amount of on-peak hours in all such months (e.g., for the month of January, there would be three such months). The annual average on-peak price will be calculated as the sum of all the on-peak hourly prices in in the 36-month rolling period divided by the total amount of on-peak hours in the 36-month rolling period.

"Peak Load Contribution" or "PLC" means the aggregation of retail customer peak load contributions, as determined by the Buyer in accordance with the PJM Agreements and reported by Buyer to PJM pursuant to Buyer's retail load settlement process, and used by PJM in determining the Seller's capacity obligation for each Transaction.

"Performance Assurance" means collateral in the form of cash, Letter(s) of Credit, or other security acceptable to the Requesting Party.

“Photo-voltaic (“PV”)” means shall have the meaning ascribed in Tier 1 Alternative Energy Sources.

“PJM” means the PJM Interconnection, LLC or any successor organization thereto.

“PJM Active Load Management” shall have the meaning ascribed to it in the PJM Agreements.

“PJM Agreements” means the PJM OATT, PJM Operating Agreement, PJM RAA, PJM West RAA, and any other applicable PJM manuals or documents, or any successor, superceding or amended versions that may take effect from time to time.

“PJM Control Area” shall have the meaning ascribed to it in the PJM Agreements.

“PJM OATT” or “PJM Tariff” means the Open Access Transmission Tariff of PJM or the successor, superceding or amended versions of the Open Access Transmission Tariff that may take effect from time to time.

“PJM Planning Period” shall have the meaning ascribed to it in the PJM Agreements. Currently, the PJM Planning Period is the twelve (12) months beginning June 1 and extending through May 31 of the following year.

“PJM RAA” means the PJM Reliability Assurance Agreement or any successor, superceding or amended versions of the PJM Reliability Assurance Agreement that may take effect from time to time.

“PJM Settlement Date” means the date on which payments are due to PJM for services provided by PJM in accordance with the PJM Agreements. Such date currently occurs on the first Business Day after the nineteenth (19th) calendar day of the month following service.

“PJM Western Hub” means the aggregated Locational Marginal Price (“LMP”) nodes defined by PJM.

“PJM West RAA” means the PJM West Reliability Assurance Agreement or the successor, superceding or amended versions of the PJM West Reliability Assurance Agreement that may take effect from time to time.

“POLR Service” shall have the meaning ascribed to it in the Electricity Generation Customer Choice and Competition Act and PUC Orders enacted thereunder.

“Pricing Agent” shall be the person or entity described in Article 14.6, Exhibit B, and Exhibit E.

“Provider of Last Resort Service Load” or “POLR Load” means the total sales at the retail meter, plus any losses and Unaccounted For Energy, expressed in MWh or MW, as appropriate, for a particular class(es) of retail customers being served by Buyer pursuant to the PUC Orders and Settlements, as such sales vary from hour to hour, in Buyer’s Pennsylvania franchise service territory, as such territory exists on the Effective Date or may increase or decrease due to de minimis geographic border changes to the service territory that exists on the Effective Date. For purposes of clarification, POLR Load shall not include sales resulting from changes in the Buyer’s Pennsylvania service territory which occur as a result of a merger, consolidation, or acquisition of another entity which has a franchised service territory in Pennsylvania or a result

of a significant franchise territory swap with another entity which has a franchised service territory in Pennsylvania.

“PUC” means the Pennsylvania Public Utility Commission and any successor thereto.

“PUC Orders” means the orders issued by the PUC pursuant to the Electricity Generation customer Choice and Competition Act, 66 Pa. C. S. Sections 2801-2812, including the Order authorizing the parties to enter into this Agreement.

“Rate Classes” means the existing, and modified or successor, customer rate schedule designations in PPL Electric Utilities Corporation’s General Tariff.

“Reference Market-Maker” means any broker in energy products.

“Request for Proposal” or “RFP” means the request for proposals issued from time to time by Buyer pursuant to the PUC Orders and Settlements.

“S&P” means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc. and any successor thereto.

“Service Type” means the customer class, partial customer class and/or group of customer classes, as set forth in a Transaction Confirmation.

“Settlement Amount” means, with respect to a Transaction and the Non-Defaulting Party, the Losses or Gains, and Costs, expressed in U.S. Dollars, which such Party incurs as a result of the liquidation of a Terminated Transaction pursuant to Article 12 (Events of Default – Remedies). The calculation of a Settlement Amount for a Terminated Transaction shall exclude any Default Damages calculated pursuant to Section 12.2(b)(ii) for the same Terminated Transaction. For the purposes of calculating the Termination Payment, the Settlement Amount shall be considered an amount due to the Non-Defaulting Party under this Agreement if total of the Losses and Costs exceeds the Gains and shall be considered an amount due to the Defaulting Party under this Agreement if the Gains exceed the total of the Losses and Costs.

“Specified Percentage” means the percentage of POLR Load as set forth in a Transaction Confirmation.

“Tangible Net Worth” or “TNW” means an entity’s total assets (exclusive of intangible assets), minus that entity’s total liabilities, each as would be reflected on a balance sheet prepared in accordance with generally accepted accounting principles, and as of the relevant date of determination most recently filed with the United States Securities and Exchange Commission.

“TNW Amount” shall equal the product of the applicable TNW Percentage and an entity’s Tangible Net Worth.

“TNW Percentage” means the percentage determined pursuant to Section 14.3 (Unsecured Credit) that is multiplied by an entity’s Tangible Net Worth to determine that entity’s TNW Amount.

“Tier 1 Alternative Energy Sources” shall have the meaning ascribed to it in the Pennsylvania Alternative Energy Portfolio Standards Act, 73 P.S. §§ 1648.1-1648.8.

“Tier 2 Alternative Energy Sources” shall have the meaning ascribed to it in the Pennsylvania Alternative Energy Portfolio Standards Act, 73 P.S. §§ 1648.1-1648.8.

“Tranche” means a fixed percentage share of load for a Service Type that is awarded to Seller in accordance with Buyer's RFP as set forth in a Transaction Confirmation. The fixed percentage defines the Tranche size for each of the Company's Service Types.

“Transaction” means a particular agreement by which Buyer purchases and Seller sells Full Requirements Service pursuant to this Agreement, the details of which are more fully set forth in a Transaction Confirmation.

“Transaction Confirmation” shall have the meaning ascribed to it in Section 2.8 (Transaction Confirmation).

“Transaction Date” means the date that a Transaction is executed as set forth in the Transaction Confirmation.

“Transmitting Utility” means the utility or utilities and their respective control area operators and their successors, transmitting Full Requirements Service.

“Unaccounted For Energy” means an energy accounting adjustment assessed by PJM for settlement purposes among retail energy suppliers in the PPL zone. It is the difference on an hourly basis (as either a credit or a charge), between, the PPL zonal load as measured and billed by PJM and adjusted for losses, and, the sum of the individually metered customer hourly loads served within the zone as billed and adjusted for losses. Unaccounted for Energy also includes energy related adjustments for PJM billing charges that are normally billed to PPL Electric and not necessarily billed to LSEs serving retail load in the zone. Load profiles adjusted for losses are used to determine individual hourly customer usage when actual hourly loads are not available. Unaccounted for Energy is distributed by PJM among all retail energy suppliers in the PPL zone on an hourly basis.

“Unsecured Credit” means an amount that is the lower of: (i) the relevant Unsecured Credit Limit as determined pursuant to Section 14.3 (Unsecured Credit); (ii) the relevant TNW Amount, as determined pursuant to Section 14.3 (Unsecured Credit); or (iii) the Guaranty Amount from Seller's Guarantor as set forth in the Guaranty Agreement.

“Unsecured Credit Limit” shall have the meaning ascribed to it in Section 14.3 (Unsecured Credit).

ARTICLE 2

TERMS AND CONDITIONS OF FULL REQUIREMENTS SERVICE

- 2.1 Seller's Obligation To Provide Service. With respect to a Transaction, Seller shall provide Full Requirements Service on a firm and continuous basis such that the Specified Percentage is supplied during the Delivery Period.
- 2.2 Buyer's Obligation to Take Service. With respect to a Transaction, Buyer shall accept Full Requirements Service as provided by Seller pursuant to Section 2.1 (Seller's

Obligation to Provide Service), and shall pay Seller the Monthly Settlement Amounts for such Full Requirements Service on the applicable Monthly Settlement Date in accordance with Section 7.3 (Payments of the Invoice).

- 2.3 Distribution Service. With respect to a Transaction, Buyer shall be *responsible*, at its sole cost and expense, for the provision of distribution service necessary to serve the Specified Percentage.
- 2.4 Changes in PJM Charges. Seller bears the risk of any other changes in PJM products and pricing during the term of this Agreement.
- 2.5 Status of Seller. Seller, for purposes of this Agreement and any Transaction, is a Load Serving Entity.
- 2.6 Sales for Resale. All Full Requirements Service provided by Seller to Buyer shall be sales for resale, with Buyer reselling such Full Requirements Service to POLR Load customers.
- 2.7 Governing Terms. Each Transaction shall be governed by this Agreement. This Agreement, including all exhibits hereto, any designated collateral, credit support, margin agreement or similar arrangements and all Transaction Confirmations shall form a single integrated agreement between Buyer and Seller. Any inconsistency between terms in this Agreement and terms in a Transaction Confirmation shall be resolved in favor of the terms of this Agreement.
- 2.8 Transaction Confirmation. A Transaction shall be documented in a Transaction Confirmation in the form attached hereto as Exhibit A. On the Business Day on which Seller is selected and approved by the PUC as a provider of Full Requirements Service, Buyer will forward by facsimile or other immediate means acceptable to both Parties, to Seller a partially executed Transaction Confirmation(s) and shall send by overnight delivery three (3) originals. Except as otherwise provided in the RFP, by 2:00 p.m. EPT on the next Business Day following Seller's receipt of such facsimile of partially executed Transaction Confirmation(s), Buyer shall return by facsimile, or other immediate means acceptable to both Parties, to Seller a fully executed Transaction Confirmation(s), and shall send by overnight delivery two (2) originals. In addition, if such Transaction(s) is the initial Transaction(s) with the Seller under the current RFP solicitation, then Buyer will forward by facsimile or other immediate means acceptable to both Parties, to Seller a fully executed Agreement, and shall send by overnight delivery two (2) originals.

ARTICLE 3

SCHEDULING, FORECASTING, AND INFORMATION SHARING

- 3.1 Scheduling. Seller shall schedule Full Requirements Service pursuant to the PJM Agreements. Buyer will provide to Seller and PJM all information required by PJM, for the purpose of calculating Seller's Full Requirements Service obligations.
- 3.2 Load Forecasting. Buyer shall not be required to provide to the Seller any load

forecasting services for any Transaction.

- 3.3 Information Sharing. On each Business Day, Buyer shall provide to the Seller on a reasonable efforts basis, Buyer's estimation of the PLC for the seventh (7th) following day, representing the Seller's Specified Percentage of each Service Type. Buyer does not warrant the accuracy of such information.

ARTICLE 4 SPECIAL TERMS AND CONDITIONS

- 4.1 Congestion and Congestion Management. Seller is responsible for any congestion costs incurred to supply the Specified Percentage. Because the 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 January 1, 2010, through May 31, 2010, obtained in conjunction with Buyer's 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 January 1, 2010 through May 31, 2010 to which Buyer is entitled as an LSE pursuant to the PJM Agreements, provided that such rights are related to the service being provided to the 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 and obtaining CRRs for the period June 1, 2010, through December 31, 2010. Seller, as a 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.
- 4.2 Load Response Programs. Buyer will manage its load response programs in accordance with the provisions of its applicable riders and retail electric service tariffs, as amended and approved by the PUC from time to time or distribution utility customer contracts, as amended by the distribution utility from time to time. Unless specifically prohibited by its retail electric service tariffs, POLR Service customers may, at their election, participate in demand response programs offered under the PJM OATT.
- 4.3 PJM E-Accounts. Buyer and Seller shall work with PJM to establish any PJM E-Accounts necessary for Seller to provide Full Requirements Service. In a timely manner, Buyer shall establish PJM E-Account contract(s) for the entire duration of the Transaction(s) and Seller shall confirm the PJM E-Account contract(s) for the entire duration of the Transaction(s).
- 4.4 Alternative Energy Portfolio Standards Obligation.
- (a) Seller shall enable the Buyer to comply with the Alternative Energy Portfolio Standards, including regulations adopted thereunder, (together the AEPS Obligation) and shall provide its proportional share of the Buyer's AEPS Obligation as set forth in the AEPS Act and PUC rules that may be promulgated to implement the AEPS Act.

- (b) Seller and Buyer shall work together to establish the proper accounts within the GATS. Seller shall be a subscriber to GATS and is responsible for paying its annual subscription fee. Seller shall transfer certificates into the Buyer's account(s) in the amount necessary to fulfill Seller's AEPS Obligation under this Agreement. Seller shall be responsible for paying the volumetric fees associated with LSE GATS fee requirements in proportion to Seller's Full Requirements Service.
- (c) Seller shall provide to the Buyer all information regarding its share of the AEPS Obligation that may be required by the PUC rules governing reporting and auditing of Buyer's compliance with the AEPS Obligation.

- 4.5 Title Transfer. Seller shall cease to have title to, possession of, and risk of loss with respect to liability pursuant to Sections 9.1 (Seller's Indemnification for Third-Party Claims) and 9.2 (Buyer's Indemnification for Third-Party Claims) of Full Requirements Service scheduled and received or delivered hereunder at the Delivery Point(s). Seller warrants that it has good title to the Full Requirements Service sold and delivered hereunder and that it has the right to sell such Full Requirements Service. The word "loss" in this Section 4.5 (Title Transfer) does not encompass electrical transmission and distribution losses. As between Buyer and Seller only, Buyer shall take title to, possession of, and risk of loss with respect to liability pursuant to Sections 9.1 (Seller's Indemnification for Third-Party Claims) and 9.2 (Buyer's Indemnification for Third-Party Claims) of Full Requirements Service scheduled and received or delivered hereunder at the Delivery Point(s). Notwithstanding the foregoing, nothing contained in this Agreement is intended to create or increase liability of Buyer to any third party beyond such liability, if any, that would otherwise exist under the PJM Agreements or under applicable law if Buyer had not taken title.
- 4.6 Reliability Guidelines. Each Party agrees to adhere to the applicable operating policies, criteria and/or guidelines of the NERC, PJM, their successors, and any regional or sub regional requirements.
- 4.7 PJM Membership. For the period of time that this Agreement is in effect, Seller shall be: (i) a member in good standing of PJM; (ii) qualified as a PJM "Market Buyer" and "Market Seller" pursuant to the PJM Agreements; and (iii) qualified as a PJM "Load Serving Entity." For the period of time that this Agreement is in effect, Buyer shall be a member in good standing of PJM.
- 4.8 Declaration of Authority. For the period of time that this Agreement is in effect, both Buyer and Seller shall have executed the Declaration of Authority in the form attached hereto as Exhibit H.
- 4.9 FERC Authorization. For the period of time that this Agreement is in effect, Seller shall have FERC authorization to make sales of energy, capacity, and ancillary services at market based rates within PJM. (Appendix 5 in RFP Process and Rules Document)
- 4.10 Disclosure in the Event of Seller Default. If Seller defaults and this Agreement is terminated pursuant to Article 12 (Events of Default; Remedies), Buyer may disclose the

terms of this Agreement and any Transaction Confirmation to all other non-defaulting wholesale suppliers providing service to Buyer pursuant to the PUC Orders and Settlements. Such disclosure by Buyer shall be made for the purpose of allowing each non-defaulting wholesale supplier to make its Step-Up elections described in Section 4.11 (Seller Step-Up Rights) below.

- 4.11 Seller Step-Up Rights. In the event of an early termination of a POLR SMA and associated transactions between Buyer and an entity other than Seller, Buyer shall send a written notification to Seller which: (i) describes the individual supply obligations associated with the terminated transaction(s) for the remaining term(s) of such transaction(s), including all available information regarding the associated CRRs; and (ii) requests Seller to agree to supply its full or partial pro-rata share of the supply obligation associated with each terminated transaction for the remaining term(s) of the terminated transaction(s), without change to the pricing, terms and conditions of the terminated full requirements service agreement and transaction(s). Such agreement to make additional supply available shall be termed a "Step-Up".

In the event that Seller wishes to exercise its option to Step-Up, Seller shall notify Buyer of such within five (5) Business Days from the date of Buyer's notification. In Seller's notification, Seller shall indicate: (i) the amount of the increased obligation that Seller wishes to take on in respect of certain specified transaction(s) (which need not be all); and (ii) that it is willing to meet any additional collateral requirements related to the Step-Up. If other sellers do not exercise their option to Step-Up, Buyer shall again notify Seller as to the amount available for Step-Up and Seller will again have an option to take a full or partial pro-rata share of the amount that such other sellers declined to take. Seller's notification shall take place no later than two (2) Business Days of its receipt of Buyer's notification. Seller's pro-rata share, as described in this paragraph, shall be the ratio of Seller's total load obligation across all service types and customer classes at the time the Step-Up option is offered, stated on a PLC basis, to the total load being supplied under this Agreement and other full requirements service agreements pursuant to the PUC Orders and Settlements on a PLC basis, excluding the terminated transactions(s) and, if applicable, excluding the full requirement service agreements under which other sellers declined to exercise their Step-Up option in part or full.

For the avoidance of doubt, in the event that Seller does not respond to Buyer's Step-Up request within the relevant timeframe, Seller shall be deemed to have rejected the Buyer's request in full.

ARTICLE 5 TERM AND SURVIVAL

- 5.1 Term. Unless otherwise agreed upon by Buyer and Seller, this Agreement shall continue in full force and effect from the Effective Date until the end of all Transaction(s) executed under this Agreement unless this Agreement is terminated prematurely pursuant to Article 12 of this Agreement.
- 5.2 Survival. All provisions of this Agreement which must, in order to give full force and effect to the rights and obligations of the Parties hereto, survive termination or expiration

of this Agreement, shall so survive, including, without limitation, Articles 9, 10, 12, and 13.

ARTICLE 6 DETERMINATION OF DELIVERED QUANTITIES

6.1 Monthly Settlement Load. The amount of Monthly Settlement Load with respect to any calendar month during the Delivery Period shall be determined in terms of megawatt-hours ("MWh") of Energy. The MWh of Energy shall be equivalent to the amount of Energy reported as the Seller's Specified Percentage obligation by Buyer to PJM, and shall include seller's share of 500KV losses as determined by PJM. The MWh of Energy shall also be adjusted for any subsequent meter corrections reported to PJM, or as a result of any subsequent retail load settlement process. The MWh of Energy as reported includes any reduction in load as a result of the Buyer's and PJM's operation of its load response programs.

ARTICLE 7 BILLING AND SETTLEMENT

7.1 Billing. Unless otherwise agreed to by the Parties, on or before the sixth (6th) Business Day of each month, Buyer shall deliver to Seller, via electronic transmission or other means agreed to by the Parties, an invoice ("Invoice") that sets forth the total amount due for the previous calendar month for all Transactions. The Invoice shall detail for each Transaction the following:

- (a) Monthly Settlement Load
- (b) Monthly Settlement Price
- (c) Monthly Settlement Amount
- (d) PJM billing adjustments
- (e) Any other adjustments set forth in this Agreement

7.2 PJM Billing.

- (a) Buyer and Seller shall direct PJM to invoice Seller and Buyer for charges and credits relating to Seller's and Buyer's rights and obligations under this Agreement as set forth in Exhibit D attached hereto and made a part hereof. If PJM is unable to invoice charges or credits in accordance with Exhibit D, Buyer shall rectify such PJM invoice discrepancy in the Invoice sent pursuant to Section 7.1 (Billing).
- (b) The Parties agree that the PJM bill may change from time to time. Allocation of any charges that are reflected in a PJM bill that are not included on or are inconsistent with Exhibit D will be determined pursuant to Sections 2.3 (Distribution Service), 2.4 (Changes in PJM Charges), and 16.11 (PJM Agreement Modifications) of this Agreement.

7.3 Payments of the Invoice. On the Monthly Settlement Date, Buyer will pay to Seller, or Seller will pay to the Buyer, as the case may be, the total amount due in the applicable Invoice. All payments shall be made by "Electronic Funds Transfer" ("EFT") via "Automated Clearing House" ("ACH"), to a bank designated in writing by such Party, by 12:00 p.m. EPT on the Monthly Settlement Date. Payment of Invoices shall not relieve the paying Party from any other responsibilities or obligations it has under this Agreement (other than the obligation to make such payment), nor shall such payment constitute a waiver of any claims arising hereunder.

7.4 Billing Disputes and Adjustments of Invoices.

- (a) Within twelve (12) months of the date on which an Invoice is issued, Buyer may, in good faith, adjust the Invoice to correct any errors. The adjustment shall include interest calculated at the Interest Rate from the original due date to the date of payment. Buyer shall provide Seller a written explanation of the basis for the adjustment.
- (b) Within twelve (12) months of the date on which an Invoice is issued or an Invoice is adjusted pursuant to Section 7.4(a) (Billing Disputes and Adjustment of Invoices), Seller may, in good faith, dispute the correctness of such Invoice or adjustment, pursuant to the provisions of Article 13 (Dispute Resolution), and provided that Seller has paid by the Monthly Settlement Date any portion of an Invoice that is not disputed.
- (c) Within twelve (12) months of the date on which a PJM bill is issued, Buyer or Seller may, in good faith, dispute the correctness of any such PJM bill, pursuant to the provisions of Article 13 (Dispute Resolution), and provided that the disputing Party has paid by the Monthly Settlement Date any portion of an Invoice that is not disputed.

7.5 Interest on Unpaid Balances. Interest on delinquent amounts, other than amounts in dispute as described in Section 7.4 (Billing Disputes and Adjustment of Invoices), shall be calculated at the Interest Rate from the original due date to the date of payment.

ARTICLE 8 TAXES

8.1 Cooperation. Each Party shall use reasonable efforts to implement the provisions of and administer this Agreement in accordance with the intent of the Parties to minimize taxes, so long as neither Party is materially adversely affected by such efforts.

8.2 Taxes.

- (a) As between the Parties: (i) Seller is responsible for the payment of all taxes imposed by any Governmental Authority on the wholesale sales of Full Requirements Service under this Agreement; and (ii) Buyer is responsible for the payment of all taxes imposed by any Governmental Authority on retail sales of Full Requirements Service under this Agreement.

- (b) Any Party paying taxes that should have been paid by the other Party pursuant to Section 8.2(a) (Taxes), shall be reimbursed by such other Party in the next invoice issued pursuant to Section 7.1 (Billing).

8.3 Disclosure of Tax Treatment. Notwithstanding anything to the contrary in this Agreement or in the RFP and appendices thereto, Seller and Buyer agree that: (i) any obligation of confidentiality with respect to the Parties' Transactions hereunder does not apply, and has not applied from the commencement of discussions between the Parties, to the tax treatment and tax structure of the Agreement and all Transactions thereunder, and (ii) Seller and Buyer (and each of their respective employees, representatives, or agents) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Agreement and the Transactions thereunder, as well as any materials of any kind (including opinions or other tax analyses) that have been provided to the disclosing Party relating to such tax treatment and tax structure, all within the meaning of Treasury Regulations Section 1.6011-4; provided, however, that the foregoing is not intended to affect any privileges that each Party is entitled, at its sole discretion, to maintain, including with respect to any confidential communications with its attorney or any confidential communications with a federally authorized tax practitioner under Section 7525 of the Internal Revenue Code.

ARTICLE 9 INDEMNIFICATION

- 9.1 Seller's Indemnification for Third-Party Claims. Seller shall indemnify, hold harmless, and defend Buyer and its Affiliates, and their respective officers, directors, employees, agents, contractors, subcontractors, invitees, successors, representatives and permitted assigns (collectively, "Buyer's Indemnitees") from and against any and all claims, liabilities, costs, losses, damages, punitive damages and expenses including reasonable attorney and expert fees, disbursements actually incurred, and any penalties or fines imposed by Government Authorities in any action or proceeding between Buyer and a third party or Seller for damage to property of unaffiliated third parties, injury to or death of any person, including Buyer's employees or any third parties, to the extent directly caused by the negligence, gross negligence or willful misconduct of Seller and/or its officers, directors, employees, agents, contractors, subcontractors or invitees arising out of or connected with Seller's performance under this Agreement, Seller's exercise of rights under this Agreement, or Seller's breach of this Agreement. Buyer shall have the right to hire the attorney of its choice to defend it in any proceeding brought against it pursuant to this provision.
- 9.2 Buyer's Indemnification for Third-Party Claims. Buyer shall indemnify, hold harmless, and defend Seller and its Affiliates, and their respective officers, directors, employees, agents, contractors, subcontractors, invitees, successors, representatives and permitted assigns (collectively, "Seller's Indemnitees") from and against any and all claims, liabilities, costs, losses, damages, and expenses including reasonable attorney and expert fees, disbursements actually incurred, and any penalties or fines imposed by Government Authorities in any action or proceeding between Seller and a third party or Buyer for damage to property of unaffiliated third parties, injury to or death of any person,

including Seller's employees or any third parties, to the extent directly caused by the gross negligence or willful misconduct of Buyer and/or its officers, directors, employees, agents, contractors, subcontractors or invitees arising out of or connected with Buyer's performance under this Agreement, Buyer's exercise of rights under this Agreement, or Buyer's breach of this Agreement. Seller shall have the right to hire the attorney of its choice to defend it in any proceeding brought against it pursuant to this provision.

- 9.3 Indemnification Procedures. If either Party intends to seek indemnification under Sections 9.1 (Seller's Indemnification for Third-Party Claims) or 9.2 (Buyers Indemnification for Third-Party Claims), as applicable, from the other Party, the Party seeking indemnification shall give the other Party notice of such claim within ninety (90) days of the later of the commencement of, or the Party's actual knowledge of, such claim or action. Such notice shall describe the claim in reasonable detail, and shall indicate the amount, estimated if necessary, of the claim that has been, or may be, sustained by said Party. To the extent that the other Party will have been actually and materially prejudiced as a result of the failure to provide such notice, such notice will be a condition precedent to any liability of the other Party under the provisions for indemnification contained in this Agreement. Neither Party may settle or compromise any claim without the prior consent of the other Party; provided, however, said consent shall not be unreasonably withheld or delayed.

ARTICLE 10 LIMITATIONS ON LIABILITY

Limitation of Remedies, Liability and Damages. EXCEPT AS SET FORTH IN THIS AGREEMENT, THERE IS NO WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND ANY AND ALL IMPLIED WARRANTIES ARE DISCLAIMED. THE PARTIES CONFIRM THAT THE EXPRESS REMEDIES AND MEASURES OF DAMAGES PROVIDED IN THIS AGREEMENT SATISFY THE ESSENTIAL PURPOSES HEREOF. FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, THE OBLIGOR'S LIABILITY SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO COSTS AND DEFAULT DAMAGES AS DEFINED IN THIS AGREEMENT, SUCH COSTS AND DEFAULT DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE.

ARTICLE 11 FORCE MAJEURE

- 11.1 *Force Majeure* means an event or circumstance as defined in Article 1 and fulfills the requirements set forth in Section 11.2 (Notification).
- 11.2 *Notification*. A Party unable to perform under this Agreement due to an event of Force Majeure shall: (i) provide prompt written notice of such event of Force Majeure to the other Party, which shall include an estimate of the expected duration of the Party's inability to perform due to the event of Force Majeure; and (ii) provide prompt notice to the other Party when performance resumes.

ARTICLE 12 EVENTS OF DEFAULT; REMEDIES

- 12.1 *Events of Default*. An "Event of Default" shall mean, with respect to a Party ("Defaulting Party"), the occurrence of any of the following:
- (a) the failure to make, when due, any payment required pursuant to this Agreement if such failure is not remedied within two (2) Business Days after written notice;
 - (b) any representation or warranty made by such Party herein or in response to the RFP is intentionally or unintentionally false or misleading in any material respect when made or when deemed made or repeated;
 - (c) the failure of a Party to comply with the requirements of Section 4.7 (PJM Membership) and 4.9 (FERC Authorization) if such failure is not remedied within three (3) Business Days after written notice;
 - (d) PJM has declared a Party to be in default of any provision of any PJM Agreement, which default prevents a Party's performance hereunder if such failure is not remedied within three (3) Business Days after written notice;
 - (e) the failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default) if such failure is not remedied within three (3) Business Days after written notice;
 - (f) such Party becomes Bankrupt;
 - (g) such Party consolidates with, or merges with or into, or transfers all or substantially all of its assets to, another entity, or assigns the Agreement or any rights, interests, or obligations hereunder without the prior written consent of the other Party when such consent is required, and, at the time of such consolidation, merger, transfer or assign, the resulting, surviving, transferee, or assigned entity fails to assume all the obligations of such Party under this Agreement to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other Party;

- (h) the occurrence and continuation of: (i) a default, event of default or other similar condition or event in respect of such Party under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money in an aggregate amount of not less than five percent (5%) of such Party's TNW, which results in such indebtedness becoming immediately due and payable or; (ii) a default by such Party in making on the due date therefore one or more payments, individually or collectively, in an aggregate amount of not less than five percent (5%) of such Party's TNW.
- (i) the failure of a Party to comply with its obligations pursuant to Article 14 (Performance Assurance) if such failure is not remedied within three (3) Business Days after written notice.
- (j) with respect to Seller's Guarantor if any: (i) if any representation or warranty made by the Guarantor in connection with this Agreement is intentionally or unintentionally false or misleading in any material respect when made or when deemed made or repeated; (ii) the failure of the Guarantor to make any payment required or to perform any other material covenant or obligation in any guaranty made in connection with this Agreement and such failure shall not be remedied within three (3) Business Days after written notice; (iii) the failure of the Guarantor's guaranty to be in full force and effect for purposes of this Agreement (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under this Agreement without the written consent of the other Party; (iv) the Guarantor repudiates, disaffirms, disclaims, or rejects, in whole or in part, or challenges the validity of any guaranty; or (v) conditions described with respect to a Party in subparagraph (f) of this Section 12.1 (Events of Default) occurs with respect to its Guarantor.

12.2 *Remedies.* If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (the "Non-Defaulting Party"), shall provide written notice to the Defaulting Party and shall have the right to temporarily suspend performance pursuant to Section 12.2(a) or implement all remedies pursuant to Section 12.2(b):

- (a) If an Event of Default has occurred and is continuing, the Non-Defaulting Party shall have the right to suspend performance, provided that such suspension shall not continue for longer than ten (10) Business Days. At any time during or subsequent to the temporary suspension of performance, the Non-Defaulting Party may proceed with the steps outlined in Section 12.2(b). If, by the end of the ten (10) Business Day period of suspension, the Non-Defaulting Party has not commenced the implementation of the remedies pursuant to Section 12.2(b), then the Non-Defaulting Party must resume performance of its obligations under this Agreement.
- (b) In addition to any other remedies available at law or in equity to the Non-Defaulting Party, if an Event of Default has occurred and is continuing, the Non-Defaulting Party shall have the right to implement all, but not less than all, the following remedies:

- i. designate a day, in such notice, no earlier than the day such notice is effective and no later than twenty (20) calendar days after such notice is effective, as an early termination date ("Early Termination Date") for the purposes of determining the Settlement Amount;
 - ii. calculate and receive from the Defaulting Party, payment for any Default Damages and costs, as defined this Agreement, the Non-Defaulting Party incurs as of the date of the event giving rise to the Event of Default, until the earlier of: (i) the Early Termination Date (if applicable); or (ii) the Event of Default has been cured by the Defaulting Party; or (iii) the Non-Defaulting Party waives such Event of Default; (iv) withhold any payments due to the Defaulting Party under this Agreement as an offset to any Default Damages and costs, as defined this Agreement, or Termination Payment, as defined in Section 12.3 (Calculation and Net Out of Settlement Amounts); and (v) permanently suspend performance.
- (c) If an Event of Default has occurred and the Non-Defaulting Party is the Buyer, then:
- i. unless the Event of Default was a failure by Seller to meet any or all of its Full Requirements Service obligations, Buyer may offer to waive the default on such terms and conditions as Buyer, at its sole discretion, may deem appropriate to propose ("Special Remedy"); provided however that;
 - ii. any such Special Remedy can only be offered to Seller if it first is specifically approved by the PUC in accordance with PUC Orders and Settlements.

12.3 Calculation and Net Out of Settlement Amounts.

- (a) The Non-Defaulting Party shall calculate, in a commercially reasonable manner, a Settlement Amount for each such Terminated Transaction as of the Early Termination Date or, to the extent that in the reasonable opinion of the Non-Defaulting Party certain of such Terminated Transactions are commercially impracticable to liquidate and terminate or may not be liquidated and terminated under applicable law on the Early Termination Date, as soon thereafter as is reasonably practicable. For purposes of calculating the Settlement Amount, the Non-Defaulting Party shall reflect the net impact of the exercise of the option on the part of other wholesale suppliers as described in Section 4.11 (Seller Step-Up Rights) of this Agreement. The Non-Defaulting Party shall aggregate all Settlement Amounts into a single liquidated amount (the "Termination Payment") by netting out: (i) all Settlement Amounts that are due to the Defaulting Party, plus, at the option of the Non-Defaulting Party, any cash or other form of security then available to the Non-Defaulting Party pursuant to Article 14 (Performance Assurance), plus any or all other amounts due to the Defaulting Party under this Agreement; against (ii) all Settlement Amounts that are due to the Non-Defaulting Party plus any or all other amounts due to the Non-Defaulting Party, including but not limited to Default Damages and costs, under this Agreement. The Termination Payment shall be due to the Non-Defaulting Party. In no event will a termination payment result in payment from the Non-Defaulting Party to the Defaulting Party.

- (b) In order to avoid doubt regarding a commercially reasonable calculation for the purposes of calculating the Settlement Amount by the Non-Defaulting Party, the quantity of amounts of Energy, Capacity and other services to have been provided under the POLR SMA for the period following the Early Termination Date (the "Termination Quantity") shall be deemed those quantity amounts that would have been delivered on an hourly basis had the POLR SMA been in effect during the previous calendar year, adjusted for such POLR load changes as have occurred since the previous calendar year. Nothing in this section shall limit the right of the Buyer when Seller is the Defaulting Party to replace Seller's full requirements obligation and the result of any Commission-approved procedure will be deemed to be commercially reasonable for purposes of calculating the Settlement Amount and will be deemed to have been determined by reference to the Termination Quantity.
- 12.4 Notice of Termination Payment. As soon as practicable after an Early Termination Date is declared, the Non-Defaulting Party shall provide written notice to the Defaulting Party of the amount of the Termination Payment. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. The Defaulting Party shall make the Termination Payment within five (5) Business Days after such notice is effective.
- 12.5 Disputes With Respect to Termination Payment. If the Defaulting Party disputes the Non-Defaulting Party's calculation of the Termination Payment, in whole or in part, the Defaulting Party shall, within five (5) Business Days of receipt of Non-Defaulting Party's calculation of the Termination Payment, provide to the Non-Defaulting Party a notice that it intends to dispute the calculation of the Termination Payment ("Termination Payment Dispute Notice"), pursuant to the provisions of Article 13 (Dispute Resolution), and provided, the Defaulting Party shall first transfer collateral to the Non-Defaulting Party in an amount equal to the Termination Payment, such collateral to be in a form acceptable to the Non-Defaulting Party by the Termination Payment Date.
- 12.6 Duty to Mitigate. Each Party agrees that it has a duty to mitigate damages and covenants that it will use commercially reasonable efforts to minimize any damages it may incur as a result of the other Party's failure to perform pursuant to this Agreement.

ARTICLE 13 DISPUTE RESOLUTION

- 13.1 Informal Dispute Resolution. Before pursuing resolution of any dispute arising out of this Agreement, the disputing Party shall provide written notice to the other Party setting forth the nature of the dispute, the amount involved, if any, and the remedies sought. The Parties shall use good faith and reasonable commercial efforts to informally resolve such dispute. Such efforts shall last for a period of at least thirty (30) calendar days from the date that the notice of the dispute is first delivered from one Party to the other Party. Any amounts that are owed by one Party to the other Party as a result of resolution of a dispute pursuant to this Section 13.1 (Informal Dispute Resolution), shall be paid within two (2) Business Days of such resolution and the payment shall include interest calculated at the Interest Rate from the original due date through the date of payment.

- 13.2 Formal Dispute Resolution. After the requirements of Section 13.1 (Informal Dispute Resolution) have been satisfied, all disputes, except as noted below, between the Parties shall be submitted to the appropriate authority.

ARTICLE 14 PERFORMANCE ASSURANCE

- 14.1 Requirement for Performance Assurance. With respect to Aggregate Transactions, if at any time and from time to time during the term of this Agreement, Aggregate Buyer's Exposure exceeds the Unsecured Credit on any Business Day, then Buyer shall request that Seller post Performance Assurance in an amount equal to the amount by which Aggregate Buyer's Exposure exceeds the Unsecured Credit (rounding upwards to the nearest \$100,000), less any Performance Assurance already posted with Buyer. Notwithstanding the above, Seller shall only be required to post the required Performance Assurance to the extent the amount of required Performance Assurance is equal to or greater than \$500,000. Subsequent and incremental requests for Performance Assurance shall be in \$100,000 increments. Buyer's request for Performance Assurance shall not be disputed by Seller.
- 14.2 Performance Assurance Transfers>Returns. If the request for Performance Assurance is made by Buyer before 1:00 p.m. EPT on a Business Day, then if Seller is posting cash as the form of Performance Assurance collateral, Seller shall be required to deliver the Performance Assurance cash to Buyer on the Business Day following the date of such request; and if Seller is posting a Letter of Credit or other security as acceptable to Buyer as the form of Performance Assurance collateral, Seller shall be required to deliver the Performance Assurance Letter of Credit or other security on the second Business Day following the date of such request. If a request for Performance Assurance is made by Buyer at or after 1:00 p.m. EPT, then if Seller is posting cash as the form of Performance Assurance collateral, Seller shall be required to deliver the Performance Assurance cash to Buyer on the second Business Day following the date of such request; and if Seller is posting a Letter of Credit or other security as acceptable to Buyer as the form of Performance Assurance collateral, Seller shall be required to deliver the Performance Assurance Letter of Credit or other security on the third Business Day following the date of such request. Telephone, facsimile, or other communication means mutually acceptable by the Parties, are suitable means for the Buyer to make requests for Performance Assurance. If Seller provides its Performance Assurance collateral in cash, in whole or in part, Seller will also simultaneously grant Buyer a first-priority security interest in that cash, in a form mutually acceptable to Buyer and Seller. Buyer shall not be entitled to hold Performance Assurance in the form of cash; rather, Performance Assurance in the form of cash shall be held in any major U.S. commercial bank, or a foreign bank with a U. S. branch office, (which is not the Buyer or an affiliate of the Buyer), and has assets of at least \$10 billion and a credit rating of at least "A" by Standard and Poor's, or "A2" by Moody's Investor Services ("Qualified Institution"). The Buyer will pay to Seller on the first Business Day of each calendar quarter the amount of interest it receives based upon the applicable overnight repurchase interest rate from the Qualified Institution on any Performance Assurance in the form of cash posted by Seller. The interest amount or portion thereof not returned to Seller pursuant to this

Section 14.2 will constitute Performance Assurance and will be subject to the provisions of Article 14 of this Agreement.

On any Business Day (but no more frequently than weekly with respect to Letters of Credit or other security acceptable to Buyer, and daily with respect to cash), Seller, at its sole cost, may request that the Performance Assurance be reduced correspondingly to reflect the decrease in Buyer Exposure or an increase in Seller's Unsecured Credit, if any (rounding upwards for any fractional amount to the nearest \$100,000). Buyer shall be required to return the amount of Performance Assurance due in accordance with the timeframes set forth in the preceding paragraph. A written means is suitable for the Seller to make requests for return of Performance Assurance.

In the event that Seller fails to provide Performance Assurance or Buyer fails to return Performance Assurance pursuant to the terms of this Article 14 (Performance Assurance) within the applicable timeframes, then an Event of Default pursuant to Section 12.1(i) shall be deemed to have occurred with respect to the non-performing Party and the other Party will be entitled to the remedies set forth therein.

In instances caused by the timing of the requests for both the return of Performance Assurance and placement of Performance Assurance, a situation may arise where the Parties are both sending and receiving transactions on the same day. In these instances, the Parties may net the requested amounts and proceed with only one transaction. Netting is only permitted for Performance Assurance purposes if it is mutually agreed to by both Parties in advance and confirmed in advance.

14.3 Unsecured Credit. During the term of this Agreement, Buyer shall extend, solely with respect to the Performance Assurance set forth in Section 14.1 (Requirement for Performance Assurance), Unsecured Credit, as defined in Article 1 of this Agreement, to Seller in an amount initially determined on the Effective Date and redetermined each Business Day thereafter pursuant to this Section 14.3.

For purposes of determining Unsecured Credit, the relevant Unsecured Credit Limit shall be the Unsecured Credit Limit listed in the following table that corresponds to Seller's (or Seller's Guarantor's) lowest Credit Rating most recently published by S&P, Fitch and/or Moody's. The relevant TNW Amount shall be calculated using the TNW Percentage listed in the following table that corresponds to Seller's (or Seller's Guarantor's) lowest Credit Rating most recently published by S&P, Fitch and/or Moody's.

CREDIT RATING				
S&P	Fitch	Moody's	TNW Percentage	Unsecured Credit Limit
A- or above	A- or above	A3 or above	5%	\$75,000,000
BBB+	BBB+	Baa1	5%	\$50,000,000
BBB	BBB	Baa2	5%	\$35,000,000
BBB-	BBB-	Baa3	5%	\$20,000,000
Below BBB-	Below BBB-	Below Baa3	5%	\$0

Pursuant to this Article 14 and Article 1, the analysis of Unsecured Credit will also include consideration of the Guaranty Agreement, if any, submitted by Seller in connection with this contract.

- 14.4 Credit Rating. If during the term of the Agreement, Seller's or Seller's Guarantor's, if applicable, Credit Rating changes, by either being upgraded or downgraded by any of the rating agencies referenced in Section 14.3 (Unsecured Credit) of the Agreement, the Seller shall be required to provide written notice to Buyer of such Credit Rating change no later than two (2) Business Days after the date of such change. However, if Seller's, or Seller's Guarantor's, if applicable, equity is publicly traded on the New York Stock Exchange, NASDAQ National Market, or American Stock Exchange, the Buyer will waive the requirement to provide written notice.
- 14.5 Tangible Net Worth. During the term of the Agreement, Seller, or Seller's Guarantor, if applicable, shall be required to provide Buyer written financial information to determine the Seller's, or Seller's Guarantor's Tangible Net Worth. Financial information shall include an audited Annual Report, containing, but not limited to, a balance sheet prepared in accordance with generally accepted accounting principles, a schedule of long term debt including maturity dates, and all notes to the financial statement that apply to long term debt, short term borrowing, and liquidity and capital resources. The Seller, or Seller's Guarantor, shall also provide the Buyer written financial information on a quarterly basis containing a balance sheet prepared in accordance with generally accepted accounting principles. However, if Seller's, or Seller's Guarantor's, if applicable, equity is publicly traded on the New York Stock Exchange, NASDAQ National Market, or American Stock Exchange, the Buyer will waive the requirement to provide written financial information.
- 14.6 Aggregate Buyer's Exposure. In order to determine the amount of Performance Assurance during the term of this Agreement, Buyer shall calculate the Aggregate Buyer's Exposure under Aggregate Transactions once per Business Day, pursuant to the process and methodology described in Exhibit E. On a Transaction Date, the Buyer's Exposure for that Transaction shall be deemed equal to zero.

To the extent that the calculations of the Aggregate Buyer's Exposure for a given date results in a negative number, the Aggregate Buyer's Exposure for such date shall be deemed equal to zero.

- (a) Pricing Agent. Buyer shall contract with and pay for the services of a single independent consultant to provide pricing services with respect to the Transactions under this Agreement ("Pricing Agreement"). The Pricing Agent shall provide to the Buyer the On-Peak Initial Mark Price and the Off-Peak Initial Mark Price. In addition, on each Business Day, the Pricing Agent shall provide to the Buyer the On-Peak Forward Price and the Off-Peak Forward Price. To the extent that information and/or quotes are not available to determine an On-Peak Forward Price or Off-Peak Forward Price for a given month the Pricing Agent shall be permitted to use information and/or quotes relevant to such month for which information and quotes are available in order to provide the Buyer the required On-Peak Forward Price and Off-Peak Forward Price for such month. Exhibit E presents in more detail the methodology to be used by the Pricing Agent in determining the Off-Peak Initial Mark Price, On-Peak Initial Mark Price, Capacity Forward Price, Capacity Initial Mark Price, the On-Peak Forward Price, and the Off-Peak Forward Price.
- (b) Buyer shall use reasonable efforts to provide Seller with Aggregate Buyer's Exposure on each Business Day subject to the Confidentiality provisions of this Agreement.
- (c) Pursuant to Section 14.1 above, Seller shall not dispute any request by Buyer for Performance Assurance. Notwithstanding such provision, Seller may dispute the Pricing Agent's determinations of the On-Peak Initial Mark Price, Off-Peak Initial Mark Price, Capacity Forward Price, Capacity Initial Mark Price, On-Peak Forward Price, and Off-Peak Forward Price if Seller can demonstrate that the Pricing Agent has been grossly negligent or has exhibited willful misconduct in such determinations, or that the Pricing Agent is making such determinations in a manner that is arbitrary, capricious or erroneous on its face. Such dispute of the Pricing Agent's determinations by the Seller shall not be cause for any delay by the Seller in posting any Performance Assurance requested by the Buyer.

ARTICLE 15 REPRESENTATIONS AND WARRANTIES

15.1 Representations and Warranties. On the Effective Date and throughout the term of this Agreement, each Party represents and warrants to the other Party that:

- (a) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;
- (b) it has all regulatory authorizations necessary for it to legally perform its obligations under this Agreement and each Transaction;
- (c) the execution, delivery and performance of this Agreement and each Transaction

are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, order or the like applicable to it;

- (d) this Agreement and each Transaction constitutes its legally valid and binding obligation enforceable against it in accordance with its terms; subject to any equitable defenses;
- (e) it is not Bankrupt and there are no proceedings pending or being contemplated by it or, to its knowledge, threatened against it which would result in it becoming Bankrupt ;
- (f) there are no pending, or to its knowledge threatened, actions, suits or proceedings against it or any of its Affiliates any legal proceedings before any Governmental Authority that could materially adversely affect its ability to perform its obligations under this Agreement and each Transaction;
- (g) no Event of Default with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement and each Transaction;
- (h) with respect to Buyer, it is acting to fulfill its obligations under and in accordance with PUC Orders and Settlements to enter into this Agreement;
- (i) it is not relying upon the advice or recommendations of the other Party in entering into this Agreement, it is capable of understanding, understands and accepts the terms, conditions and risks of this Agreement and each Transaction, and the other Party is not acting as a fiduciary for or advisor to it in respect of this Agreement;
- (j) it is a "forward contract merchant" within the meaning of the United States Bankruptcy Code; and
- (k) it has entered into this Agreement and each Transaction in connection with the conduct of its business and it has the capacity or ability to provide or take delivery of the Full Requirements Service; and it is an "eligible contract participant" as defined in Section 1a(12) of the Commodity Exchange Act.

15.2 Additional Understandings. This Agreement is for the purchase and sale of Full Requirements Service that will be delivered in quantities expected to be used or sold over a defined period(s) in the normal course of business, and it is the intention at the inception and throughout the term of this Agreement and each Transaction hereunder that the Agreement will result in physical delivery and not financial settlement, and the quantity of Full Requirements Service that Seller must deliver and Buyer must receive will be determined by the requirements of the POLR Load served by Buyer, and, as such, the Agreement does not provide for an option by either Party with respect to the quantity of Full Requirements Service to be delivered or received during performance of the Agreement. This Agreement has been drafted to effectuate Buyer's and Seller's specific intent so that in accordance with Financial Accounting Standards Board

Statement No. 133 ("FAS 133"), as amended, Buyer would be able to elect to use accrual accounting for its purchases under this Agreement, while Seller would be able to elect to use either accrual or mark-to-market accounting for its sales under the Agreement. If either Buyer or Seller determines, in good faith, that the intended accounting treatment has become jeopardized, due to a change in interpretations of FAS 133, as amended, or otherwise, then Buyer and Seller agree to meet and use their best efforts to reform the Agreement so that, with the minimum changes possible, the Agreement again qualifies for the intended accounting treatments.

ARTICLE 16 MISCELLANEOUS

- 16.1 *Notices.* Unless otherwise specified herein, all notices shall be in writing and delivered by hand, overnight or facsimile (provided a copy is also sent by overnight mail). Notice shall be effective on the next Business Day after it is sent. A Party may change its address by providing notice of the same in accordance with this Section 16.1. Notice information for Buyer and Seller is shown on Exhibit G.
- 16.2 *General.* This Agreement shall be considered for all purposes as prepared through the joint efforts of the Parties and shall not be construed against one Party or the other as a result of the preparation, substitution, submission or other event of negotiation, drafting or execution hereof. Each Party further agrees that it will not assert, or defend itself, on the basis that any applicable tariff is inconsistent with this Agreement. This Agreement shall not impart any rights enforceable by any third party other than a permitted successor or assignee bound to this Agreement or any Transaction. Any provision declared or rendered unlawful will not otherwise affect the remaining lawful obligations that arise under this Agreement or any Transaction; provided that in such event the Parties shall use commercially reasonable efforts to amend this Agreement or any Transaction in order to give effect to the original intention of the Parties.
- 16.3 *Rules of Interpretation.* The following principles shall be observed in the interpretation and construction of this Agreement:
- (a) unless otherwise stated, the terms "include" and "including" when used in this Agreement shall be interpreted to mean by way of example only and shall not be considered limiting in any way;
 - (b) all titles and headings used herein are for convenience and reference purposes only, do not constitute a part of this Agreement and shall be ignored in construing or interpreting the obligations of the parties under this Agreement;
 - (c) references to the singular include the plural and vice versa;
 - (d) references to Articles, Sections, Clauses and the Preamble are, unless the context indicates otherwise, references to Articles, Sections, Clauses and the Preamble of this Agreement; and

- (e) in carrying out its rights, obligations and duties under this Agreement, each Party shall have an obligation of good faith and fair dealing.
- 16.4 Audit. Each Party has the right on at least three (3) Business Days prior written notice, at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the accuracy of any statement, charge or computation made pursuant to this Agreement. If any such examination reveals any inaccuracy in any statement, the necessary adjustments in such statement and the payments thereof will be made in accordance with Sections 7.1 (Billing) and 7.5 (Interest on Unpaid Balances).
- 16.5 Confidentiality. The POLR SMA is subject to the conditions of the Confidentiality Agreement contained as part of the POLR RFP Rules and Procedures document as approved by the PUC.
- 16.6 Successors. This Agreement and all of the provisions hereof are binding upon, and inure to the benefit of, the Parties and their respective successors and permitted assigns.
- 16.7 Assignment/Change in Corporate Identity. Neither Party shall assign this Agreement, its rights or obligations hereunder without the prior written consent of the other Party, which consent may not be unreasonably withheld; provided, however, either Party may, without the consent of the other Party (and without relieving itself from liability hereunder),
- (a) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements;
 - (b) transfer or assign this Agreement to an affiliate of such Party if: (i) such affiliates creditworthiness is equal to or higher than that of such Party; or (ii) in such event, the Transferee should assume all obligations pursuant to this Agreement and shall provide appropriate performance assurances as required by this Agreement;
 - (c) transfer or assign this Agreement to any person or entity succeeding to all or substantially all of the assets whose: (i) creditworthiness is equal to or higher than that of such Party; or (ii) in such event, the Transferee should assume all obligations pursuant to this Agreement and shall provide appropriate performance assurances as required by this Agreement; and
 - (d) provided, however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions hereof and so long as the transferring Party delivers such tax and enforceability assurance as the non-transferring Party may reasonably request.
- 16.8 Governing Law. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTITUTED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

- 16.9 Jurisdiction and Venue. Except for matters jurisdictional to FERC, the PUC or the appellate courts having jurisdiction over the PUC or FERC matters, all disputes hereunder shall be resolved in the Federal or State courts of Pennsylvania and each Party hereby irrevocably submits to the in personam jurisdiction of such courts. Each Party hereby waives its respective rights to any jury trial with respect to any litigation arising under or in connection with this Agreement.
- 16.10 Amendments. Except as provided in Section 16.11 (PJM Agreement Modifications), this Agreement or any Transaction shall not be amended, modified, terminated, discharged or supplemented, nor any provision hereof waived, unless mutually agreed, in writing, by the Parties. Except as provided in Section 16.11 (PJM Agreement Modifications), the rates, terms and conditions contained in this Agreement or any Transaction are not subject to change under Sections 205 or 206 of the Federal Power Act absent the mutual written agreement of the Parties. Absent the agreement of all parties to the proposed change, the standard of review for changes to this Agreement proposed by a Party, a non-Party or the FERC acting *sua sponte* shall be the "public interest" standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956), and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U. S. 348 (1956) (the "Mobile-Sierra" doctrine).
- 16.11 PJM Agreement Modifications.
- (a) If the PJM Agreements are amended or modified so that any schedule or section references herein to such agreements is changed, such schedule or section references herein shall be deemed to automatically (and without any further action by the Parties) refer to the new or successive schedule or section in the PJM Agreements which replaces that originally referred to in this Agreement.
 - (b) If the applicable provisions of the PJM Agreements referenced herein, or any other PJM rules relating to the implementation of this Agreement, are changed materially from those in effect on the Effective Date, both Parties shall cooperate to make conforming changes to this Agreement to fulfill the purposes of this Agreement. It is the intention of the Parties that Seller bear the risks of changes to the applicable provisions of PJM Agreements, or any other PJM Rules relating to the implementation of this Agreement.
- 16.12 Delay and Waiver. Except as otherwise provided in this Agreement, no delay or omission to exercise any right, power or remedy accruing to the respective Parties hereto upon any breach or default of any other Party under this Agreement shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character of any breach or default under this Agreement, or any waiver of any provision or condition of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing.

16.13 Regulatory Approvals. The commencement of the Delivery Period is subject to the receipt or waiver by Buyer of all Buyer required regulatory approvals. In the event such required regulatory approvals are not received or waived, the Step-Up provisions of Section 4.11 (Seller Step-Up Rights) shall apply.

EXHIBIT A

TRANSACTION CONFIRMATION EXAMPLE

This Transaction Confirmation letter is being provided pursuant to and in accordance with the Provider of Last Resort Supply Master Agreement ("POLR SMA") dated _____ between PPL Electric Utilities Corporation ("Company" or "PPL Electric") and _____ ("Seller"). Terms used but not defined herein shall have the meanings ascribed to them in the POLR SMA. This Transaction Confirmation shall confirm the following terms of the transaction ("Transaction") agreed to on _____ ("Bid Proposal Due Date").

Product: Full Requirements Electric Service
 Group: Residential
 Service Type: Rate Classes RS, RTS, RTD
 Delivery Location: PPL Electric Zone
 Delivery Period: January 1, 2010 through December 31, 2010

The Seller's specified percentage is _____. Seller will supply _____ tranches at a monthly settlement price of \$ _____ per MWh for the duration of the delivery period.

Service Type	Total Tranches	% Size of a Tranche	PLC (MW)	Approximate Tranche Size (MW)
Rate Classes RS, RTS, RTD		1.67%		50.0

2010 Estimated Quantity Per Tranche (MWh)											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

Please confirm that the terms stated herein accurately reflect the Transaction reached on the Bid Proposal Due Date above between Seller and PPL Electric by returning an executed copy of this Transaction Confirmation by facsimile to PPL Electric at [Fax number to be provided] in accordance with Section 2.8 – Transaction Confirmation of the POLR SMA. The signatories to this Transaction Confirmation must have the authority to enter into this Transaction.

SELLER	PPL ELECTRIC UTILITIES CORPORATION
BY:	BY:
Name:	Name:
Title:	Title:

EXHIBIT B**ALTERNATIVE ENERGY PORTFOLIO STANDARDS OBLIGATION**

Alternative Energy Portfolio Standards Obligations for the period beginning January 1, 2010:

<u>Compliance Period</u>	<u>Tier I</u>	<u>PV(included in Tier I Obligation)</u>	<u>Tier II</u>
1/1/10 to 5/31/10	2.5%	0.0013%	4.2%
6/1/10 to 12/31/10	3.0%	0.0203%	6.2%

EXHIBIT C

PERFORMANCE ASSURANCE EVERGREEN LETTER OF CREDIT

{TO BE ISSUED ON THE LETTERHEAD OF THE ISSUING BANK}

IRREVOCABLE LETTER OF CREDIT NO.

ISSUE DATE _____ EXPIRY DATE _____

APPLICANT
[NAME]
[ADDRESS]

BENEFICIARY
[NAME]
[ADDRESS]

CURRENCY AMOUNT USD
*****\$

WE HEREBY ISSUE IN YOUR FAVOR OUR IRREVOCABLE LETTER OF CREDIT NO: _____ FOR THE ACCOUNT OF _____ (APPLICANT) FOR AN AMOUNT OR AMOUNTS NOT TO EXCEED IN THE AGGREGATE US DOLLARS _____ AVAILABLE BY YOUR DRAFT(S) AT SIGHT ON THE BANK OF _____ (“ISSUER”) _____ (ADDRESS), EFFECTIVE _____ AND EXPIRING AT OUR COUNTERS ON _____ OR ANY AUTOMATICALLY EXTENDED EXPIRY DATE, AS PROVIDED HEREIN. THIS LETTER OF CREDIT IS AVAILABLE IN ONE OR MORE DRAFTS UP TO THE AGGREGATE AMOUNT SET FORTH HEREIN.

THIS LETTER OF CREDIT IS PRESENTABLE AND PAYABLE AT OUR COUNTERS AND WE HEREBY ENGAGE WITH YOU THAT DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS LETTER OF CREDIT WILL BE HONORED ON PRESENTATION IF ACCOMPANIED BY THE REQUIRED DOCUMENTS PURSUANT TO THE TERMS OF THIS LETTER OF CREDIT.

THE BELOW MENTIONED DOCUMENT(S) MUST BE PRESENTED ON OR BEFORE THE EXPIRY DATE OF THIS INSTRUMENT IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT.

1. YOUR SIGNED AND DATED STATEMENT, READING AS FOLLOWS:

“THE AMOUNT FOR THIS DRAWING, USD (INSERT AMOUNT), BEING MADE UNDER THE BANK OF _____ (BANK) LETTER OF CREDIT NUMBER (INSERT LETTER OF CREDIT REFERENCE NUMBER), REPRESENTS AN AMOUNT DUE AND PAYABLE TO BENEFICIARY FROM APPLICANT FOR PERFORMANCE ASSURANCE

RELATED TO THE FULL REQUIREMENTS SERVICE AGREEMENT(S)
 DATED _____ BETWEEN _____ AND
 _____.”

2. THIS ORIGINAL LETTER OF CREDIT AND ANY AMENDMENT(S).

IF PRESENTATION OF ANY DRAWING IS MADE ON A BUSINESS DAY (AS HEREIN DEFINED) AND SUCH PRESENTATION IS MADE ON OR BEFORE 11:00 A.M. NEW YORK TIME, ISSUER SHALL SATISFY SUCH DRAWING REQUEST ON THE NEXT BUSINESS DAY. IF THE DRAWING IS RECEIVED AFTER 11:00 A.M. NEW YORK TIME, ISSUER WILL SATISFY SUCH DRAWING REQUEST ON THE SECOND FOLLOWING BUSINESS DAY.

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT WILL BE AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR ONE YEAR FROM THE EXPIRATION DATE HEREOF, OR ANY FUTURE EXPIRATION DATE, UNLESS AT LEAST 90 DAYS PRIOR TO ANY EXPIRATION DATE WE NOTIFY YOU AT THE ABOVE ADDRESS BY REGISTERED MAIL OR HAND DELIVERED COURIER THAT WE ELECT NOT TO CONSIDER THIS LETTER OF CREDIT RENEWED FOR ANY SUCH PERIOD.

THIS LETTER OF CREDIT MAY BE TERMINATED UPON BENEFICIARY'S RECEIPT OF FULL PAYMENT FROM THE APPLICANT AND ISSUER'S RECEIPT OF A WRITTEN RELEASE FROM THE BENEFICIARY RELEASING THE ISSUER FROM ITS OBLIGATIONS UNDER THIS LETTER OF CREDIT.

THE TERM "BUSINESS DAY" AS USED HEREIN MEANS ANY DAY OTHER THAN (I) A SATURDAY, (II) A SUNDAY, OR (III) A DAY ON WHICH BANKING INSTITUTIONS LOCATED IN THE CITY OF NEW YORK, NEW YORK ARE REQUIRED OR AUTHORIZED BY LAW TO BE CLOSED.

APPLICANT'S FILING OF A BANKRUPTCY, RECEIVERSHIP OR OTHER DEBTOR-RELIEF PETITION, AND/OR APPLICANT'S DISCHARGE THEREUNDER, SHALL IN NO WAY AFFECT THE LIABILITY OF [BANK] UNDER THIS LETTER OF CREDIT AND [BANK] SHALL ALWAYS REMAIN LIABLE TO [BENEFICIARY] FOR THE FULL AMOUNT OF APPLICANT'S OBLIGATIONS HEREIN TO [BENEFICIARY] NOT TO EXCEED THE AVAILABLE AMOUNT IN THIS LETTER OF CREDIT.

ADDITIONAL TERMS AND CONDITIONS:

1. ALL COMMISSIONS AND OTHER BANKING CHARGES WILL BE BORNE BY THE APPLICANT.
2. THIS LETTER OF CREDIT MAY NOT BE TRANSFERRED OR ASSIGNED.
3. THIS LETTER OF CREDIT IS IRREVOCABLE.
4. THIS LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES (1998) OF THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590 ("ISP98") OR SUCH LATER REVISION(S) OF THE ISP AS MAY BE HEREAFTER ADOPTED. AS TO MATTERS NOT GOVERNED BY ISP98, THIS LETTER OF CREDIT SHALL BE GOVERNED BY AND CONSTRUED IN

ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, INCLUDING, TO THE EXTENT NOT INCONSISTENT WITH ISP98, THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF PENNSYLVANIA. THIS LETTER OF CREDIT MAY NOT BE AMENDED, CHANGED OR MODIFIED WITHOUT THE EXPRESS WRITTEN CONSENT OF THE BENEFICIARY AND THE ISSUER.

- 5. THE BENEFICIARY SHALL NOT BE DEEMED TO HAVE WAIVED ANY RIGHTS UNDER THIS LETTER OF CREDIT, UNLESS THE BENEFICIARY OR AN AUTHORIZED AGENT OF THE BENEFICIARY SHALL HAVE SIGNED A DATED WRITTEN WAIVER. NO SUCH WAIVER, UNLESS EXPRESSLY SO STATED THEREIN, SHALL BE EFFECTIVE AS TO ANY TRANSACTION THAT OCCURS SUBSEQUENT TO THE DATE OF THE WAIVER, NOR AS TO ANY CONTINUANCE OF A BREACH AFTER THE WAIVER.
- 6. A FAILURE TO MAKE ANY PARTIAL DRAWINGS AT ANY TIME SHALL NOT IMPAIR OR REDUCE THE AVAILABILTY OF THIS LETTER OF CREDIT IN ANY SUBSEQUENT PERIOD OR OUR OBLIGATION TO HONOR YOUR SUBSEQUENT DEMANDS FOR PAYMENT MADE IN ACCORDANCE WITH THE TERMS OF THIS LETTER OF CREDIT.

AUTHORIZED SIGNATURE: _____

TITLE: _____

PLEASE DIRECT ANY WRITTEN CORRESPONDENCE, INCLUDING DRAWING OR INQUIRIES TO:

[BANK NAME, ADDRESS AND PHONE NUMBER]

EXHIBIT D

SAMPLE PJM INVOICE

**FINAL BILLING STATEMENT ISSUED ON: MM/DD/YYYY FOR PERIOD:
MM/DD/YYYY TO MM/DD/YYYY**

OPERATING AGREEMENT OF PJM INTERCONNECTION, L.P.C.:			
	Day-Ahead	Balancing	Total
Charges:			
Spot Market Energy	Seller	Seller	Seller
Transmission Congestion	Seller	Seller	Seller
Transmission Losses (Point-to-Point)	Seller	Seller	Seller
Regulation			Seller
Spinning Reserve			Seller
Operating Reserves	Seller	Seller	Seller
Synchronous Condensing			Seller
Capacity Credit Market			Seller
Reconciliation for Spot Market			Seller
Reconciliation for Regulation			Seller
Reconciliation for Operating Reserves			Seller
Emergency Energy			Seller
FTR Auction			Seller
Meter Error Correction			Seller
PJM Load Response Program			Seller
Credits:			
Spot Market Energy	Seller	Seller	Seller
Transmission Congestion			Seller
Transmission Losses (Point-to-Point)			Seller
Regulation			Seller
Spinning Reserve			Seller
Operating Reserves	Seller	Seller	Seller
Synchronous Condensing			Seller
Capacity Credit Market			Seller
Emergency Energy			Seller
FTR Auction			Seller

EXHIBIT D (Continued)

SAMPLE PJM INVOICE

**FINAL BILLING STATEMENT ISSUED On: MM/DD/YYYY FOR PERIOD:
MM/DD/YYYY TO MM/DD/YYYY**

PJM OPEN ACCESS TRANSMISSION TARIFF	
	Total
Charges:	
PJM Scheduling, System Control and Dispatch Service	Seller
Transmission Owner Scheduling, System Control and Dispatch Service	Seller
Reactive Supply and Voltage Control from Generation Sources Service	Seller
Black Start Service	Seller
Network Integration Transmission Service	Seller
Firm Point-to-Point Transmission Service	Seller
Non-Firm Point-to-Point Transmission Service	Seller
Transitional Market Expansion Charges (Transmission Customer Charge Only)	Seller
Reconciliation for PJM Scheduling, System Control and Dispatch Service	Seller
Reconciliation for Transmission Owner Scheduling, System Control and Dispatch Service	Seller
Intra-PJM Seams Elimination Cost Assignment Charges	Seller
PJM/MISO Seams Elimination Cost Assignment Charges	Seller
Credits:	
Transmission Owner Scheduling, System Control and Dispatch Service Credits	Seller
Reactive Supply and Voltage Control from Generation Sources Service	Seller
Black Start Service	Seller
Network Integration Transmission Service	Seller
Firm Point-to-Point Transmission Service	Seller
Non-Firm Point-to-Point Transmission Service	Seller
Other Supporting Facilities	Seller
Energy Imbalance Credits	Seller
Intra-PJM Seams Elimination Cost Assignment Credits	Seller
PJM/MISO Seams Elimination Cost Assignment Credits	Seller
Reliability Assurance Agreement Among Load Serving Entities in the PJM Control Ares:	
	Total
Charges:	
Capacity Deficiency	Seller
Credits:	
Capacity Excess	Seller

EXHIBIT E**METHODOLOGY FOR CALCULATION OF MARK TO MARKET (MTM) EXPOSURE****Parameters**

In calculating the Mark to Market (MtM) Exposure for each Transaction, the following parameters are set on the Transaction Date:

1. On-Peak Initial Mark Price
2. Off-Peak Price Ratio/On-Peak Price Ratio
3. Off-Peak Initial Mark Price
4. On-Peak Estimated Energy Quantity Per Tranche for each of the twelve calendar months
5. Off-Peak Estimated Energy Quantity Per Tranche for each of the twelve calendar months
6. Capacity Initial Mark Price
7. Capacity Obligation
8. Number of awarded Tranches

In calculating the MtM Exposure for each Transaction, the following parameters are set each Business Day subsequent to the Transaction Date:

1. On-Peak Forward Price
2. Off-Peak Forward Price
3. Capacity Forward Price
4. Capacity Obligation
5. On-Peak Estimated Energy Quantity
6. Off-Peak Estimated Energy Quantity

Calculation of the MtM Exposure

On each Business Day subsequent to the Transaction Date, the MtM Exposure will be calculated, with respect to each month remaining in the Transaction Delivery Period, as the sum of the following:

- (i) the relevant month On-Peak Forward Price minus the relevant month On-Peak Initial Mark Price, multiplied by the relevant month On-Peak Estimated Energy Quantity;
- (ii) the relevant month Off-Peak Forward Price minus the relevant month Off-Peak Initial Mark Price, multiplied by the relevant month Off-Peak Estimated Energy Quantity;
- (iii) the relevant month Capacity Forward Price minus the relevant month Capacity Initial Mark Price, multiplied by the remaining Capacity Obligation per Tranche and number of Tranches award to the Seller.

Determination of On-Peak Forward Prices

On each Business Day subsequent to the Transaction date, the Pricing Agent will follow the steps outlined below to determine the on-peak forward prices.

1. The Pricing Agent will contact four Reference Market-Makers to obtain bid and ask Energy price quotes for PJM Western Hub On-Peak Hours for each month of the Delivery Period. Both bid and ask Energy price quotes must be available to be considered a valid quote.
2. If a minimum of two quotes in a particular month are available, the Pricing Agent will determine the On-Peak Forward Price by averaging the bid and ask Energy prices.
3. If a minimum of two quotes in a particular month are not available, then the Pricing Agent will determine the On-Peak Forward Price using an annual quote, obtain in the same manner above. In this case, the On-Peak Forward Price will be calculated as the product of the Off-Peak Price Ratio and the annual price quote.

Determination of Off-Peak Forward Prices

On each Business Day subsequent to the Transaction date, the Pricing Agent will follow the steps outlined below to determine the off-peak forward prices.

1. The Pricing Agent will contact four Reference Market-Makers to obtain bid and ask Energy price quotes for PJM Western Hub Off-Peak Hours for each month of the Delivery Period. Both bid and ask Energy price quotes must be available to be considered a valid quote.
2. If a minimum of two quotes in a particular month are available, the Pricing Agent will determine the Off-Peak Forward Price by averaging the bid and ask Energy prices.
3. If a minimum of two quotes in a particular month are not available, then the Pricing Agent will determine the Off-Peak Forward Price using an annual quote obtained in the same manner as the in the following manner obtained in the same manner as discussed above. In this case, the Off-Peak Forward Price will be calculated as the product of the Off-Peak Price Ratio and the annual price quote.

Determination of Capacity Forward Prices

The Pricing Agent will obtain Capacity Forward Prices for the PPL Zone, or capacity pricing region within which the PPL Zone is included, as reported by PJM. To the extent that actual Capacity Forward Prices are unavailable through PJM, the Pricing Agent will obtain applicable Capacity Forward Prices as estimated by PJM.

MM EXAMPLE CALCULATION FOR A TRANSACTION

Information from a Transaction Confirmation:	
Delivery Period: January 1, 2010, through December 31, 2010	
Total Tranches (p):	4
MW-Measure (q):	50

Month	Estimated Quantity Per MW-Measure	
	On-Peak MWh (n)	Off-Peak MWh (o)
Jan-2010	13500	9000
Feb-2010	11500	8400
Mar-2010	9900	7500
Apr-2010	8000	6000
May-2010	9500	7600
Jun-2010	13500	10100
Jul-2010	16300	11400
Aug-2010	17000	12100
Sep-2010	14000	9000
Oct-2010	9900	7300
Nov-2010	10400	8400
Dec-2010	11500	8400

MtM Exposure Calculation	
Business Day on which MtM is calculated:	24-Jun-10
Current PLC Per Tranche (r):	51.3
Percent of On-Peak Hours Remaining in Current Month (s):	18.2%
Percent of Off-Peak Hours Remaining in Current Month (t):	21.7%

Month	On-Peak				Off-Peak				Capacity				MUM Exposure (\$) (m) = (c)*(d)*(f)*(g)*(k)*(l)
	Forward Price (a)	Initial Mark Price (b)	Change in Price (c) = (a) - (b)	Estimated Energy Quantity (d) = (n)*(r)/(q)*(p)*(s)	Forward Price (e)	Initial Mark Price (f)	Change in Price (g) = (e) - (f)	Estimated Energy Quantity (MWh) (h) = (o)*(r)/(q)*(p)*(t)	Forward Price (i)	Initial Mark Price (j)	Change in Price (k) = (i) - (j)	Obligation (MW) (l)	
Jan-2010	95.00	105.00	-10.00	10084	60.00	65.00	-5	8015	50	20	30	200	(134,910.84)
Feb-2010	95.00	105.00	-10.00	8590	60.00	65.00	-5	7481	50	20	30	200	(117,300.58)
Mar-2010	85.00	95.00	-10.00	7395	50.00	55.00	-5	6679	50	20	30	200	(101,342.17)
Apr-2010	65.00	75.00	-10.00	5975	50.00	55.00	-5	5343	50	20	30	200	(80,471.28)
May-2010	70.00	80.00	-10.00	7096	60.00	65.00	-5	6788	50	20	30	200	(98,799.74)
Jun-2010	75.00	85.00	-10.00	10084	60.00	65.00	-5	8995	50	20	30	200	(139,808.96)
Jul-2010	125.00	135.00	-10.00	12175	65.00	70.00	-5	10152	50	20	30	200	(166,511.84)
Aug-2010	125.00	135.00	-10.00	12698	65.00	70.00	-5	10776	50	20	30	200	(174,857.12)
Sep-2010	105.00	115.00	-10.00	10457	60.00	65.00	-5	8015	50	20	30	200	(138,845.48)
Oct-2010	85.00	90.00	-5.00	7395	55.00	60.00	-5	6501	50	20	30	200	(63,478.67)
Nov-2010	85.00	90.00	-5.00	7768	55.00	60.00	-5	7481	50	20	30	200	(70,244.11)
Dec-2010	100.00	110.00	-10.00	8590	70.00	75.00	-5	7481	50	20	30	200	(117,300.58)

EXHIBIT FUNCONDITIONAL GUARANTY

THIS GUARANTY AGREEMENT (this "Guaranty") is made and entered into as of this ____ day of _____, by _____ (the "Guarantor"), with an address at _____, in favor of [Utility] (the "Buyer"), with an address at _____, in consideration of the Provider of Last Resort Supply Master Agreement(s) (the "POLR SMA(s)") between [Utility] and _____ (the "Seller") dated _____, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged. Guarantor is the _____ of Seller.

Whereas, Seller _____ is an affiliate of _____, _____ will therefore benefit by Supplier entering into the POLR SMA with Buyer and _____ desires Buyer to enter into the POLR SMA with Seller and to extend credit to Seller thereunder. (May be revised if guarantor is not a parent or affiliate of Seller.)

1. Guaranty of Obligations.

- (a) The Guarantor hereby irrevocably and unconditionally guarantees, with effect from date hereof, the prompt and complete payment when due of all of Seller's payment obligations under the POLR SMA (to the extent such payment obligations exceed the amount of any Performance Assurance provided to the Buyer by Seller as defined in and in accordance with the POLR SMA), whether on scheduled payment dates, when due upon demand, upon declaration of termination or otherwise, in accordance with the terms of the POLR SMA and giving effect to any applicable grace period, and, provided only that the Buyer is the prevailing party in any judicial suit, action or proceeding arising out of, resulting from, or in any way relating to this Guaranty, or if by mutual agreement by Guarantor and Buyer, all reasonable out-of-pocket costs and expenses incurred by Buyer in the enforcement of the Guarantor's obligations or collection under this Guaranty, including reasonable attorney's fees and expenses (collectively, the "Obligations"). [Optional provision: Notwithstanding anything to the contrary herein, the liability of the Guarantor under this Guaranty and Buyer's right of recovery hereunder for all Obligations is limited to a total aggregate amount of \$ ____ ("Guaranty Amount"), where Guaranty Amount shall be no less than Five Hundred Thousand US Dollars (\$500,000).]
- (b) The limitations on liabilities of the Seller set forth in Article 10 of the POLR SMA shall also apply to the liabilities of the Guarantor hereunder.

2. Nature of Guaranty; Waivers

- (a) This is a guaranty of payment and not of collection and the Buyer shall not be required, as a condition of the Guarantor's liability, to pursue any rights which may be available to it with respect to any other person who may be liable for the payment of the Obligations. This is not a performance guaranty and the Guarantor

is not obligated to provide power under the POLR SMA or this Guaranty.

- (b) This Guaranty is an absolute, unconditional, irrevocable (subject to the provisions of Section 12 of this Guaranty) and continuing guaranty and will remain in full force and effect until all of the Obligations have been indefeasibly paid in full, or until the POLR SMA has been terminated, whichever comes later. This Guaranty will not be affected by any surrender, exchange, acceptance, compromise or release by the Buyer of any other party, or any other guaranty or any security held by it for any of the Obligations, by any failure of the Buyer to take any steps to perfect or maintain its lien or security interest in or to preserve its rights to any security or other collateral for any of the Obligations or any guaranty, or by any irregularity, unenforceability or invalidity of any of the Obligations (other than any irregularity, unenforceability or invalidity of any of the obligations under the POLR SMA resulting from the conduct of the Buyer) or any part thereof.
- (c) Except as to any claims, defenses, rights of set-off or to reductions of Seller in respect of its obligations under the POLR SMA, (all of which are expressly reserved under this Guaranty), the Guarantor's obligations hereunder shall not be affected, modified or impaired by any counterclaim, set-off, deduction or defense based upon any claim the Guarantor may have against Seller or the Buyer, including: (i) any change in the corporate existence (including its charter or other governing agreement, laws, rules, regulations or powers), structure or ownership of Seller or the Guarantor; or (ii) any insolvency, bankruptcy, reorganization or other similar proceeding affecting Seller or its assets; or (iii) the invalidity or unenforceability in whole or in part of the POLR SMA; or (iv) any provision of applicable law or regulations purporting to prohibit payment by Seller of amounts to be paid by it under the POLR SMA (other than any law or regulation that eliminates or nullifies the obligations under the POLR SMA).
- (d) Guarantor waives notice of acceptance of this Guaranty, diligence, presentment, notice of dishonor and protest and any requirement that at any time any person exhaust any right to take any action against Seller or their assets or any other guarantor or person, provided, however, that any failure of Buyer to give notice will not discharge, alter or diminish in any way Guarantor's obligations under this Guaranty. The Guarantor waives all defenses based on suretyship or impairment of collateral or any other defenses that would constitute a legal or equitable discharge of Guarantor's obligations, except any claims or defenses of Seller in respect of its obligations under the POLR SMA.
- (e) The Buyer at any time and from time to time, without notice to or the consent of the Guarantor, and without impairing or releasing, discharging or modifying the Guarantor's liabilities hereunder, may (i) to the extent permitted by the POLR SMA, change the manner, place, time or terms of payment or performance of, or other terms relating to, any of the Obligations; (ii) to the extent permitted by the POLR SMA, renew, substitute, modify, amend or alter, or grant consents or waivers relating to any of the Obligations, or any other guaranties for any Obligations; (iii) settle, compromise or deal with any other person, including Seller, with respect to any Obligations in such manner as the Buyer deems appropriate at its sole discretion; (iv) substitute, exchange or release any guaranty;

or (v) take such actions and exercise such remedies hereunder as Buyer deems appropriate.

3. Representations and Warranties. The Guarantor hereby represents and warrants that:

- (a) it is a [limited liability company, corporation, limited partnership, general partnership] duly organized, validly existing and in good standing under the laws of the jurisdiction of its [formation, organization, incorporation] and has the [corporate power] [power] and authority to conduct the business in which it is currently engaged and enter into and perform its obligations under this Guaranty;
- (b) it has the [corporate power] [power] and authority and the legal right to execute and deliver, and to perform its obligations under, this Guaranty, and has taken all necessary [corporate action] [action] to authorize its execution, delivery and performance of this Guaranty;
- (c) this Guaranty constitutes a legal, valid and binding obligation of the Guarantor enforceable in accordance with its terms, except as affected by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting the enforcement of Buyers' rights generally, general equitable principles and an implied covenant of good faith and fair dealing;
- (d) the execution, delivery and performance of this Guaranty will not violate any provision of any requirement of law or contractual obligation of the Guarantor (except to the extent that any such violation would not reasonably be expected to have a material adverse effect on the Guarantor or this Guaranty);
- (e) no consent or authorization of, filing with, or other act by or in respect of, any arbitrator or governmental authority and no consent of any other person (including, without limitation, any stockholder or creditor of the Guarantor) is required in connection with the execution, delivery, performance, validity or enforceability of this Guaranty, other than any which have been obtained or made prior to the date hereof and remain in full force and effect; and
- (f) no litigation, investigation or proceeding of or before any arbitrator or governmental authority is pending or, to the knowledge of the Guarantor, threatened by or against the Guarantor that would have a material adverse effect on this Guaranty.

4. Repayments or Recovery from the Buyer. If any demand is made at any time upon the Buyer for the repayment or recovery of any amount received by it in payment or on account of any of the Obligations, including but not limited to upon the bankruptcy, insolvency, dissolution or reorganization of the Seller and if the Buyer repays all or any part of such amount by reason of any judgment, decree or order of any court or administrative body or by reason of any settlement or compromise of any such demand, the Guarantor (subject to Sections 2 (c) and (d) of this Guaranty) will be and remain liable hereunder for the amount so repaid or recovered to the same extent as if such amount had never been received originally by the Buyer. The provisions of this section will be and remain effective notwithstanding any contrary action which may have been

taken by the Guarantor in reliance upon such payment, and any such contrary action so taken will be without prejudice to the Buyer's rights hereunder and will be deemed to have been conditioned upon such payment having become final and irrevocable.

5. Enforceability of Obligations. No modification, limitation or discharge of the Obligations of Seller arising out of or by virtue of any bankruptcy, reorganization or similar proceeding for relief of debtors under federal or state law will affect, modify, limit or discharge the Guarantor's liability in any manner whatsoever and this Guaranty will remain and continue in full force and effect and will be enforceable against the Guarantor to the same extent and with the same force and effect as if any such proceeding had not been instituted. The Guarantor waives all rights and benefits which might accrue to it by reason of any such proceeding and will be liable to the full extent hereunder, irrespective of any modification, limitation or discharge of the liability of Seller that may result from any such proceeding.

6. Postponement of Subrogation. Only to the extent that, at the relevant time, there are Obligations, or other amounts hereunder, that are then due and payable but unpaid, the Guarantor postpones and subordinates in favor of the Buyer any and all rights which the Guarantor may have to (a) assert any claim against the Seller based on subrogation rights with respect to payments made by Guarantor hereunder and (b) any realization on any property of the Seller, including participation in any marshalling of the Seller's assets. Upon payment of such due and unpaid Obligations, Buyer agrees that Guarantor shall be subrogated to the rights of Buyer against Seller to the extent of Guarantor's payment to Buyer.

7. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing and will be effective upon receipt. Such notices and other communications may be hand-delivered, sent by facsimile transmission with confirmation of delivery and a copy sent by first-class mail, or sent by nationally recognized overnight courier service, to the addresses for the Buyer and the Guarantor set forth below or to such other address as one may give to the other in writing for such purpose:

All communications to Buyer shall be directed to:

Attn:
 Phone:
 Fax:
 With a copy to:

Phone
 Fax

or such other address as the Buyer shall from time to time specify to Guarantor.

All communications to Guarantor shall be directed to:

Attn:
Phone:
Fax:

or such other address as the Guarantor shall from time to time specify to Buyer.

8. Preservation of Rights. Except as provided by any applicable statute of limitations, no delay or omission on the Buyer's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Buyer's action or inaction impair any such right or power. The Buyer's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Buyer may have under other agreements with the Guarantor, at law or in equity.
9. Illegality. In case any one or more of the provisions contained in this Guaranty should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.
10. Amendments. No modification, amendment or waiver of any provision of this Guaranty nor consent to any departure by the Guarantor therefrom, will be effective unless made in a writing signed by the Buyer, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Guarantor in any case will entitle the Guarantor to any other or further notice or demand in the same, similar or other circumstance.
11. Entire Agreement. This Guaranty (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Guarantor and the Buyer with respect to the subject matter hereof.
12. Successors and Assigns. This Guaranty will be binding upon and inure to the benefit of the Guarantor and the Buyer and their respective successors and permitted assigns. Neither party may assign this Guaranty in whole or in part without the other's prior written consent, which consent will not be unreasonably withheld or delayed, except that Buyer may at any time assign this Guaranty without Guarantor's consent, in the same manner, on the same terms and to the same persons as Buyer assigns the POLR SMA in accordance with Section 16.7(b) of the POLR SMA, and except that this Section 12 shall not limit the Guarantor's right to assign this Guaranty, along with substantially all of the Guarantor's assets and business to a successor entity or Affiliate that assumes all obligations thereunder and (i) where the successor Guarantor's Lowest Credit Rating is equal to or greater than the Guarantor's Lowest Credit Rating or where the successor Guarantor's Lowest Credit Rating is equal to or greater than BBB, as rated by S&P or

Fitch, or Baa2, as rated by Moody's, and (ii) the Seller is in compliance with Article 14 of the POLR SMA. The "Lowest Credit Rating" shall mean the lowest of the senior unsecured long-term debt ratings determined by Moody's Investor Services, Inc. (or its successor) ("Moody's"), the Standard & Poor's Rating Group, a division of McGraw-Hill, Inc., (or its successor) ("S&P"), or Fitch Investor Service, Inc. (or its successor) ("Fitch") immediately before such transfer and assumption. Upon any such delegation and assumption of obligations by a successor Guarantor, the Guarantor shall be relieved of and fully discharged from all of its obligations hereunder, whether such obligations arose before or after the date of such delegation and assumption.

13. Interpretation. In this Guaranty, unless the Buyer and the Guarantor otherwise agree in writing, the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; and references to sections or exhibits are to those of this Guaranty unless otherwise indicated. Section headings in this Guaranty are included for convenience of reference only and shall not constitute a part of this Guaranty for any other purpose.
14. Governing Law.
- (a) This Guaranty has been delivered to and accepted by the Buyer. THIS GUARANTY WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE BUYER AND THE GUARANTOR DETERMINED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, EXCLUDING ITS CONFLICT OF LAWS RULES.
- (b) The Guarantor hereby irrevocably consents to the non-exclusive jurisdiction of any federal court in the Commonwealth of Pennsylvania, but in the event that the Guarantor and the Buyer determine in good faith that jurisdiction does not lay with such court or that such court refuses to exercise jurisdiction or venue over the Guarantor and the Buyer or any claims made pursuant to this Guaranty, then the Guarantor and the Buyer agree to submit to the non-exclusive jurisdiction of the Pennsylvania state courts; provided that nothing contained in this Guaranty will prevent the Buyer from bringing any action, enforcing any award or judgment or exercising any rights against the Guarantor individually, against any security or against any property of the Guarantor within any other county, state or other foreign or domestic jurisdiction. The Guarantor acknowledges and agrees that the venue provided above is the most convenient forum for both the Buyer and the Guarantor. The Guarantor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Guaranty.

- 15. WAIVER OF JURY TRIAL. THE GUARANTOR AND BUYER IRREVOCABLY WAIVE ANY AND ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS GUARANTY, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS GUARANTY OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE GUARANTOR AND BUYER ACKNOWLEDGE THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

- 16. Term. This Guaranty shall survive termination of the POLR SMA and remain in full force and effect until all amounts due hereunder, including all of the Obligations, have been paid or performed in full.

- 17. Stay of Acceleration Ineffective with Respect to Guarantor. If acceleration of the time for payment of any amount payable by Seller under the POLR SMA is stayed upon the insolvency, bankruptcy or reorganization of Seller, all such amounts otherwise subject to acceleration or required to be paid upon an early termination pursuant to the terms of the POLR SMA shall nonetheless be payable by the Guarantor hereunder on written demand by Buyer.

The Guarantor acknowledges that it has read and understood all the provisions of this Guaranty, and has been advised by counsel as necessary or appropriate.

[Guarantor]

By: _____
Name:
Title:

EXHIBIT G

FORM OF NOTICE

Any notices required under this Agreement shall be made as follows:

Buyer: Seller:

All Notices: All Notices:

Street: Street:

City/State/Zip: City/State/Zip

Attn: Attn:

Facsimile: Facsimile:

Duns: Duns:

Federal Tax ID Number: Federal Tax ID Number:

Invoices: Invoices:

Attn: Attn: Phone: Phone: Facsimile: Facsimile:

Scheduling: Scheduling:

Attn: Attn: Phone: Phone: Facsimile: Facsimile:

Payments: Payments:

Attn: Attn: Phone: Phone: Facsimile: Facsimile:

Wire Transfer: Wire Transfer

BNK: BNK: ABA: ABA: ACCT: ACCT:

Credit and Collections: Credit and Collections:

Attn: Attn: Phone: Phone: Facsimile: Facsimile:

With additional Notices of an Event of Default to: Event of Default to:

Attn: Attn: Phone: Phone: Facsimile: Facsimile:

Exhibit H is included in the RFP Rules and Procedure document as Appendix 4 and can be removed from the POLR SMA.

EXHIBIT H**PJM DECLARATION OF AUTHORITY**

This Declaration of Authority (“Declaration”) is a statement and certification made this ____ day of _____, ____ by [Utility], (“PARTY A”) and [Seller] (“PARTY B”) for the benefit of PJM Interconnection, LLC.

RECITALS:

WHEREAS, PJM is a Regional Transmission Organization (“RTO”) subject to the jurisdiction of the Federal Energy Regulatory Commission, (“FERC”);

WHEREAS, PJM administers centralized markets that clear various electric energy and energy-related products among multiple buyers and sellers;

WHEREAS, PJM additionally exercises operational control over its members’ transmission facilities whereby PJM provides control area functions, including economic dispatch, the scheduling of transmission service and emergency response to ensure reliability across an integrated transmission system; and

WHEREAS, in capacities more fully described below, PARTY A and PARTY B seek to participate either directly or indirectly in the markets administered by PJM or engage in operations that use or affect the integrated transmission system operated by PJM.

DECLARATION:

NOW, THEREFORE, acknowledging that PJM will rely on the truth, accuracy and completeness of the statements made below, PARTY A and PARTY B, as indicated below, provide the following certifications:

1. Certification.

- (a) PARTY B hereby certifies that in all activities with PJM regarding PARTY B’s provision of energy, capacity, ancillary services, scheduling and procurement of transmission service, congestion management and all other required products and services necessary to serve the standard offer service load obligation assumed by PARTY B, PARTY B shall be billed and be primarily liable to PJM for all costs associated in its procurement of such products and services; provided, however, that charges for Network Integration Transmission Service, Transitional Market Expansion assessed to Network Integration Transmission Service customers, Expansion Integration assessed to Network Integration Transmission Service customers, and credits for Transmission Losses, Reconciliation for Transmission Losses, Non-firm Point-to-point Transmission service, and any Transmission Congestion credits remaining at the end of a planning period for such standard

offer service load shall be billed to PARTY B and remain the sole and primary responsibility of PARTY B.

2. Reliance By PJM On Certifications.

- (a) Each of PARTY A and PARTY B recognizes and accepts that PJM is relying on the truth, accuracy and completeness of the certifications herein made in making its assessments as to creditworthiness and in assuring PJM's own compliance with its tariff, operating agreement, reliability agreement and business practices.
 - (b) Each of PARTY A and PARTY B recognizes and accepts that each has a continuing duty to notify PJM if and when the certifications herein made cease to be accurate or complete. Until such time as PJM receives written notification of any changes to such certifications, signed by both PARTY A and PARTY B, PJM shall be entitled to rely perpetually on this Declaration as governing its relationship with PARTY A and PARTY B as to the subject matter of this Declaration. Any written notice of changes to the certifications herein made must be provided to PJM at least thirty days in advance of their effectiveness.
 - (c) Each of PARTY A and PARTY B recognize and acknowledge that PJM will receive and rely on individually modeled POLR Seller accounts that contain only zonal-specific POLR load to manually adjust the accounts to move the applicable billing line items' amounts in their entirety from the applicable POLR Seller's account to the applicable EDC's account.
 - (d) PARTY A and PARTY B recognize and acknowledge that they have entered into a Provider of Last Resort Supply Master Agreement (POLR SMA) and that this Certification is not intended in any way to change, revise or redistribute the rights and obligations of the PARTY A or PARTY B under the POLR SMA. If this Certification is determined to be inconsistent with any provision of the POLR SMA, with respect to the rights and obligations of PARTY A and PARTY B under the POLR SMA, the provisions of the POLR SMA shall be controlling on PARTY A and PARTY B.
3. Duration. Each of PARTY A and PARTY B acknowledge and agree that this Declaration shall terminate upon the termination of the POLR SMA in accordance with its terms. To this end, within 30 days prior to the termination of the POLR SMA in accordance with its terms or as soon thereafter as is practicable, each of PARTY A and PARTY B will provide written notice to PJM of the termination of this Declaration.

IN WITNESS WHEREOF, PARTY A and PARTY B execute this Declaration to be effective as of the date written above.

PARTY A	PARTY B
NAME:	NAME:
TITLE:	TITLE:

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 2-R

Rebuttal Testimony of Joseph Cavicchi

1 Q. Please state your full name and on whose behalf you are testifying in this
2 proceeding.

3 A. My name is Joseph Cavicchi. I previously submitted Direct Testimony
4 (Statement No. 2) on behalf of PPL Electric Utilities Corporation ("PPL Electric"
5 or the "Company") that describes and supports the competitive procurement
6 program proposed by PPL Electric in its Request for Approval of a Competitive
7 Bridge Plan ("CBP") filed with the Pennsylvania Public Utility Commission ("PUC"
8 or the "Commission") on August 2, 2006.

9

10 Q. What is the subject matter of your rebuttal testimony in this proceeding?

11 A. My rebuttal testimony responds to Direct Testimonies filed by witnesses on
12 behalf of Dominion Retail, Inc., Direct Energy Services, LLC, Reliant Energy,
13 Inc., and the Office of Trial Staff. In particular, I address claims that PPL
14 Electric's proposal will not allow for increased retail competition; that the resulting
15 prices under PPL Electric's procurements will not be prevailing market prices;
16 and, that the use of a load cap for the auction is unnecessary.

17

18 **PPL ELECTRIC'S PROPOSAL WILL ALLOW FOR INCREASED RETAIL**
19 **COMPETITION**

20

21 Q. Please describe parties' concerns regarding PPL Electric's proposed plan and its
22 impact on retail competition.

1 A. Witnesses for various Electric Generation Suppliers ("EGSs") suggest that the
2 structure of the CBP procurement process will limit retail competition. For
3 example, Direct Energy Services argues that PPL Electric's CBP is so-called
4 "point-in-time" default pricing that "is completely antithetical to the development of
5 robust competitive markets" and that the CBP will leave consumers with no
6 choice in either rising price or falling price markets.¹ Reliant Energy indicates
7 that the CBP's proposal to obtain provider of last resort ("POLR") supply through
8 a series of acquisitions over a three-year period in order to reduce price volatility
9 in default service to smaller consumers and to provide an optional fixed-price
10 service to larger customers will "not result in a robust, sustainable competitive
11 market."² Dominion Retail states that "PPL's proposal will have the undeniable
12 affect of ensuring that competition does not develop in its market in 2010 and
13 probably beyond..."³ Although stated concerns vary, the basic argument
14 contained in the various testimonies is that both large and small consumers in
15 the PPL Electric service territory should be provided POLR service at prices
16 which are as volatile as possible. That is, in most cases parties opposing the
17 CBP proposal advocate some form of POLR pricing for smaller consumers that
18 at a minimum varies monthly, while larger consumers' POLR service should be
19 priced hourly.

¹ Direct Energy Services Direct Testimony at 5:8-10 and 8:10-12.

² Reliant Energy Direct Testimony at 8:15-18 and 9:3-4.

³ Dominion Retail Direct Testimony at 10:2-4.

1 Q. Is it necessary for POLR service pricing to be volatile in order to allow for retail
2 competition?

3 A. No. POLR service that mitigates price volatility does not, in and of itself,
4 discourage retail competition. PPL Electric believes that the CBP's POLR
5 service will provide retail competitors opportunities to obtain customers.
6 Consistent with expectations that large commercial and industrial customers can
7 proactively manage their energy expenditures, the CBP offers these customers
8 the option of a transitional fixed-price POLR service during the term of the CBP,
9 or the alternative of a real-time hourly POLR service, both of which shift these
10 customers' POLR service to reasonable market-based prices providing
11 opportunities for retail competitors. For smaller customers, retail competitors will
12 have the opportunity to offer both a product similar to POLR service, or products
13 that take into account the ability to use detailed consumer consumption data
14 made available to the market by PPL Electric to integrate energy conservation,
15 demand-side management, etc., into a competitive product offering. What is
16 most important is that PPL Electric's POLR service is an appropriately priced
17 market-based service, which it will be under the CBP.

18
19 Q. Please explain how retail suppliers will be able to offer innovative products.

20 A. In contrast with many U.S. utilities, PPL Electric has been implementing an
21 Advanced Metering Infrastructure project that will provide all of its customers with
22 hourly demand monitoring. This metering system, described more fully in the
23 Rebuttal Testimony of Mr. Krall, will make available to all PPL Electric customers

1 detailed information on instantaneous and cumulative usage. Subject to
2 appropriate authorization by individual customers, PPL Electric plans to make
3 these data available to potential EGSs. Having these data available will allow
4 retail suppliers to evaluate alternative product offerings that combine demand-
5 side management and energy conservation with commodity supply offerings.
6 Importantly, the demand-monitoring capabilities allow for straightforward
7 verification that benefits associated with demand reductions and energy
8 conservation are being achieved. It is expected that these bundled products
9 would be very attractive to smaller consumers and ultimately more interesting
10 than PPL Electric's plain vanilla POLR service.

11
12 Q. What is driving the concerns about the CBP's impact on retail competition?

13 A. The primary issue is how POLR pricing for residential and small commercial
14 customers will be established, and if the adopted approach will itself preclude
15 retail competition. On the one hand, retail suppliers generally prefer volatile
16 prices that arguably create more frequent opportunities for them to solicit
17 customers.⁴ On the other hand, consumer representatives prefer less volatile
18 POLR service prices which either require some *form of portfolio procurement*
19 approach overseen by the utility, or require procurements to be carried out
20 considerably in advance of the beginning of the delivery period. PPL Electric's
21 CBP proposal represents a reasonable middle ground between these two

⁴ Although, Dominion Retail indicated in its Direct Testimony that a three-to-five-year fixed-price product for smaller customers would be acceptable so long as the price was established during the year 2009 (4:9-10 and 5:13-6:16).

1 positions. That is, PPL Electric's CBP adopts a POLR service product definition
2 for residential and small commercial customers that is widely available in the
3 marketplace and for which considerable supplier competitiveness has been
4 demonstrated. At the same time, PPL Electric's proposal is designed to limit
5 price volatility by relying on both longer- and shorter-term forward purchases.
6 Although it is impossible to predict the outcome for customers in advance of the
7 procurements, the design itself benefits both the wholesale and the retail
8 markets.

9
10 Q. Please explain how the marketplace benefits.

11 A. With respect to retail competition, the CBP's laddered procurement (combined
12 with PPL Electric's commitment to provide hourly customer load data to retail
13 competitors) will not prevent retail suppliers from offering supply products with
14 varying terms and conditions. Moreover, to the extent they can develop energy
15 conservation and demand-side management aspects to the product offering,
16 retail suppliers will be able to make lower-priced offerings that will be desirable to
17 customers. During those times where POLR service prices are greater than
18 offers developed by retail suppliers, there will be opportunities to capture smaller
19 customers.⁵ And when they are competitive, they will likely be capable of

⁵ Dominion Retail suggests it could not accurately price a service offering given the structure of the CBP (Dominion Retail Direct Testimony at 6:7-8), but because its supply offer simply would have to be below the POLR service pricing, its concerns are unclear. PPL Electric's POLR rate will be a simply stated price per kWh for a one-year period, and EGSs will price their products according to the term of service and other details of service that they intend to offer.

1 developing a longer-term relationship with the customer. Contrary to claims that
2 there will be no means to compete against the POLR service, there will be
3 opportunities to compete which will be appropriately driven by the forward market
4 prices, not volatile short-run prices.⁶

5 The likely longer-term relationship will subsequently benefit the wholesale
6 market by establishing consumer demand in the forward markets. And by using
7 a three-year ladder approach, the forward time span promotes the
8 development of forward capacity markets, which serve an important role in
9 signaling the need for new generation investment. Thus, PPL Electric's plan
10 provides a balanced approach for providing POLR service that does not
11 necessarily place any particular party's interests ahead of another party's
12 interests.

13 And finally, the CBP recognizes that 2010 POLR service pricing
14 represents a long anticipated transition from administratively established pricing
15 to market-based pricing. At the time 2010 POLR service pricing takes effect,
16 PPL Electric's generation rates will have been subject to administratively
17 determined rate caps for 14 years (1996-2010). Although it is not possible to

⁶ Direct Energy Direct Testimony at 5:10-22 suggests limited retail supplier interest under the CBP and suggests that the proposal is like PJM setting a price for generation and requesting generation suppliers to respond to the set price. First, regardless of how POLR service pricing is established, it will always be a price that customers will consider in evaluating the reasonableness of EGS offers. And second, POLR service prices will not be set arbitrarily, as suggested by the asserted comparison, but will be set through a competitive process, which is exactly how PJM establishes prices currently in its energy markets, and will from time to time set prices in its pending revised capacity market proposal. Thus, Direct Energy's real concern appears to be that the CBP does not produce a volatile price, which Direct appears to believe is more appropriate given its interests.

1 accurately predict future prices and guard against rate shock, PPL Electric's use
2 of a laddering approach captures the benefits of less volatile forward market
3 pricing and provides a stepping stone for the transition to 2011 POLR service
4 pricing. Experience shows that these transitions can be difficult; PPL's CBP
5 introduces market-based POLR service pricing while taking into account the
6 various interests of the parties to this proceeding.

7
8 **PREVAILING MARKET PRICE**

9
10 Q. Please describe the prevailing market price issue as you understand it.

11 A. The basic issue surrounding the Commonwealth's intention that POLR service be
12 priced at prevailing market prices is whether the word "prevailing" means that
13 POLR service prices should be established as near as possible to when
14 electricity delivery occurs. However, there is no basis to conclude that a one-year
15 forward price established in 2009 for 2010 will be more reflective of actual market
16 prices in 2010 than a three-year laddered acquisition. Thus, taken to the
17 extreme, one could interpret prevailing to mean that all customers' electricity
18 pricing ought to be hourly. On the other hand, prevailing can be interpreted as
19 meaning that electricity supplies must be obtained from the wholesale
20 marketplace at a particular point, or points, in time at then prevailing prices, as
21 opposed to, for example, from supply sources where future prices are not
22 specified, but instead are unknown until delivery occurs. An example of this
23 would be a call-option where the electricity price is not explicitly established, but

1 based on a fuel price index at some time in the future. As I stated in my Direct
2 Testimony, in my opinion as an economist, supplies obtained at different points in
3 time, if procured from the wholesale markets at competitively established prices,
4 constitute service established by prevailing market prices.⁷

5
6 Q. How can the concerns of other parties in relation to prevailing market prices be
7 reconciled in this proceeding?

8 A. From an economist's point of view, I believe that the use of the word "prevailing"
9 should be interpreted to provide a degree of policy flexibility to the Commission
10 when making decisions regarding POLR service definition. Using this approach
11 it is possible to view this issue in the context of balancing the interests of the
12 parties to this proceeding. Several different POLR service pricing proposals
13 have been suggested as part of this proceeding. But the basis of POLR service
14 *need not be focused on trying to force POLR service customers to switch to*
15 *EGSs, or obligating utilities to enter into long-term contracts (e.g., five-to-ten-year*
16 *terms) for POLR service that can be out of step with market prices. Instead, an*
17 *acceptable approach is to ensure that a reasonably priced, market-based POLR*
18 *service is available to those consumers who return to the service, or choose not*
19 *to switch in the first place. As long as the pricing methodology is fair and reflects*
20 *prevailing market prices at the time of the acquisition, the interests of the parties*
21 *can be balanced. And again, PPL Electric's advanced metering system will*

⁷ As a contrast, I believe that cost-based prices, or prices established based on a specific generation resource at the time of production, represent examples of prices that are not prevailing market prices.

1 provide EGSs the flexibility to develop distinct product offerings that are not just
2 simply the POLR-type service at a lower price. Finally, although PPL Electric
3 acknowledges that electricity consumers desire competitive options, and hopes
4 to facilitate the market's ability to develop these product offerings, it does not
5 believe that exposing small customers to short-run volatile prices appropriately
6 balances parties' interests and promotes the Commonwealth's objectives.

7 8 **LOAD CAP**

9
10 Q. What concerns have been raised in relation to PPL Electric's proposed load cap?

11 A. The Office of Trial Staff ("OTS") is concerned that the proposed load cap could
12 result in an overall higher price being established for POLR service than if the
13 proposed POLR service auctions did not include a load cap.⁸ Although OTS
14 acknowledges the threat of entry deterrence without a load cap, OTS believes
15 that by using the 50 MW tranche size small suppliers will be encouraged to
16 compete, and can in effect be a substitute for the load cap. In contrast, PPL
17 Electric's position is that the risks of limiting competition among wholesale
18 suppliers outweigh the hypothetical benefit that one supplier could supply 100%
19 of the POLR service load at a lower overall cost. Moreover, because there is no
20 means for accurately assessing if the load cap has materially impacted the
21 auction, exercising caution, and ensuring as much competition as possible, are
22 the appropriate choice for the auction design.

⁸ Gruber Direct Testimony at pages 3-7.

1

2 Q. Why does PPL Electric contend that the load cap is appropriate?

3 A. As PPL Electric has explained, the load cap intends to ensure that entry
4 deterrence does not occur, and that robust competition is encouraged among
5 potential suppliers. Entry deterrence is very difficult to detect, and without the
6 load cap it is likely that there would no means by which to assess if small
7 suppliers had been deterred. For example, smaller suppliers may conclude that
8 the prospects of winning in the auction are low without a load cap that
9 guarantees an opportunity to win a tranche, and elect not to expend those
10 resources necessary to prepare an offer. Smaller suppliers may also find
11 themselves obtaining energy pricing for their auction offers from other larger
12 suppliers also competing in the auction and may believe that the price levels
13 might impede their ability to succeed in the auction. There is no way of
14 monitoring for these possible impacts. By having a load cap all potential
15 suppliers will know in advance that they have a better opportunity to win in the
16 auction. This will encourage competition.

17

18 Q. Please explain why the tranche size cannot be relied upon to guard against entry
19 deterrence.

20 A. The selected size of the tranche is not a substitute for the load cap. Although the
21 decision to make an offer can be influenced by the tranche size as it relates to
22 financial assurances and risk management, it is the knowledge that all suppliers
23 can expect an opportunity to be successful in the auction that will maximize

1 competition. Moreover, it also ensures that larger suppliers have incentives to
2 price competitively whether they are making offers to other suppliers participating
3 in the auction, or with respect to offers they are themselves making. Finally,
4 even though an examination of a particular set of auction results may indicate
5 that awarding the entire obligation to one supplier would appear less expensive,
6 it cannot be assumed that the same pricing would have been submitted absent
7 the load cap. PPL Electric continues to recommend that the auction design
8 include a load cap.

9
10 Q. Does this conclude your rebuttal testimony?

11 A. Yes.

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 3

Direct Testimony of Joseph M. Kleha

1 Q. Please state your full name and business address.

2 A. Joseph M. Kleha, Two North Ninth Street, Allentown, Pennsylvania, 18101.

3

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by PPL Services Corporation ("PPL Services"), a subsidiary of
6 PPL Corporation, in the Office of General Counsel as Manager - Regulatory
7 Projects.

8

9 Q. What are your duties as Manager - Regulatory Projects?

10 A. I am responsible for overseeing corporate projects involving regulatory
11 agencies on behalf of PPL Corporation's subsidiaries, including PPL Electric
12 Utilities Corporation ("PPL Electric"); PPL Gas Utilities Corporation ("PPL
13 Gas"); PPL EnergyPlus, LLC ("PPL EnergyPlus"); and the PPL Generation
14 family of companies. As part of this function, I review and provide technical
15 oversight and guidance on the development, content and structure of cost
16 allocation and revenue requirements studies. I also prepare and present
17 expert testimony regarding these studies.

18

19 Q. What is your educational background?

20 A. I graduated from the Pennsylvania State University in 1974 with a Bachelor of
21 Science Degree in Accounting. Since that time, I have taken specialized
22 courses dealing with public utility accounting, depreciation and rate design. In
23 addition, I attended the NARUC Regulatory Studies Program.

1 Q. Please describe your professional experience.

2 A. I was employed by the Pennsylvania Department of Public Welfare as Field
3 Auditor and Institutional Collections Officer from 1974 to 1977. In 1977, I
4 joined the technical staff of the Pennsylvania Public Utility Commission
5 ("PUC") as a Utility Rate Analyst in its Bureau of Rates and Research. In this
6 position, my responsibilities included review of proposed retail electric rate
7 filings and the preparation and presentation of testimony in formal rate
8 proceedings. This testimony primarily dealt with the allowable levels and
9 jurisdictional allocations of claimed operating revenues, operating expenses,
10 and rate base. In 1981, I joined PPL Electric as a Senior Accountant with
11 responsibility for assembling financial data and preparing revenue requirement
12 studies to support its retail and wholesale rate filings. I was named Manager -
13 Regulatory Projects in PPL Electric's Office of General Counsel in 1990. In
14 2000, as part of a corporate realignment, I became an employee of PPL
15 Services along with the other employees in the Office of General Counsel.

16
17 Q. Have you previously testified as a witness on cost-of-service and ratemaking
18 related issues?

19 A. Yes, I have testified in numerous proceedings. See Appendix A for a list of
20 these proceedings.

21

22 Q. What is the subject matter of your testimony in this proceeding?

1 A. My testimony describes and supports proposals by PPL Electric in its August
2 2, 2006 Petition for Approval of a Competitive Bridge Proposal ("CBP") to
3 establish a Generation Supply Charge ("GSC") and to make minor
4 modifications to the Generation Rate Adjustment ("GRA") and Transmission
5 Service Charge ("TSC") currently reflected in PPL Electric's retail tariff.
6

7 Q. Please generally describe the Company's proposal for establishing rates for
8 POLR service in 2010.

9 A. PPL Electric proposes to offer fixed annual rates to all customers for POLR
10 service in 2010. Those POLR rates will reflect a blend of the prices realized in
11 the series of laddered solicitations proposed by the Company and will be
12 different for each of the three customer classes described by Mr. Cavicchi.
13

14 Q. Is PPL Electric proposing a specific rate mechanism for this purpose?

15 A. Yes. The Company proposes to establish a new rate mechanism, the GSC for
16 each of the three customer classes – residential, small commercial and
17 industrial, and large commercial and industrial. The GSC will provide for
18 recovery, on a full and current basis, of all costs associated with the
19 Company's acquisition of POLR generation supply. In the first instance, these
20 costs will include all amounts applicable to the energy and capacity
21 requirements which will be acquired from suppliers through the Company's
22 proposed CBP. In addition, the costs recovered through the GSC will include
23 all transmission service-related amounts that suppliers reflect in their bid

1 prices. Finally, the GSC will include any other expenses that the Company will
2 incur to implement its procurement process, including, but not limited to, the
3 solicitation of bids, the retention of third-party bid evaluators, as well as the
4 Company's ongoing administration of the procurement process.

5
6 Q. Is the Company proposing that the GSC be reconciled?

7 A. Yes. As proposed, the GSC will provide for the annual reconciliation of any
8 over-recovery or under-recovery associated with the difference between the
9 Company's estimated costs to acquire generation supply and its actual costs
10 incurred to acquire generation supply on behalf of its POLR customers. It is
11 important to note that, because of the proposed structure of the Company's
12 POLR supply procurement, PPL Electric expects that the annual reconciliation
13 will be relatively small. Accordingly, reconciliation of the GSC should not have
14 any significant impact on POLR rates and should not adversely affect retail
15 competitive opportunities in PPL Electric's service area.

16 Although not expected to have a major impact on POLR rates,
17 reconciliation is a critical element of the Company's proposal. I am advised by
18 counsel that PPL Electric is entitled by law to fully recover its costs of
19 obtaining supply to meet its POLR obligations. Moreover, recognizing the
20 Company's full compliance with its POLR rate caps for over a decade,
21 fundamental fairness requires that it be permitted to fully recover all costs of
22 obtaining POLR supply after its generation rate caps end. The only way to

1 ensure full cost recovery is to permit an annual reconciliation of the GSC, as
2 proposed in this filing.

3
4 Q. How will the GSC affect other rates on customers' bills?

5 A. The GSC will replace the generation charges that currently appear on
6 customers' bills. For some rate schedules, the current generation charges
7 include a demand component and/or declining block energy charges. The
8 GSC will not include any of these rate design elements, but instead will be
9 structured as a flat "cents per kilowatt-hour" charge. PPL Electric is not
10 proposing any changes to its distribution rates or transmission rates in this
11 filing. However, the Company anticipates that the TSC will decrease
12 significantly in 2010 because it is proposing that POLR suppliers provide all
13 transmission-related services and the cost of those services will be recovered
14 through the GSC.

15
16 Q. Please describe how the GSC was developed.

17 A. The design of the proposed GSC is based on the automatic adjustment
18 clauses currently included in PPL Electric's retail tariff for recovery of
19 transmission charges – the TSC – and the Company's allowed stranded
20 costs – the Competitive Transition Charge ("CTC") and Intangible Transition
21 Charge ("ITC"). These latter two mechanisms have worked well for almost
22 seven years and provide a good ratemaking model for recovering costs of
23 POLR supply. In addition, the reconciliation feature of the GSC will protect

1 customers from paying any more than the Company's actual costs for POLR
2 supply. Reconciliation also will protect PPL Electric from the financial harm
3 that would result from an inability to recover, on a full and current basis, the
4 costs of obtaining supply to meet its POLR obligation. Recognizing that this
5 reconciliation provision will provide such risk protection, the Company is not
6 proposing to receive a return on any element of generation supply service
7 provided to POLR customers.

8
9 Q. Is the Company proposing any tariff revisions to implement these rate
10 mechanisms?

11 A. Yes. Implementation of several proposals discussed above will require
12 revisions to PPL Electric's retail tariff. Exhibit JMK 1, which originally was
13 submitted as part of Attachment 4 to the August 2 Petition, contains pro forma
14 tariff language required to make these changes. Those tariff pages do not
15 include either an issuance date or an effective date. In its Petition, PPL
16 Electric requests that the Commission approve these draft tariff provisions and
17 direct the Company to file, in compliance with the Commission's final order in
18 this proceeding, an appropriate tariff supplement effective on one-day's notice.
19 Of course, the GSC will not become effective until January 1, 2010.

20
21 Q. Please describe each of the proposed tariff revisions.

22 A. The Company proposes to establish the GSC, discussed above, to recover the
23 costs of obtaining generation supply for its POLR customers. The design of

1 the GSC is based upon the Company's currently effective TSC, CTC and ITC.
2 It is a formula rate which is revised and reconciled annually. The formula
3 creates different GSC levels for each of the three customer classes defined
4 above.

5 PPL Electric proposes to modify the TSC, which enables PPL Electric
6 to recover the charges it incurs for transmission service, to reflect the
7 purchase of POLR supply in the competitive market. The presently effective
8 TSC permits recovery, on a full and current basis, of transmission charges
9 imposed by the PJM Interconnection, LLC ("PJM") under its Open Access
10 Transmission Tariff ("OATT"). Because the Company is proposing to
11 purchase POLR supply in the competitive market, those purchases will include
12 transmission and ancillary services which the supplier will likely obtain from
13 PJM. As a result, PPL Electric proposes to modify its TSC to permit recovery
14 of transmission charges that may be imposed on it directly by PJM or indirectly
15 through a supplier. It is important to emphasize that the Company is not
16 proposing any double recovery of transmission charges imposed by a supplier.
17 Such charges would be reflected in the TSC only to the extent they were not
18 recovered through the GSC.

19 Finally, the Company proposes to modify the GRA so that the Company
20 can charge that rate to any large commercial or industrial customer who elects
21 fixed price POLR service for 2010, but does not remain a POLR customer for
22 the entire year. The presently effective GRA contains several procedural
23 elements that would make such an application extremely difficult or, perhaps,

1 impossible. In my opinion, this is a logical extension of the GRA. The GRA,
2 as previously approved by the Commission, provides that, if a commercial or
3 industrial customer returns to Basic Utility Supply Service ("BUSS") – another
4 term for POLR service - for less than a year, then the customer's bill for BUSS
5 during that time will be recalculated based upon the difference between
6 Locational Marginal Prices ("LMP") and BUSS for the relevant time period.
7 Similarly, under the Company's proposal, large commercial and industrial
8 customers are required to make a decision whether to opt in for fixed POLR
9 service for 2010. If a customer has elected such an option, that customer
10 should not be permitted to undo its election without a cost. Under the
11 Company's proposed modification of the GRA, that customer would pay the
12 difference between its fixed POLR rate and LMP from the time it left POLR
13 service through December 31, 2010. Based upon the experience of other
14 utilities, it is evident that suppliers are very hesitant to offer prices for fixed rate
15 POLR service to large customers if those customers are free to switch from
16 POLR service to alternative suppliers without limits. In 2010, all revenue
17 received by PPL Electric from operation of the GRA will be remitted to the
18 applicable POLR suppliers.

19
20 Q. In your opinion, are the rate mechanisms proposed by the Company in its
21 *August 2 Petition in the public interest?*

22 A. Yes. The proposed GSC will allow PPL Electric to fully recover its cost of
23 obtaining 2010 POLR supply from the competitive market, as required by the

1 Electricity Generation Customer Choice and Competition Act. Because it is
2 based on existing rate mechanisms, the proposed GSC will be easy to
3 administer and easy for customers to understand. The proposed changes to
4 the GRA and the TSC simply are minor modifications to existing Commission-
5 approved rate mechanisms. These changes are necessary to support
6 implementation of PPL Electric's proposed CBP. With the reconciliation
7 provisions that PPL Electric proposes for the GSC, which currently exist for the
8 GRA and TSC, these rate mechanisms will ensure that customers pay only the
9 costs incurred by PPL Electric to obtain 2010 POLR supply; any over-
10 collections will be returned to customers with interest.

11
12 Q. Does this conclude your direct testimony?

13 A. Yes.

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 3-R

Rebuttal Testimony of Joseph M. Kleha

1 Q. With regard to the first issue of your rebuttal testimony, have you reviewed Dr.
2 Estomin's concerns regarding application of the TSC?

3 A. Yes, Dr. Estomin, testifying on behalf of the Office of Consumer Advocate
4 ("OCA"), contends that additional clarification is required to identify which
5 transmission-related costs will be included in the GSC and which will be included
6 in the TSC.

7

8 Q. Can you provide some background information regarding this apparent
9 confusion?

10 A. Yes. Currently, PPL Electric must obtain, from PJM, all transmission services,
11 including ancillary services, associated with its purchase of POLR supply; and the
12 TSC provides for full recovery of all charges for those services. In its August 2,
13 2006 Petition, the Company proposed to change this approach and require POLR
14 suppliers to obtain transmission services, including ancillary services. PPL
15 Electric also proposed to modify the TSC to permit recovery of transmission
16 service charges to the extent those charges would be indirectly imposed on it by
17 a supplier. The Company now appreciates that these proposed changes may
18 have created some confusion regarding coordination between the TSC and the
19 GSC, as evidenced by Dr. Estomin's testimony. After it filed the August 2, 2006
20 Petition, the Company learned that implementation of the various Provider of Last
21 Resort ("POLR") solicitations proposed in its Competitive Bridge Plan ("CBP")
22 would not be adversely affected if the Company were to retain the responsibility
23 for obtaining transmission services, excluding ancillary services. The POLR

1 supplier continues to be the most appropriate entity to obtain ancillary services.
2 Accordingly, in an effort to reduce confusion and narrow the contested issues in
3 this case, PPL Electric will modify its CBP to specifically provide that the
4 Company will obtain directly from PJM the transmission services required to
5 move POLR supply within PJM; ancillary services will be obtained by the POLR
6 suppliers. Implementation of these changes to the CBP will require minor
7 modifications to the Request for Proposals process and the POLR Master Supply
8 Agreement set forth in PPL Exhibit JC 1. The Company will provide those
9 modifications in a compliance filing submitted after the Commission enters a final
10 order in this case. With these changes to the CBP, the Company's proposed
11 modification to the TSC is no longer necessary and PPL Electric hereby
12 withdraws that proposal. I believe that this withdrawal of PPL Electric's proposed
13 modification of the TSC will significantly reduce any confusion regarding the
14 interplay between the TSC and the GSC.

15
16 I note that I have been advised by counsel that the issue of the appropriate
17 allocation of transmission costs to customer classes under the TSC is the subject
18 of pending litigation in the appellate courts. This modification to the CBP is not
19 intended to prejudice the rights and remedies of parties to that pending litigation.

20
21 Q. Are you proposing any other changes to the TSC?

22 A. No. Under the Company's revised proposal, the TSC, as approved by the
23 Commission in its final order adopted on December 22, 2004, at Docket

1 No. R-00049255, and as currently reflected PPL Electric's tariff, will remain in
2 place, without modification.

3
4 Q. Please explain how the TSC and the GSC will operate if the Company's CBP is
5 approved?

6 A. The GSC will be calculated separately for each customer class and will reflect a
7 blended cost of obtaining POLR supply for each of those classes through the
8 various solicitations proposed in the CBP. The resulting rates will reflect all costs
9 included in the winning suppliers' bids, e.g., cost of energy, cost of capacity, cost
10 of all ancillary services both within and outside of PJM and cost of transmission
11 services (if any) to the border of PJM. In addition, the GSC will include PPL
12 Electric's other costs of administering the various solicitations for POLR supply,
13 e.g., the costs to undertake the RFP processes, the cost of a third-party
14 administrator/evaluator and PPL Electric's costs of implementation. On the other
15 hand, the TSC will include only the transmission costs that PPL Electric incurs
16 directly from PJM for transmission services within PJM, as those services are
17 defined in the TSC. As I discuss later in my rebuttal testimony, both the GSC and
18 the TSC will be fully reconcilable on an annual basis.

19
20 Q. Does the withdrawal of the Company's proposed modification to the TSC also
21 address Mr. Gruber's concerns?

22 A. Yes. Mr. Gruber, testifying on behalf of the Commission Office of Trial Staff
23 ("OTS"), contends that if the successful bidders for wholesale POLR supply are

1 responsible for paying transmission service charges and include them in their bid
2 prices, there should be no additional transmission charges by PJM. Therefore,
3 he seems to suggest elimination of the TSC. Mr. Gruber's assumption regarding
4 additional transmission service charges by PJM may or may not be correct. But,
5 in any event, his concerns are fully addressed by PPL Electric's withdrawal of its
6 proposed modification of the TSC. As I explained earlier, GSC charges will
7 reflect the winning bidders' prices (including ancillary services regardless of
8 where incurred) and transmission services to the border of PJM. The TSC will
9 reflect PPL Electric's costs for transmission service within PJM. Accordingly,
10 there will be a continuing need for the TSC. However, there will be no overlap
11 between the TSC and the GSC, and there should be no lingering confusion on
12 this issue.

13
14 Q. Turning to the second issue of your rebuttal testimony, other than reconciliation,
15 what concerns have been raised by other parties regarding the GSC?

16 A. Ms. Prezelj, testifying on behalf of FirstEnergy Solutions Corp. ("FES"), testifies
17 that she does not see a problem with the GSC, but additional details must be
18 provided regarding its calculation and application.

19
20 Q. Have some of these details been previously provided by PPL Electric in its CBP
21 filing?

22 A. Yes. I discussed the calculation and application of the GSC on pages 3-5 of my
23 direct testimony (Statement No. 3). In addition, a draft tariff provision

1 implementing the GSC was set forth on Original Page No. 19Z.2, in Exhibit
2 DAK1.

3
4 Q. Can you provide additional details on these issues?

5 A. Yes. I will use the draft tariff provision as an outline. The GSC will be calculated
6 separately for each of the following three Customer Classes: (1) Residential;
7 (2) Small Commercial and Industrial (taking service at secondary voltage level);
8 and (3) Large Commercial and Industrial (taking service at primary and
9 transmission voltage levels). The GSC will reflect the total estimated costs by
10 customer class that I identified above incurred by PPL Electric to acquire
11 generation supply from any source to meet its POLR obligations. It should be
12 noted that, generally, the GSC will consist of the actual blended offers resulting
13 from the solicitations plus the Company's costs to administer the procurement.
14 Experience to date indicates that the majority of the GSC will be based on the
15 prices bid by the winning suppliers in the CBP auctions.

16
17 The GSC rate will be calculated on the basis of the Company's total kWh sales to
18 POLR customers by customer class projected for the computation year (January
19 1 through December 31, 2010). The GSC will be grossed up to reflect the
20 Pennsylvania Gross Receipts Tax rate in effect during the billing month. Finally,
21 the GSC will include an "E" factor reflecting the actual net over or undercollection
22 of revenue associated with the acquisition of generation supply for POLR
23 customers as of the end of the 12-month period ending November 30

1 immediately preceding the computation year. The E-factor will be \$0 for 2010,
2 and any reconciliation amount for 2010 would be reflected in rates for 2011.
3

4 Q. How will reconciliation of the GSC be administered?

5 A. The Company will file with the Commission, by December 1 of each year, an
6 annual reconciliation of GSC revenue recovered during the immediately
7 preceding application period. The reconciliation will become effective for service
8 rendered on and after January 1 and will remain in effect for a period of one year,
9 or until new GSC rates are approved by the Commission. Reconciliation of the
10 GSC will be conducted separately for each of the three Customer Classes. The
11 reconciliation will include a calculation of the adjustment to the GSC, in cents per
12 kWh, required to refund or recover previous application period over or
13 underrecoveries of the annual GSC. The reconciliation will be the difference
14 between GSC revenue produced by actual usage and GSC revenue estimated
15 on the basis of projected usage for that previous application period. Any
16 over/undercollection allocated to an individual rate schedule will be reflected in
17 the GSC for that rate schedule during the application period, and will be refunded
18 or recovered in that application period.
19

20 Q. Focusing more specifically on reconciliation, the third issue of your rebuttal
21 testimony, what concerns have been raised by the other parties regarding
22 reconciliation?

1 A. Concerns have been identified by Mr. Gruber, testifying on behalf of OTS,
2 Mr. Ajello, testifying on behalf of Reliant Energy, Inc., and Mr. Butler, testifying on
3 behalf of Dominion Retail, Inc. Issues raised by these witnesses can be
4 combined into three major areas. Intervening parties contend that reconciliation
5 is: (1) anti-competitive, (2) inconsistent with prevailing market price and (3) not
6 consistent with the Commission's draft regulations or prior decisions.
7

8 Q. Do you agree with these criticisms?

9 A. No. But, before I respond to each of these three issues, I would like to provide
10 some background on why the Company is proposing to reconcile the GSC.
11 Under the Customer Choice Act, PPL Electric is required to provide POLR
12 service to all of its non-shopping customers. The Company is not proposing to
13 earn any return or profit on POLR service; and consequently, it should not be
14 exposed to any risk of loss. In proposing reconciliation of the GSC, the Company
15 simply is attempting to recover fully all reasonable costs incurred to obtain POLR
16 supply, as contemplated by the Customer Choice Act. The Company agrees with
17 the Commission's observation in its October 19, 2006 Joint Motion regarding
18 Customer Assistance Programs ("CAPs"), that the "full recovery" provisions of the
19 *Competition Act require recovery of costs through a surcharge that is either*
20 *reconciled or adjusted frequently to track changes in costs.* Finally, PPL Electric
21 believes that reconciliation of the GSC is necessary to ensure compliance with
22 the Alternative Energy Portfolio Standards ("AEPS") Act. Under the proposed
23 CBP, each successful bidder must include, as part of its total supply, sufficient

1 energy from renewable resources to enable the Company to meets its 2010
2 obligations under the AEPS Act. However, the Act specifically requires that all
3 costs of compliance, including acquisition of the required level of energy or
4 credits, are to be recovered through a reconcilable automatic adjustment clause.
5 Reconciliation of the GSC will ensure compliance with this provision of the Act.
6 Otherwise, the cost of AEPS compliance energy will have to be separately
7 identified and recovered through another rate mechanism, which could be
8 extremely burdensome and time consuming for a one-year transition plan.

9
10 Q. Will reconciliation of the GSC be anti-competitive?

11 A. No. With the exception of exposures associated with a supplier default, which I
12 discuss later in my testimony, the Company does not expect reconciliation to
13 have any significant impact on POLR rates. Reconciliation, therefore, should not
14 affect customers' shopping decisions. The impact is expected to be minimal
15 because reconciliation in this instance is not a means for recovering differences
16 between expected and actual expenditures like fuel clause adjustments or other
17 expected costs that might be incurred by a utility. Rather, under PPL Electric's
18 proposed procurement, the cost per kWh will be fixed in advance by the RFP. In
19 addition, because suppliers will be responsible for providing a percentage of
20 actual POLR load, most usage risk is borne by the successful bidders. As a
21 result, most of the reason for variance between revenues and costs will be
22 related to recovery of the costs of administering the POLR solicitations and
23 variance between costs and rate recovery resulting from the rate design phase-in

1 proposed by OCA, which Mr. Krall explains in his rebuttal testimony. Moreover,
2 in any years that reconciliation produces a positive "E" factor, POLR rates will
3 increase. Under those circumstances, if reconciliation has any effect on
4 competition, it would encourage additional shopping by the Company's
5 customers. Finally, reconciliation will not create additional changes in POLR
6 rates. As proposed by PPL Electric, the GSC will change annually, on January 1,
7 and that change will reflect both an estimate of future POLR costs and a
8 reconciliation of past POLR revenue.

9
10 Q. Will reconciliation cause a mismatch between POLR rates and market prices?

11 A. It may cause a slight mismatch. As I testified earlier, I believe the amount of any
12 reconciliation is expected to be small and would have only a very minimal impact
13 upon PPL Electric's POLR rates. For that reason, any mismatch between the
14 Company's POLR rates and market prices will be negligible.

15
16 Q. Is reconciliation consistent with past Commission actions?

17 A. In some cases, it is consistent with past Commission actions; in other cases, it is
18 not. Historically, automatic adjustment clauses approved by the Commission
19 have been reconciled on an annual basis. Examples include: the Energy Cost
20 Rate, the Competitive Transition Charge, the Intangible Transition Charge and
21 the TSC. More recently, the Commission's October 19, 2006 Joint Motion
22 regarding CAPs, that I referenced earlier, explicitly adopts reconciliation of
23 automatic adjustment clauses to recover CAP costs. On the other hand, the

1 Commission's draft POLR regulations do not provide for reconciliation and its
2 order in the recent *Penn Power* POLR case does not permit reconciliation.

3 However, it must be recognized that the Commission's POLR regulations remain
4 in draft form. They will not be effective until the Commission concludes the
5 rulemaking process and issues final form regulations. The *Penn Power* decision
6 is not precedent and, in fact, the Commission specifically acknowledged that it
7 has approved different POLR plan designs for different utilities. Moreover, I have
8 been advised by counsel that the *Penn Power* decision regarding reconciliation
9 has been appealed. The Commission clearly has full discretion to adopt PPL
10 Electric's GSC reconciliation proposal, if it determines that the proposal is in the
11 public interest. I believe that the Company clearly has demonstrated that GSC
12 reconciliation in this case is in the public interest.

13
14 Q. How have other states administering POLR type service addressed the
15 reconciliation issue?

16 A. It is my understanding that other states in the Mid-Atlantic region, e.g.,
17 Connecticut, Delaware, Maryland, Massachusetts, New Jersey and the District of
18 Columbia, provide a means by which utility companies can reconcile, or true-up,
19 revenues to match actual expenditures incurred to provide POLR service. Thus,
20 there are simple pre-approved mechanisms that allow for an accurate, verifiable
21 accounting of expenditures for POLR service against the revenues collected from
22 customers taking that service. Such mechanisms are the norm as opposed to

1 the exception. In other Northeastern states, reconciliation is an integral part of
2 the POLR service rate structure.

3
4 Q. Mr. Gruber asserts that PPL Electric waived its right to reconciliation by agreeing
5 to the restructuring settlement. Do you agree?

6 A. No. I was involved in all aspects of the Company's restructuring proceeding at
7 Docket No. R-00973954, including the eventual settlement of that proceeding. I
8 am not aware of any provision in the settlement agreement or any position
9 advocated by PPL Electric that could be construed as a waiver of its right to
10 reconciliation of the GSC, as proposed in this case. I have consulted with
11 counsel on this issue and have been advised that my recollection is correct, that
12 is, PPL Electric did not waive its right to reconciliation in the restructuring
13 settlement.

14
15 Q. Can you describe the potential impact on PPL Electric's POLR rates if the
16 Commission denies the Company's request to reconcile the GSC?

17 A. Yes. Denial of GSC reconciliation would increase the cost of POLR supply to
18 PPL Electric's customers, for at least two reasons. First, without reconciliation of
19 the GSC, the Company's proposed CBP process would need to be revised to
20 shift all risk of loss or underrecovery to its POLR suppliers. That is, PPL Electric
21 would indicate to potential suppliers that they would be paid what the Company
22 bills to customers for POLR service, thereby placing the risk of mismatches on
23 the supplier, excluding any amounts associated with uncollectible accounts.

1 Presumably, the suppliers would reflect their exposure to those various risks in
2 higher prices which PPL Electric ultimately would recover through the GSC.
3 Second, the Company will request that the Commission allow it to earn a return
4 on its POLR obligation as compensation for any risks that it cannot shift to
5 suppliers. Absent a commitment from regulators that all costs of providing POLR
6 service will be recoverable, EDCs face risks that in some respects cannot be
7 hedged. If the Commission prohibits clearly defined reconciliation, then PPL
8 Electric must be allowed to charge a risk mitigation adder in its POLR rates. In
9 the past, this Commission and public service commissions in neighboring states
10 have allowed jurisdictional utilities to include retail adders in their POLR rates, in
11 part to compensate the utilities for such risks. Although PPL Electric has not
12 determined the exact risk premium that it would request in a future filing with the
13 Commission, the cost of any premium approved by the Commission also would
14 be reflected in its GSC.

15
16 Q. Would there be other consequences if the Commission denies PPL Electric's
17 request to reconcile the GSC?

18 A. Yes. Without reconciliation of the GSC, the Company could not agree to a rate
19 design phase-in as proposed by the OCA in this case. Any rate design phase-in
20 would increase the risk that PPL Electric could not fully recover its costs of
21 obtaining POLR supply for that group of customers. This occurs because any
22 phase-in approach necessarily means that some usage will be billed at rates
23 below the average POLR cost for the residential class. Without reconciliation,

1 any increases in that "below cost" usage will result in underrecoveries of PPL
2 Electric's POLR costs. To avoid this risk, the rate would have to be set at exactly
3 what suppliers are willing to accept to provide the service. For these reasons, at
4 an absolute minimum, the Commission should grant reconciliation of the GSC to
5 address the risks associated with any rate design phase-in.
6

7 Q. How could PPL Electric address the risk of supplier default without reconciliation
8 of the GSC?

9 A. Without reconciliation of the GSC, supplier default would become a significant
10 concern for the Company. It is impossible to estimate PPL Electric's financial
11 exposure if one of its POLR suppliers defaulted because there simply are too
12 many variables, e.g., when the default occurs, the sources of replacement power
13 available at the time of default and the cost of that replacement power. However,
14 the Company could be forced to acquire replacement power from the spot market
15 at high hourly prices, and under those circumstances its exposure could be
16 massive. If the Commission denies PPL Electric's request for reconciliation of
17 the GSC, it should at least permit the Company to add a supplier default
18 provision to the GSC which would permit recovery of all costs of replacement
19 power on a real-time basis. In fact, Mr. Butler, testifying on behalf of Dominion
20 Retail, Inc., suggested just such an approach with immediate dollar-for-dollar
21 recovery of additional costs that may be involved in a supplier default.
22

1 Q. Turning to the final subject of your rebuttal testimony, the GRA, what concerns
2 regarding the GRA have been raised by other parties in this proceeding?

3 A. Mr. Ajello criticizes the Company's GRA proposal as being inconsistent with the
4 Commission's draft POLR regulations. Ms. Prezelj states that the GRA is an
5 unnecessary barrier to shopping.

6
7 Q. Before responding to these witnesses, can you provide some background
8 regarding the Company's GRA proposal in this proceeding?

9 A. Yes. Since June 2001, PPL Electric's Commission-approved tariff has included a
10 GRA. In its August 2, 2006 Petition, the Company proposed to amend the GRA
11 by adding a paragraph that would apply only to customers in the Large
12 Commercial and Industrial Customer Class that elect to "opt in" to POLR service
13 in 2010 and choose to shop during that year. Under the proposed modification,
14 the customer would pay a net GRA for the period beginning with the billing month
15 in which the customer begins to purchase its generation supply from an
16 alternative energy supplier and ending on December 31, 2010. Calculation of the
17 net GRA amount would be based upon the difference between the Company's
18 POLR rates and the then-current Locational Marginal Price ("LMP"). In 2010, all
19 revenue received by PPL Electric from the application of this provision of the
20 GRA would be remitted to the applicable POLR suppliers.

21

22 Q. Why did PPL Electric propose this modification to the GRA?

1 A. The Company proposed this modification to the GRA in an effort to moderate, to
2 the extent possible, the prices it would pay for POLR supply and, ultimately, the
3 rates it would charge for POLR service to customers in the Large Commercial
4 and Industrial Customer Class. PPL Electric believed that suppliers would be
5 hesitant to offer prices for fixed rate POLR service to large commercial and
6 industrial customers, if those customers were free to switch from POLR service to
7 alternative suppliers without limits. Under the Company's proposal, customers
8 who elected fixed price POLR service would be less likely to switch to alternative
9 suppliers during 2010. Moreover, if a customer did switch during 2010, any
10 affected supplier would be made whole because it would receive GRA revenues
11 calculated as the difference between the POLR rate and LMP. With these
12 protections, PPL Electric believed that suppliers would be willing to offer a price
13 for fixed rate POLR service to customers in the Large Commercial and Industrial
14 Customer Class lower than they would otherwise be willing to offer.

15
16 Q. Has PPL Electric changed its position on this issue?

17 A. Yes. Based on discussions with other parties, the Company has determined that
18 the proposed modification to the GRA will likely not help to moderate POLR
19 supply prices to the extent that the Company originally anticipated. In addition,
20 as indicated by direct testimony filed in this proceeding, the proposed
21 modification to the GRA created concerns for certain retail marketers.
22 Accordingly, PPL Electric withdraws its request to modify the GRA, as I described
23 earlier in my rebuttal testimony.

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Q. Is the Company proposing to modify the GRA in any other way?

A. No. The original GRA was approved by the Commission in its Opinion and Order, entered on October 15, 2001 at Docket Nos. C-00003811 and R-00006034, following a fully litigated proceeding. The original GRA was designed specifically to meet the guidelines set forth by the Commission in its Order, issued on June 22, 2000 at Docket No. M-00960890F0017, wherein the Commission recognized that "seasonal gaming" was a serious problem, and authorized EDCs to file one-year service terms for POLR service as a protection against this identified problem. As such, the original GRA enables PPL Electric to avoid adverse economic impacts from "seasonal gaming" by compensating the Company for the difference between market prices and fixed annual POLR service rates. PPL Electric's GRA provides customers with an opportunity to switch from POLR service to competitive supply at any meter read date during the year; whereas the June 22, 2000 Order suggests a timeframe limited to 90 days from the customer's return to POLR service. The original GRA is applied only to those customers who choose to leave POLR service before the end of a one-year term, and then only if there is a positive balance in their GRA account. Moreover, PPL Electric's GRA is based on market prices in order to foster the development of a competitive market by sending accurate price signals to customers, and prohibiting customers from using the POLR as the supplier of "first" resort for seasonal variations, a purpose for which POLR was never intended. Accordingly, the original GRA should remain in PPL Electric's

1 Commission-approved tariff and be applied by its terms to all non-residential
2 customers, as needed.

3
4 Q. Finally, do you have any response to the testimony filed by intervening parties
5 regarding the Company's proposed amendment to the GRA?

6 A. Because PPL Electric is withdrawing its proposed modification to the GRA, that
7 testimony has become moot. Nevertheless, several short responses are
8 appropriate. As to Mr. Ajello's contention that the GRA is inconsistent with the
9 Commission's draft POLR regulations, I simply would point out that those
10 regulations have not yet been issued in final form by the Commission and are not
11 currently effective. As to Ms. Prezelj's contention that the GRA would constitute
12 a barrier to shopping, I would point out that customers in the Large Commercial
13 and Industrial Customer Class could choose not to "opt in" to fixed POLR rates in
14 2010 and, therefore, could shop and return to hourly POLR rates at any time
15 during 2010. However, to reiterate, PPL Electric is withdrawing its proposed
16 modification to the GRA which should eliminate these concerns.

17
18 Q. Are these witnesses also challenging retention of the GRA as it is currently
19 reflected in PPL Electric's tariff?

20 A. Yes. But I disagree with those challenges. I believe the GRA, as it currently
21 exists in the Company's tariff, serves an important function by acting as a
22 deterrent to short-term switches between POLR service and competitive
23 suppliers. Short-term "gaming" of the market can create uncertainty for all market

1 participants and increase costs for the utility and its non-shopping customers.
2 The Commission obviously sees a benefit to the GRA because it has approved
3 similar mechanisms for other EDCs in Pennsylvania. PPL Electric is willing to
4 withdraw its proposed amendment to the GRA, as I described earlier, but
5 believes that the existing GRA should not be disturbed. Moreover, any revenues
6 received in 2010 through application of the original GRA would be remitted to
7 wholesale suppliers of POLR generation supply, as set forth on page 8 of my
8 direct testimony, Statement No. 3

9

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes.

**Proceedings in Which Mr. Kleha
Provided Expert Testimony**

As an analyst in the PUC's former Bureau of Rates and Research, Mr. Kleha offered testimony in the following electric utility rate proceedings:

<u>Company</u>	<u>Docket No.</u>
Duquesne Light Company	R-79010740
UGI Corp. - Luzerne Division	R-79050863
Philadelphia Electric Company	R-79060865
West Penn Power Company	R-80021082
Pennsylvania Power & Light Co.	R-80031114
Metropolitan Edison Company	R-80051196
Pennsylvania Electric Company	R-80051197

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As an employee of PPL Electric and PPL Services, Mr. Kleha has offered expert testimony in numerous electric and gas utility proceedings before the PUC and the Federal Energy Regulatory Commission ("FERC").

<u>PUC</u>	<u>FERC</u>
Docket No. I-900005	Docket No. ER88-545-000
Docket No. P-910521	Docket No. ER91-322-000
Docket No. M-00930406	Docket No. ER95-1267-000
Docket No. C-00935175	Docket No. ER96-930-000
Docket No. C-00935403	Docket No. ER96-931-000
Docket No. R-00943271	Docket No. ER96-932-000
Docket No. C-00957559	Docket No. ER96-933-000
Docket No. P-00961023	Docket No. ER96-1428-000
Docket No. C-00967591	Docket No. SC97-1-000
Docket No. C-00967955	Docket No. OA96-142-000
Docket No. C-00968035	Docket No. ER97-4829-000
Docket No. P-00961114	Docket No. ER97-3189-007
Docket No. R-00973954	Docket No. EL98-25-000
Docket No. P-00001789	Docket No. ER02-597-000
Docket No. M-FACE9908	Docket No. ER03-421-002
Docket No. R-00005277	Docket No. ER04-056-000
Docket No. C-00003811	
Docket No. M-FACE0008	
Docket No. M-FACE0111	
Docket No. R-00016850	
Docket No. M-FACE0212	
Docket No. M-FACE0311	
Docket No. R-00049255	
Docket No. M-FACE0411	
Docket No. M-FACE0510	
Docket No. M-FACE0511	
Docket No. R-00061398	

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 4

Direct Testimony of Timothy R. Dahl

1 **Direct Testimony of Timothy R. Dahl**

2 Q. Please state your full name and business address.

3 A. My name is Timothy R. Dahl and my business address is: PPL Electric
4 Utilities Corporation, 827 Hausman Road, Allentown, PA 18104.

5

6 Q. What is your position at PPL Electric Utilities Corporation ("PPL Electric"
7 or "Company")?

8 A. I am the Manager - Regulatory Programs & Business Services in PPL
9 Electric's Customer Services Department. I report directly to the Vice
10 President – Customer Services.

11

12 Q. How long have you worked at PPL Electric?

13 A. I have worked in a variety of capacities at PPL Electric for 28 years.

14

15 Q. What are your current responsibilities?

16 A. I am responsible for managing the Company's universal service,
17 compliance, quality assurance and Customer Choice programs. I manage
18 the budget, staffing, operations and processes, management controls,
19 performance and Pennsylvania Public Utility Commission ("PUC" or the
20 "Commission") reporting requirements for the following universal service
21 programs: OnTrack, WRAP, Operation HELP, and CARES. I manage all
22 facets of compliance and quality assurance to ensure adherence to PUC
23 regulations, timely responses to customer complaints filed with the

1 Commission, and improvements in policies and processes to strengthen
2 performance. I serve as the primary liaison between the Company and
3 the PUC's Bureaus of Consumer Services and Conservation, Economics
4 and Energy Planning, the Pennsylvania Department of Public Welfare
5 ("DPW"), and the Pennsylvania Office of Consumer Advocate regarding all
6 aspects of low-income programs, Chapter 56 regulations, and policy
7 issues related to residential customers. I direct all aspects of PPL
8 Electric's consumer education efforts for Customer Choice and serve as
9 the primary liaison between the Company and the PUC in that area. I
10 serve as the Company's primary advocate regarding federal funding for
11 the Low Income Home Energy Assistance Program ("LIHEAP"). I act as
12 PPL Electric's liaison with the DPW regarding the development and
13 implementation of the State Plan for LIHEAP. I oversee and direct PPL
14 Electric's customer outreach efforts during major storm emergencies. I
15 respond to media requests (electronic and print) regarding PPL Electric's
16 universal service programs ("USPs"), compliance with Chapter 56
17 regulations and LIHEAP. I direct all goal-setting for the Regulatory
18 Programs & Business Services staff that administers the universal service
19 programs, compliance and quality assurance initiatives, and Customer
20 Choice program. I provide communications with internal staff regarding
21 Company, department and section goals, performance results,
22 expectations and policies.

23

1 Q. What is your work experience, professional associations, and educational
2 background?

3 A. During my 28-year career, I have held various staff and supervisory
4 positions in Marketing & Economic Development, Public Affairs and
5 Customer Services. In my current position as Manager – Regulatory
6 Programs & Business Services, I oversee and direct a work group of 19
7 people, including staff professionals and administrative support. I have
8 participated in a variety of professional, industry, and consumer
9 organizations, such as: the Society of Consumer Affairs Professionals,
10 Edison Electric Institute (“EEI”), Energy Association of Pennsylvania
11 (“EAP”), National Low Income Energy Consortium, and the National Fuel
12 Fund Network. Over the years, I have chaired committees at both EEI
13 and EAP. During the restructuring of the electric industry in Pennsylvania,
14 I represented PPL Electric on various Commission-sponsored working
15 groups (e.g., low income) that developed policies and procedures. I have
16 spoken numerous times at a variety of energy, consumer and regulatory
17 conferences and workshops. I hold BA and MA degrees in Political
18 Science.

19
20 Q. What is the subject matter of your testimony in this proceeding?

21 A. My testimony describes and supports proposals submitted by PPL Electric
22 in its August 2 Petition for approval of a Competitive Bridge Plan (“CBP”)
23 regarding enhancement of its low-income assistance programs.

1 To reflect potential increases in POLR and distribution and
2 transmission rates between now and 2010, PPL Electric proposes an
3 increase in funding for programs that provide assistance to low-income
4 customers. Exhibit TRD 1, which originally was provided as Attachment 3
5 to PPL Electric's August 2 petition, contains a detailed description of
6 these programs, current funding levels and the Company's proposal to
7 increase that funding.

8 Because PPL Electric submitted that attachment as part of the
9 CBP, it focuses primarily on the expected increase in POLR rates in 2010.
10 However, distribution and transmission rates also may increase over the
11 same period, and my proposal for additional funding of PPL Electric's
12 USPs addresses the implications of those increases as well.

13
14 Q. Please describe the Company's currently effective universal service
15 programs.

16 A. PPL Electric offers the following universal service programs: OnTrack,
17 WRAP, Operation HELP and CARES. I will briefly describe each
18 program.

- 19 • OnTrack, which began in 1993, provides reduced payment agreements
20 based on low-income customers' ability to pay and includes pre-
21 program arrearage forgiveness and referrals to other energy
22 assistance programs (e.g., WRAP).

- 1 • WRAP, which began in 1985, offers free weatherization measures and
2 energy conservation education to qualified households. The program
3 is available to both homeowners and renters. Professional contractors
4 and Community Based Organizations ("CBOs") install the
5 weatherization measures.
- 6 • Operation HELP, which began in 1983, provides funds to pay any type
7 of home energy bill for qualified low-income customers. Administered
8 by 14 CBOs, the program provides a yearly grant up to a maximum of
9 \$500.
- 10 • CARES, which began in 1982, offers payment agreements, protection
11 against shut-offs and referrals to other programs for any customer who
12 has a temporary hardship.

13 The Company also promotes the availability of LIHEAP, which is
14 federally funded and state administered. LIHEAP is an important program
15 that PPL Electric and the CBOs use in combination with other programs
16 like OnTrack and Operation HELP. PPL Electric publicizes the availability
17 of this program through bill inserts, targeted mailings, outreach telephone
18 calls and joint efforts with local CBOs. The Company also provides
19 LIHEAP refresher training to its call center Customer Service
20 Representatives.

21

22 Q. What are the current funding levels for these programs?

1 A. The estimated annual funding levels in 2006 for the Company's three
2 major programs are:

<u>Program</u>	<u>Funding Level</u>
OnTrack	\$19,000,000
WRAP	7,300,000
Operation HELP	1,125,000
Total	\$27,425,000

3

4 Funding for OnTrack and WRAP comes through rates paid by all
5 residential customers. In its Restructuring Settlement at Docket No.
6 R-00973954, PPL Electric agreed to fund OnTrack and WRAP at a
7 maximum annual level of \$11.7 million and \$5.7 million, respectively. In
8 its 2004 base rate case proceeding at Docket No. R-0049255, the
9 Company proposed to increase annual funding for OnTrack and WRAP to
10 \$14.7 million and \$6.7 million, respectively. The proposed funding levels
11 represented increases of 26 percent for OnTrack and 18 percent for
12 WRAP. In its order in that proceeding, the Commission allowed a funding
13 level of \$13.2 million for OnTrack and \$6.25 million for WRAP.

14

15 Q. What is PPL Electric's proposal regarding future funding for these
16 programs?

17 A. PPL Electric believes that it is important to prepare for potential future
18 increases in rates, including but not limited to POLR rates. A prudent
19 ramping up of funding in advance of those increases reflects good
20 planning. An incremental approach also allows time to modify, test and

1 re-adjust procedures and to train internal and external personnel involved
2 in the administration of programs like OnTrack, WRAP and Operation
3 HELP. Regarding funding levels for these major low-income programs
4 over the next several years, PPL Electric recommends the following:

<u>Program</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
OnTrack	\$19,000,000	\$19,000,000	\$20,000,000	\$24,500,000
WRAP	6,300,000	6,300,000	6,700,000	7,000,000
Operation HELP	1,125,000	1,225,000	1,325,000	1,425,000
Total	\$26,425,000	\$26,425,000	\$28,025,000	\$32,925,000

5
6 Under the Company's proposal, funding for the three major
7 universal service programs would increase from \$26.4 million in 2007 to
8 \$32.9 million in 2010 – an increase of 25 percent. Similarly, the estimated
9 number of customers assisted by these programs would likely expand by
10 several thousand by 2010. This proposed increase in funding for PPL
11 Electric's USPs attempts to balance the need to serve more low-income
12 customers in anticipation of increased rates, while also being sensitive to
13 the cost pressures on all residential customers who would fund the
14 programs.

15
16 Q. What is the Company's request regarding recovery through rates of this
17 increased funding?

18 A. PPL Electric requests that, if the Commission approves any increased
19 funding for the Company's USPs, it also specifically authorize recovery of
20 those additional expenses through customer rates. If the Commission

1 issues such an order, the Company would include those expenses in a
2 future distribution rate increase request.

3

4 Q. In your opinion, are the Company's proposals to increase funding for
5 universal service programs in the public interest?

6 A. Yes. The Company's proposal attempts to address, in part, the adverse
7 impact that any increase in rates could have on low-income customers. At
8 the same time, the proposal attempts to limit the impact on other
9 residential customers of increased funding for the Company's USPs. For
10 those reasons, funding for programs to assist low-income customers, as
11 proposed in this filing, is appropriate.

12

13 Q. Does this conclude your direct testimony?

14 A. Yes.

15

PPL Electric Utilities
Removal of the Generation Rate Cap and
Universal Service Programs

I. Introduction

PPL Electric Utilities (“PPL Electric” or the “Company”) has a well-established history of effectively identifying and addressing customer needs. PPL Electric has a strong record of accomplishment of serving customers, as evidenced by numerous awards from J. D. Power & Associates and the University of Michigan’s American Customer Satisfaction Index (“ACSI”). For example, PPL Electric has won the ACSI award for combined electric and gas utilities for six consecutive years. With regard to providing assistance to its low-income residential customers, PPL Electric has offered special programs and services to needy customers for nearly 25 years, has expended nearly \$98 million on these programs between 2001 and 2005,¹ and has established an extensive network of community-based organizations (“CBOs”).

Recent third-party surveys of customers who participate in the Company’s Customer Assistance Program (“CAP” or “OnTrack”) and Low Income Usage Reduction Program (“LIURP” or “WRAP”) reveal positive reactions regarding the effectiveness of these programs. Over the years, PPL Electric has used feedback from the Commission, customers and the CBOs to improve the delivery of its universal service programs by revising procedures, strengthening communications and automating processes.

All of these factors (i.e., extensive implementation experience, effective network of CBOs and commitment to improvement) have positioned PPL Electric well

¹The programs include OnTrack (\$64 million), WRAP (\$29.3 million) and the Operation HELP hardship fund (\$4.4 million).

for the challenges confronting low-income households when the Company's provider-of-last-resort ("POLR") rate cap expires on December 31, 2009. PPL Electric's objective is to identify issues and concerns, begin planning efforts well in advance of the removal of the generation rate cap, and ensure adequate funding for programs to address the needs of low-income customers.

II. Strategy for Mitigating Increased Prices

The POLR rate cap does not expire until December 31, 2009; however, PPL Electric believes it is prudent to begin planning and developing a mitigation strategy for residential customers. Although the strategy and associated initiatives would affect all residential customers, the Company is particularly concerned about low-income households. As noted in PPL Electric's comments (page 8) to the Commission's Order regarding Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms, Docket No. M-00051923, approximately 80 percent of the Company's low-income customers are not chronically payment-troubled and generally pay their bills in full. A significant increase in generation charges could make it more difficult for some of these customers to pay their electric bills, which could have a spillover effect on overdue receivables, write-offs, PUC complaints and universal service programs ("USPs").

A potential increase in POLR supply requires PPL Electric to reassess the funding levels for OnTrack, WRAP and Operation HELP. The Company is proposing an increase in funding for its USPs but, at the same time, cautions that any increase should be balanced against consumer, utility, legislative and regulatory interests. Funding for USPs comes from increased electric rates and/or some type of reconcilable surcharge.

Either way, residential customers, including the low income, pay for utility-sponsored assistance programs. PPL Electric would like to avoid the scenario where customers receive the proverbial “double whammy.” Not only do POLR supply charges increase significantly, but distribution rates also increase significantly to fund programs like OnTrack. PPL Electric believes it is best to serve a core group of low-income customers who have the greatest need for assistance. This approach not only addresses the most vulnerable households, but also defines a reasonable spending boundary. The challenge is to fund programs at the appropriate level while minimizing cost impacts on residential customers.

III. Universal Service Programs

PPL Electric offers the following universal service programs: OnTrack, WRAP, Operation HELP and CARES. A brief description of each program follows.

- **OnTrack (1993)** – provides reduced payment agreements based on low-income customers’ ability to pay and includes pre-program arrearage forgiveness and referrals to other energy assistance programs (e.g., WRAP).
- **WRAP (1985)** – offers free weatherization measures and energy conservation education to qualified households. The program is available to homeowners and renters. Professional contractors/CBOs install the weatherization measures.
- **Operation HELP (1983)** – provides funds to pay any type of home energy bill for qualified low-income customers. Administered by 14 CBOs, the program provides a yearly grant up to a maximum of \$500.

- **CARES (1982)** – offers payment agreements, protection against shut-offs and referrals to other programs for any customer who has a temporary hardship.

The Company also promotes the availability of the federally funded and state administered Low Income Home Energy Assistance Program (“LIHEAP”).

LIHEAP is an important program that PPL Electric and the CBOs use in concert with programs like OnTrack and Operation HELP. Promotional efforts include bill inserts, targeted mailings, outreach telephone calls and joint efforts with local CBOs. The Company also provides LIHEAP refresher training to its call center Customer Service Representatives.

The estimated annual funding levels in 2006 for the Company’s three major programs appear in the following table:

Program	Funding Level
OnTrack	\$19,000,000
WRAP	7,300,000
Operation HELP	1,125,000
Total	\$27,425,000

Funding for OnTrack and WRAP comes from rates paid by all residential customers. In the Joint Petition for Full Settlement of PP&L, Inc.’s Restructuring Plan and Related Court Proceedings, Docket No. R-00973954, dated August 12, 1998, PPL Electric agreed to fund annually OnTrack and WRAP at a maximum of \$11.7 million and \$5.7 million, respectively. In its 2004 base rate case proceeding, Docket No. R-0049255, the Company proposed to increase funding for OnTrack and WRAP to \$14.7 million and \$6.7 million, respectively. The proposed funding levels represented increases of 26

percent for OnTrack and 18 percent for WRAP. The Commission ultimately approved a funding level of \$13.2 million for OnTrack and \$6.25 million for WRAP.

PPL Electric believes that participation in universal service programs provides benefits to both customers and the Company. Customer benefits include protection from shut-offs, affordable electric bills, reduced usage and improved living comfort. Customers also benefit from referrals to and participation in other social service programs. PPL Electric benefits include improved customer satisfaction, avoided collection costs, reduction in complaints to the PUC and better management of residential overdue receivables.

The following table shows the level of customer participation in OnTrack, WRAP and Operation HELP over the past four years.

Program	2002	2003	2004	2005
OnTrack	10,919	12,420	15,801	14,033
WRAP	2,890	2,801	2,356	2,626
Operation HELP	2,660	2,706	2,597	3,103
Total	16,649	17,927	20,754	19,762

Regarding the level of customer participation in these programs in 2006, PPL Electric projects approximately 25,000 customers – 19,000 for OnTrack, 3,000 for WRAP and 3,000 for Operation HELP. As of June 30, 2006, there were approximately 17,500 active OnTrack accounts.

Concerned about the impact of rising energy prices for oil and natural gas on low-income households in 2005, the Governor initiated the Stay Warm PA campaign. The Governor called upon various energy vendors to join in the campaign. While these price increases did not directly affect PPL Electric's customers, the Company realized

that price pressures for heating bills from other energy sources could place a strain on low-income consumers. As a result, the Company implemented the following actions in support of Stay Warm PA for the winter of 2005-2006:

- Suspended winter shut-offs for residential customers earning less than 300 percent of the federal poverty level.
- Increased by 40 percent the corporate contribution to Operation HELP from \$500,000 to \$700,000.
- Continued to refer income-eligible customers to OnTrack and WRAP.
- Promoted the budget billing and third-party notification programs.
- Offered more lenient payment agreement plans and reconnection arrangements for residential customers.

IV. Funding for USPs: 2007- 2010

PPL Electric believes it is important to prepare for the inevitable increase in POLR rates. A prudent ramping up of funding in advance of December 31, 2009, reflects good planning. An incremental approach also allows time to modify, test and readjust procedures and to train internal and external personnel involved in the administration of programs like OnTrack, WRAP and Operation HELP. Regarding funding levels for these major low-income programs over the next several years, PPL Electric recommends the following:

Program	2007	2008	2009	2010
OnTrack	\$19,000,000	\$19,000,000	\$20,000,000	\$24,500,000
WRAP	6,300,000	6,300,000	6,700,000	7,000,000
Operation HELP	1,125,000	1,225,000	1,325,000	1,425,000
Total	\$26,425,000	\$26,425,000	\$28,025,000	\$32,925,000

This proposed level of funding for the three major universal service programs would jump from \$26.4 million in 2007 to \$32.9 million in 2010 – an increase of 25 percent. Similarly, the estimated number of customers assisted by these programs would likely expand by several thousand by 2010. This proposed increase in funding for PPL Electric's USPs attempts to balance the need to serve more low-income customers in anticipation of increased POLR rates, while also being sensitive to the cost pressures on all residential customers who would fund the programs.

OnTrack:

Regarding funding for OnTrack over the next four years (2007 through 2010), the Company proposes to increase the annual funding level by \$5.5 million, or 28.9 percent. As noted above, PPL Electric expects to spend approximately \$19 million for OnTrack in 2006. The Company proposes to maintain the annual funding level at \$19 million for 2007 and 2008, and to ramp up the funding to \$20 million in 2009 and \$24.5 million in 2010. The Company suggests this incremental approach to funding because, at this time, the level of impact on POLR rates after the expiration of the generation rate cap on December 31, 2009 is unclear. Although PPL Electric does not expect an increase similar to those experienced by customers in other states, such as Maryland and Delaware, POLR rates will increase in 2010, perhaps by 20-30 percent, to reflect more accurately market-driven prices.

The proposed \$5.5 million increase in funding for OnTrack would allow the OnTrack CBOs to enroll more customers and permit PPL Electric to recover fully all costs associated with OnTrack. The Commission's *2004 Report on Universal Service*

Programs & Collections shows that PPL Electric's average cost for an OnTrack customer is \$977. This is a prudent approach that allows the Company to enroll more customers in OnTrack and to manage costs, while gaining more understanding and experience on the cost impact of POLR rates in 2010 and beyond. The year 2010 will be a learning experience in which the Commission, PPL Electric and customers will obtain valuable knowledge and insight about POLR rates. Based on its experience, in 2010, the Company will be in a better position to evaluate the cost impact on low-income customers and to determine if it should adjust funding levels in the future for programs like OnTrack.

WRAP:

From 2007 through 2010, the Company proposes a modest increase in the annual level of funding for WRAP – from \$6.3 million to \$7 million, or 11 percent. The estimated number of customers assisted annually will remain at 3,000 over this four-year period. The number of customers assisted will remain static because of cost increases for weatherization materials and price increases from CBOs that administer WRAP. As shown above, the funding level for WRAP in 2006 is \$7.3 million; this funding level for 2006 is higher than normal due to a one-time transfer, approved by the Commission, of \$1 million from PPL Electric's consumer education funds.

PPL Electric suggests this level of ongoing funding for WRAP for the following reasons:

1. Begun in 1985, WRAP is a mature program that has provided weatherization services for over 20 years to nearly 53,000 low-income households. In some areas, there are limited opportunities to provide more WRAP services.

2. Approximately 50 percent of all WRAP applicants do not have electric heat or significant electric usage during the winter months. As a result, under Commission regulations for LIURP, PPL Electric can provide only a modest amount of weatherization measures.
3. Although WRAP is open to both homeowners and renters, the Company must receive permission from the property owner to install the weatherization measures. Approximately 25 percent of property owners do not respond to requests for permission to assist customers through WRAP.
4. Most of the CBOs involved with WRAP also administer the Department of Community and Economic Development's Weatherization Assistance Program ("WAP"). Over the years, PPL Electric has experienced situations where the CBOs struggle to complete both WRAP and WAP jobs in a timely manner. In addition, there are a limited number of private contractors willing to accept low-cost LIURP jobs.
5. Other than improvements in diagnostic techniques to identify areas to save energy, the Company has not seen any major breakthroughs in weatherization techniques that would allow it to serve more customers. PPL Electric has implemented various pilots over the years (e.g., improved cooling measures, horizontal axis washing machines and hydronic baseboard heating), but none of these new measures has gained widespread acceptance.
6. PPL Electric does not envision an expansion of its solar water heating ("SWH") option for WRAP customers. Most low-income customers do not meet the

minimum requirements for a SWH application (e.g., adequate kWh usage, proper roof orientation, no shade trees and structural integrity).

The Company will continue to work with the Commission's Bureau of Consumer Services and CBOs to improve the delivery of WRAP weatherization services and energy conservation education. Encouraging residential customers to use energy wisely and safely is an important objective for PPL Electric.

Operation HELP:

PPL Electric's hardship fund (known as Operation HELP) has been functioning for 23 consecutive years. From January 1, 1983 through June 30, 2006, Operation HELP has assisted approximately 58,000 low-income customers.

Administered by 14 CBOs, the program helps pay any type of home energy bill (e.g., electric, natural gas, oil or coal). *PPL Electric conducts annual fund-raising activities in December to encourage donations to Operation HELP from its customers and employees. In addition, in 2006, PPL Corporation raised its contribution to the program from \$500,000 to \$700,000 – an increase of 40 percent.*

From 2007 through 2010, PPL Electric will continue to solicit contributions from customers and employees to support Operation HELP. Regarding the level of contributions to the program over the years, approximately 52 percent come from the Company as a corporate contribution and 48 percent come from customers and employees who give via their electric bill or payroll deduction. In addition to soliciting contributions, PPL Corporation proposes to raise its contribution to Operation HELP by

\$100,000 annually from 2008 through 2010. The following table shows the proposed increase in funding from PPL Corporation.

2006	2007	2008	2009	2010
\$700,000	\$700,000	\$800,000	\$900,000	\$1,000,000

In other words, by 2010, PPL Corporation would be contributing \$1,000,000 annually to Operation HELP or 43 percent more than its contribution in 2006.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 4-R

Rebuttal Testimony of Timothy R. Dahl

1 Operation HELP program. OnTrack is a special payment program for payment-
2 troubled customers at or below 150 percent of the federal poverty level, and
3 Operation HELP is a hardship fund that pays home energy bills for qualified
4 residential customers. PPL Electric works closely with community-based
5 organizations ("CBOs") to implement both programs. Mr. D'Agostino expressed
6 concern about the relationship between funding for universal service programs
7 and energy education for the entire residential rate class.
8

9 Q. Have you reviewed Mr. Keim's testimony regarding recovery of the costs of
10 OnTrack and WRAP?

11 A. Yes. Mr. Keim, on behalf of the Office of Trial Staff, expresses concern that PPL
12 Electric is proposing to use deferred accounting to recover increased costs for
13 OnTrack and WRAP. In his opinion, a base rate proceeding is the proper forum
14 for determining the reasonableness of cost recovery for universal service
15 programs.
16

17 Q. What is your response to these observations?

18 A. Mr. Keim has misunderstood PPL Electric's position on this matter. PPL Electric
19 agrees with Mr. Keim that this proceeding is not the proper forum for
20 investigating and determining the appropriate funding levels for universal service
21 programs. Contrary to Mr. Keim's assertion, PPL Electric is not proposing to
22 defer the recommended increases in annual funding for OnTrack and WRAP.
23 Rather, PPL Electric will propose, in a future filing, to recover the costs of these

1 programs through a reconcilable surcharge, and that recovery mechanism would
2 operate on a prospective basis, without recovery of any "deferred" costs.
3

4 Q. Is this approach consistent with the Commission's recent pronouncements
5 regarding universal service program funding?

6 A. Yes. On December 15, 2005, at Docket No. M-00051923, the Commission
7 approved an order which initiated a review of CAP funding levels and cost
8 recovery. On October 19, 2006, the Commission adopted a Joint Motion by
9 Commissioners Fitzpatrick and Pizzingrilli that allows jurisdictional utilities to
10 establish a reconcilable surcharge to recover their CAP (i.e., OnTrack) costs.

11 The Motion states that:

12 "Accordingly, the Commission must allow recovery
13 through a surcharge that is either reconciled or adjusted
14 frequently to track changes in the level of CAP costs
15 consistent with the direction given in the Competition
16 Acts."
17

18 PPL Electric agrees with the conclusion in the October 19 Motion that the
19 inclusion of universal service costs in base rates does not provide for full
20 recovery of those costs. The Electricity Generation Customer Choice and
21 Competition Act ("Act"), 66 Pa. C.S. §2804(9), states explicitly that utilities have
22 the right to recover fully their costs incurred in providing universal service
23 programs. PPL Electric believes that using a reconcilable surcharge complies
24 with this provision of the Act, while also eliminating Mr. Keim's concerns about
25 requiring customers to pay in advance for universal service program costs that
26 have not yet been incurred.

1

2 Q. What are Mr. Keim's observations regarding Operation HELP?

3 A. Mr. Keim acknowledges that Operation HELP receives funding from PPL
4 Corporation, its employees and customers. Nevertheless, he recommends that
5 the Commission should not provide rate recognition for Operation HELP,
6 because donations to the program are voluntary.

7

8 Q. What is your response to these observations?

9 A. PPL Electric agrees with Mr. Keim's recommendation that the Commission
10 should not provide rate recognition for Operation HELP, because the program
11 receives voluntary funding from a variety of sources. Indeed, since the inception
12 of Operation HELP in 1983, the Company has never requested rate recognition
13 for the program and costs of the program have never been reflected in customer
14 rates. Consistent with this past practice, PPL Electric's Competitive Bridge Plan
15 ("CBP") does not propose rate recovery for this program. Operation HELP
16 currently receives \$700,000 in an annual contribution from PPL Corporation, the
17 parent holding company of PPL Electric. PPL Corporation does propose to
18 increase the corporate contribution by \$100,000 annually from 2008 through
19 2010, but those contributions involve no ratepayer-provided funds whatsoever.

20

21 Q. What are Mr. D'Agostino's criticisms of PPL Electric's proposed consumer
22 education program and universal service program?

1 A. Mr. D'Agostino, on behalf of the Sustainable Energy Fund of Central Eastern
2 Pennsylvania, states that the consumer education component of PPL Electric's
3 CBP is insufficient to meet customers' needs. He states that, in order to be a
4 truly comprehensive education program, funding must be available to educate all
5 1.4 million of the Company's residential customers. Mr. D'Agostino contends that
6 it is illogical for PPL Electric to fund its universal service programs, which assist
7 several thousand low-income customers, with \$27 million, yet only provide
8 \$875,000 in consumer education funding for all of its residential customers.

9
10 Q. What is your response to these criticisms?

11 A. Mr. D'Agostino's attempt to link funding for low-income programs, like OnTrack
12 and WRAP, with a broad-based consumer education program for all residential
13 customers, regardless of income level, is inappropriate. From the Company's
14 perspective, this is a classic "apples-to-oranges" comparison. PPL Electric's
15 universal service programs target specific segments of low-income customers
16 and include specific and actionable items (e.g., lower payment agreements and
17 arrearage forgiveness through OnTrack and installation of weatherization
18 measures through WRAP).

19 Mr. D'Agostino has expressed a concern that PPL Electric would spend
20 \$27 million to fund universal service programs for several thousand customers,
21 but only \$875,000 for consumer education. This perspective fails to consider the
22 number of existing participants in these programs. On page 5 of Exhibit TRD 1,
23 PPL Electric notes that approximately 25,000 customers will participate in
24 OnTrack (19,000), WRAP (3,000) and Operation HELP (3,000) during 2006, and

1 that the total expenditure for these programs would be approximately \$27.4
2 million. Depending on the level of additional funding approved by the
3 Commission for OnTrack and WRAP, the incremental difference between
4 proposed funding and the Company's current expenditures for these two
5 programs (approximately \$26.3 million) would expand participation by several
6 thousand customers. In addition, increased funding for Operation HELP would
7 allow the administering agencies to serve more households as well. In summary,
8 PPL Electric proposes to assist tens of thousands of customers through these
9 programs, rather than just several thousand.

10 The Company's proposed consumer education program is completely
11 separate from universal service, and must be evaluated on its own merits. In his
12 rebuttal testimony, Mr. Krall explains why the Company's consumer education
13 proposals are appropriate and in the public interest.

14
15 Q. Did any other parties involved in this proceeding provide comments regarding
16 PPL Electric's universal service programs?

17 A. Yes, Mr. Kalcic, on behalf of the Office of Small Business Advocate, offered
18 comments regarding funding for universal service programs.

19
20 Q. What was the key recommendation offered by Mr. Kalcic?

21 A. Mr. Kalcic recommends that universal service costs continue to be recovered
22 solely from the residential rate class.

23

1 Q. Do you agree with Mr. Kalcic?

2 A. Yes. Historically, the Company has recovered the costs of its universal service
3 programs only from residential customers. In the October 19 Motion I discussed
4 earlier, the Commission decided to "continue its current policy of allocating CAP
5 costs to the only customer class whose members are eligible for the program –
6 residential customers." Consistent with past practice and the October 19 Motion,
7 PPL Electric contemplates continued recovery of all universal service program
8 costs from residential customers.

9

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

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Average Rate Schedule RS - Energy and Capacity Charges for 2006
Based on 1,000 kWh per month

	Cents/kWh
Average Energy and Capacity Charge for 2006	5.03
Less Gross Receipts Tax 5.9%	0.28
	<hr/> 4.75
Less Capacity of 0.58 cents/kWh	0.58
	<hr/> 4.17
Less Losses @ 9%	0.34
	<hr/> 3.83
Less Load Following Factor of 1.13	0.44
Market Price for Energy (LMP Proxy)	<hr/> 3.39

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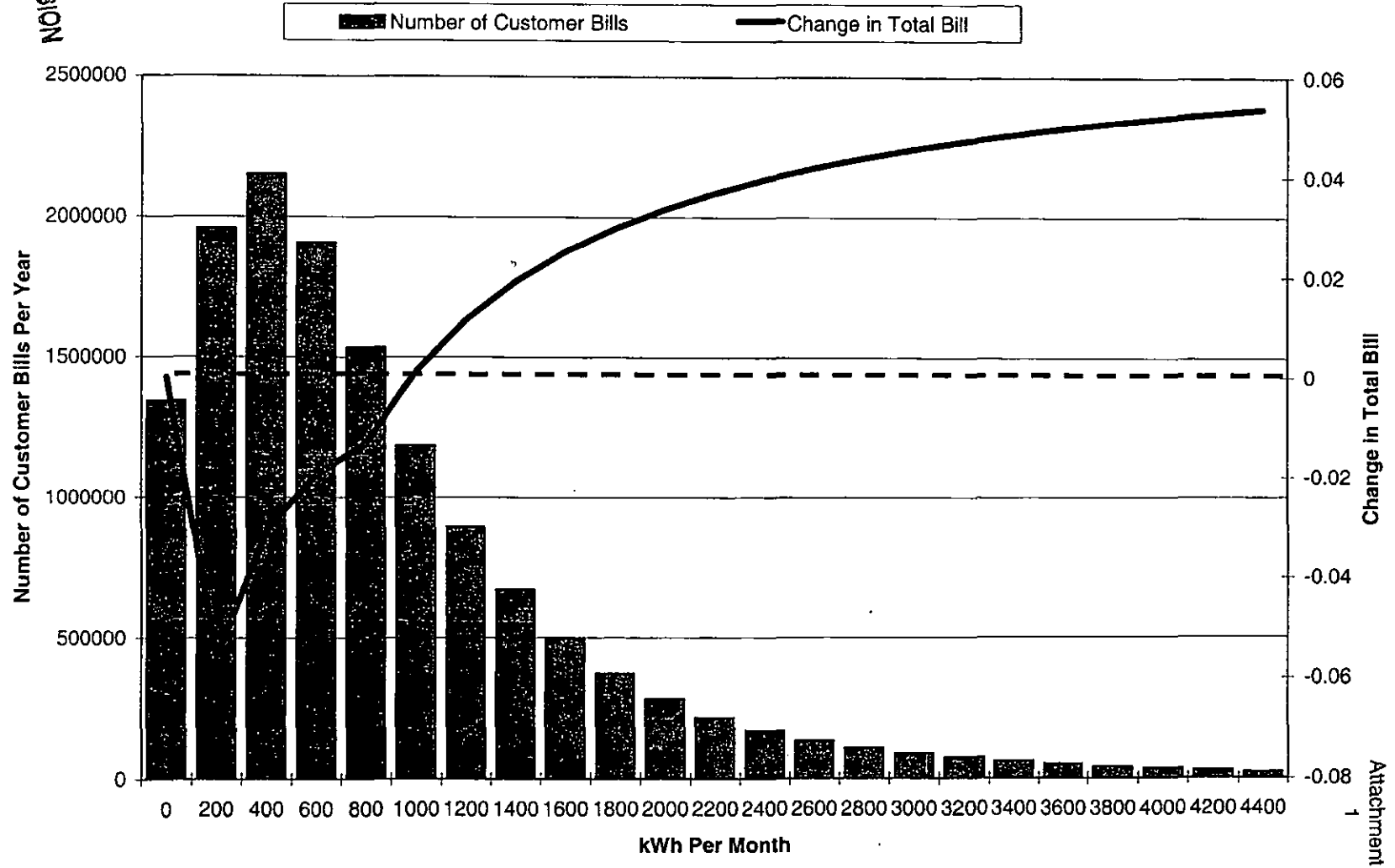
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Exhibit DAK-6
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Residential Declining Block Energy Rate Compared to a Flat Rate



PPL Electric Utilities Corporation
Response to Interrogatories of
Reliant Energy, Inc., Set I
October 24, 2006
Docket No. P-00062227

- Q.6. Please provide a generic description of the types of customers within each division listed in Interrogatory No. 3 for customers taking service on LP4. Examples of "generic descriptions" include but are not limited to heavy industrial, light industrial, chemical production facility, steel manufacturing, office building, education facility, hospital, big box retailer, etc.
- A.6. The following table summarizes the SIC Codes for customers currently taking service under Rate Schedule LP-4. SIC Codes are the "Standard Industrial Classifications" published by the U.S. Department of Labor.

Rate	SIC Code	No. of Customers	Rate	SIC Code	No. of Customers
LP4	02	4	LP4	50	6
LP4	12	10	LP4	51	8
LP4	13	1	LP4	52	2
LP4	14	27	LP4	53	27
LP4	15	6	LP4	54	35
LP4	16	1	LP4	55	2
LP4	20	66	LP4	58	3
LP4	21	2	LP4	59	8
LP4	22	27	LP4	60	9
LP4	23	6	LP4	63	5
LP4	24	11	LP4	64	1
LP4	25	8	LP4	65	71
LP4	26	11	LP4	70	26
LP4	27	22	LP4	72	6
LP4	28	21	LP4	73	4
LP4	29	5	LP4	76	2
LP4	30	46	LP4	79	23
LP4	31	1	LP4	80	76
LP4	32	33	LP4	82	67
LP4	33	19	LP4	83	7
LP4	34	31	LP4	84	1
LP4	35	24	LP4	86	7
LP4	36	16	LP4	87	6
LP4	37	12	LP4	89	1
LP4	38	5	LP4	91	8
LP4	39	3	LP4	92	18
LP4	40	6	LP4	93	5
LP4	41	1	LP4	94	4
LP4	42	35	LP4	95	3
LP4	43	7	LP4	96	6
LP4	45	3	LP4	97	4
LP4	46	6	LP4	99	14
LP4	48	6	LP4	Unknown	3
LP4	49	68			

DEC 19 2006

P-00062227
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PPL Electric Utilities Corporation
Response to Interrogatories of
Reliant Energy, Inc., Set IV
December 7, 2006

Docket No. P-00062227

Q.7. Please refer to PPL Statement No. 1-R at page 24, lines 1-10 and paragraph 7 of the Petition of PPL Electric Utilities Corporation for Approval of a Competitive Bridge Plan which PPL filed on August 2, 2006 ("Petition"):

~~a. Please state the "current forward market prices for generation in 2010" referenced in the first sentence of paragraph 7 of the Petition.~~

b. Using the same methodology used to determine the "current forward market prices for generation in 2010" referenced in paragraph 7 of the Petition, please provide the current forward market prices for generation in 2010 as of October 30, 2006. Is it the witness's opinion that these prices are "abnormal market prices?" Please explain the witness's opinion with specificity.

~~c. Please produce any and all documents, including any studies, relating to the estimate in paragraph 7 of the Petition that its total FOM rate increase on January 1, 2010 will be on the order of 20% to 30%.~~

~~d. Is it Mr. Krall's opinion that the forward market prices for generation in 2010 can be obtained in trading?~~

~~e. On the trading day used to arrive at the projected 2010 rate increase of "20% to 30%" referenced in paragraph 7 of the Petition, what was the implied volatility for that market price?~~

~~f. In Mr. Krall's opinion, on the trading day used to arrive at the estimate in paragraph 7 of the Petition, a projection of forward market prices for generation in 2010 was how what the market expected as of that day? Please explain your answer with specificity.~~

~~g. Is it Mr. Krall's opinion that on the trading day used to arrive at the estimate in paragraph 7 of the Petition, a projection of forward market prices for generation in 2010 that would range of outcomes that could be derived from standard financial formulas using options price? Please explain your answer with specificity.~~

~~h. Please state the price at the money call option for the forward market prices for generation in 2010 that would correspond to the forward call used to reach the estimate of a 2010 rate increase of "20% to 30%." If this information is not available, please provide the forward market prices for generation in 2010 as of December 6, 2006 and please provide the implied volatility for these forward market prices.~~

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- i. ~~PLEASE explain whether the forward market prices would increase "as the market price of energy in 2010" as of the average of broker quotes as of August 2, 2006. Using the same methodology that produced the estimate of a 20% to 30% increase included in the August 2, 2006 petition, the Company estimates an increase of 15% to 25% using the September 30, 2006 forecast. Mr. Krall has performed no analysis to determine whether the September 30, 2006 forecast of the 2010 market price is unduly influenced by unusual events and, therefore, has no opinion as to whether the resultant prices can be considered "normal" or "abnormal".~~
- j. ~~PLEASE explain whether the forward market prices for generation in 2010, or for any other trading period, can change each trading day.~~

- A.7. a. ~~See the response to Question 4 of Interrogatories of the Office of Consumer Advocate Set I, dated October 6, 2006.~~
- b. PPL Electric does not have forward market prices as of October 30, 2006, but does have a forecast of the market price of energy in 2010 reflective of the average of broker quotes as of September 30, 2006. Using the same methodology that produced the estimate of a 20% to 30% increase included in the August 2, 2006 petition, the Company estimates an increase of 15% to 25% using the September 30, 2006 forecast. Mr. Krall has performed no analysis to determine whether the September 30, 2006 forecast of the 2010 market price is unduly influenced by unusual events and, therefore, has no opinion as to whether the resultant prices can be considered "normal" or "abnormal".
- c. ~~See the response to Question 4 of Interrogatories of the Office of Consumer Advocate Set I, dated October 6, 2006.~~
- d. ~~It is Mr. Krall's opinion that the forward market prices for generation in 2010, or for any other trading period, can change each trading day.~~
- e. ~~PPL Electric's estimate, which was included in the August 2, 2006 petition of a 20% to 30% increase in rates from 2009 to 2010 was based on a forecast of the market price of energy in 2010 reflective of the average of broker quotes as of August 2, 2006. PPL Electric does not have information that would allow it to assess the impact of any unusual events.~~
- f. ~~PPL Electric's estimate, which was included in the August 2, 2006 petition of a 20% to 30% increase in rates from 2009 to 2010 was based on a forecast of the market price of energy in 2010 reflective of the average of broker quotes as of August 2, 2006. PPL Electric does not have information that would allow it to assess the impact of any unusual events. As a general matter, however, Mr. Krall believes that the market prices~~

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PPL Electric Utilities Corporation
Response to Interrogatories of
Reliant Energy, Inc., Set I
October 24, 2006
Docket No. P-00062227

RESA Cross-Exam Exh. 1
D. A. Krall

DEC 19 2006 P-00062227

Hlg:DK

Q.1. Please provide the number of customers taking service on LP6.

A.1. Four (4) customers currently are served under Rate Schedule LP-6.

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**PPL Electric Utilities Corporation
Response to Interrogatories of
Reliant Energy, Inc., Set I
October 24, 2006
Docket No. P-00062227**

- Q.2. Please provide the number of customers taking service on LP5 per the following divisions:
- a. The number of customers on LP5 with a peak demand between 300 kW and 500 kW.
 - b. The number of customers on LP5 with a peak demand between 500 kW and 1000 kW.
 - c. The number of customers on LP5 with a peak demand between 1000 kW and 5000 kW.
 - d. The number of customers on LP5 with a peak demand above 5000 kW.

A.2. a., b., c., and d.

The following table provides the requested data as of December 31, 2005:

<u>Peak Demand</u>	<u>Number of Customers</u>
Between 300 kW and 500 kW	7
Between 500 kW and 1000 kW	9
Between 1000 kW and 5000 kW	39
Above 5000 kW	58

**PPL Electric Utilities Corporation
Response to Interrogatories of
Reliant Energy, Inc., Set I
October 24, 2006**

Docket No. P-00062227

Q.3. Please provide the number of customers taking service on LP4 per the following divisions:

- a. The number of customers on LP4 with a peak demand between 25 kW and 100 kW.
- b. The number of customers on LP4 with a peak demand between 100 kW and 300 kW.
- c. The number of customers on LP4 with a peak demand between 300 kW and 500 kW.
- d. The number of customers on LP4 with a peak demand above 500 kW.

A.3. a., b., c., and d.

The following table provides the requested data as of December 31, 2005:

<u>Peak Demand</u>	<u>Number of Customers</u>
Between 25 kW and 100 kW	58
Between 100 kW and 300 kW	129
Between 300 kW and 500 kW	127
Above 500 kW	676

**PPL Electric Utilities Corporation
Response to Interrogatories of
Reliant Energy, Inc., Set I
October 24, 2006
Docket No. P-00062227**

Q.4. Please provide generic descriptions of the types of customers taking service on LP6. Examples of "generic descriptions" include but are not limited to heavy industrial, light industrial, chemical production facility, steel manufacturing, office building, education facility, hospital, big box retailer, etc.

A.4. The following table summarizes the SIC Codes for customers currently taking service under Rate Schedule LP-6. SIC Codes are the "Standard Industrial Classifications" published by the U.S. Department of Labor.

Rate Schedule	SIC Code	No. of Customers
LP6	26	1
LP6	32	1
LP6	91	1
LP6	97	1

PPL Electric Utilities Corporation
Response to Interrogatories of
Reliant Energy, Inc., Set I
October 24, 2006
Docket No. P-00062227

- Q.5. Please provide a generic description of the types of customers within each division listed in Interrogatory No. 2 for customers taking service on LP5. Examples of "generic descriptions" include but are not limited to heavy industrial, light industrial, chemical production facility, steel manufacturing, office building, education facility, hospital, big box retailer, etc.
- A.5. The following table summarizes the SIC Codes for customers currently taking service under Rate Schedule LP-5. SIC Codes are the "Standard Industrial Classifications" published by the U.S. Department of Labor.

Rate Schedule	SIC Code	No. of Customers
LP5	12	5
LP5	20	12
LP5	21	1
LP5	22	1
LP5	24	1
LP5	26	5
LP5	27	3
LP5	28	2
LP5	30	8
LP5	32	4
LP5	33	7
LP5	34	3
LP5	35	1
LP5	36	5
LP5	37	3
LP5	38	1
LP5	39	1
LP5	46	4
LP5	49	16
LP5	50	2
LP5	53	2
LP5	63	1
LP5	65	6
LP5	80	2
LP5	82	3
LP5	94	1
LP5	97	1
LP5	99	6
LP5	Unknown	4

OSBA STATEMENT NO. 1
DEC 19 2006 P-00062227
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PPL ELECTRIC :
UTILITIES CORPORATION FOR : DOCKET NO. P-00062227
APPROVAL OF A COMPETITIVE :
BRIDGE PLAN :

Direct Testimony of
BRIAN KALCIC

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On Behalf of the
Office of Small Business Advocate

DOCKETED
DEC 27 2006

Issues addressed:
The Procurement Plan for the 2010 POLR Supply
The Generation Supply Charge
The Modifications to the Transmission Service Charge
The Universal Service Programs Proposals

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Date Served: November 14, 2006

Date Submitted for the Record: _____

Direct Testimony of Brian Kalcic

1
2
3 **Q. Please state your name and business address.**

4 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.
5

6 **Q. What is your occupation?**

7 A. I am an economist and consultant in the field of public utility regulation, and
8 principal of Excel Consulting. My qualifications are described in the
9 *Appendix to this testimony.*
10

11 **Q. On whose behalf are you participating in this proceeding?**

12 A. I am testifying on behalf of the Office of Small Business Advocate
13 (“OSBA”), which is representing the small business customers served by PPL
14 Electric Utilities Corporation (“PPL” or “Company”).
15

16 **Q. What is the subject of your testimony?**

17 A. I have been asked by the OSBA to review and critique several areas of the
18 Company’s proposed Competitive Bridge Plan (“CBP”). In Section I of my
19 testimony, I examine PPL’s proposed competitive procurement plan to obtain
20 Provider of Last Resort (“POLR”) generation supply for 2010. In Section II,
21 I discuss the Company’s proposed Generation Supply Charge (“GSC”). In
22 Section III, I comment on the Company’s proposed modification to its
23 Transmission Service Charge (“TSC”). Finally, in Section IV, I discuss
24 PPL’s proposals with respect to its universal service programs (“USPs”).
25

26 **Q. Please summarize your primary findings and recommendations.**

27 A. Based upon my analysis of the Company’s CBP petition, I find that:
28

- 29
- 30 • PPL’s proposal to obtain POLR supply on a customer class basis is appropriate;
 - 31 • it would be prudent for PPL to acquire POLR supply for residential and
32 small C&I customers over a series of competitive solicitations;
 - 33 • PPL’s proposal to eliminate generation-related demand charges and
34 declining-block energy charges for small commercial and industrial
35 customers is appropriate;

- 1 • PPL’s proposal to modify its TSC is reasonable; and
2 • any approved increase in funding for the Company’s universal service
3 programs should be recovered solely from residential customers.
4

5 The specific details associated with the above findings and/or
6 recommendations are discussed below.
7

8 **I. Competitive Procurement Program**
9

10 **Q. Mr. Kalcic, please provide a brief description of PPL’s proposed**
11 **competitive procurement program.**

- 12 A. PPL proposes to acquire 2010 POLR supply for three (3) separate customer
13 classes: a) residential; b) small commercial and industrial (“C&I”) (i.e., non-
14 residential customers served at secondary voltage levels); and c) large C&I
15 (i.e., non-residential customers served at primary or transmission voltage
16 levels).¹ PPL would obtain its POLR supply through a series of six (6)
17 competitive solicitations beginning in 2007. Each solicitation would take the
18 form of a request for proposal (“RFP”), with the Company issuing an RFP in
19 March and September of 2007, 2008 and 2009.²

20 Over the course of the planned RFPs, the Company would procure a
21 pro rata portion of the estimated 2010 POLR load of each customer class.
22 PPL anticipates procuring a total of 60 tranches (of approximately 50 MW
23 each) to supply the residential class, 42 tranches for the small C&I class and
24 38 tranches for the large C&I class. PPL advocates that the POLR supply be
25 load-following in nature, and also include generation from renewable sources
26 sufficient to meet PPL’s 2010 alternative energy obligations under the
27 Alternative Energy Portfolio Standards Act of 2004 (“AEPS Act”).
28

29 **Q. Why has PPL filed its CBP petition at this time?**

¹ The residential customer class would be composed of Rate Schedules RS, RTS and RTD. The small C&I class would include Rate Schedules GS-1, GS-3, GH-1, GH-2, IS-1, BL, SA, SM, SHS, SE, TS and SI-1, along with those customers taking Standby Service on such rate schedules. The large C&I class would consist of Rate Schedules LP-4, ISP, LP-5, LP-6, LPEP, IST and ISM, along with those customers taking Standby Service on such schedules.

² In the case of Large C&I customers, PPL would utilize only two (2) RFPs, both in 2009.

1 A. The Company's transition (i.e., generation rate cap and stranded cost
2 recovery) period will end on December 31, 2009, at which time the price of
3 POLR supply will be determined by the market. PPL states that it wants to
4 minimize the rate volatility associated with procuring 2010 POLR generation
5 supply in the marketplace on behalf of residential and small C&I customers.
6 To do so, PPL proposes to purchase POLR supplies in forward electricity
7 markets, where actual delivery is to take place some number of years in the
8 future. As compared to a procurement strategy whereby 100% of POLR
9 supplies are obtained from an RFP or auction conducted at a single point in
10 time, the Company claims its proposal would "mitigate the risk that unique or
11 short-term events would unduly push prices upwards or downwards."

12
13 **Q. Why does PPL propose to restrict its CBP to the twelve-month period
14 beginning January 1, 2010?**

15 A. PPL states that limiting the CPB to twelve months would align the
16 Company's POLR supply procurement cycle with that of Metropolitan Edison
17 Company, Pennsylvania Electric Company, PECO Energy Company and
18 West Penn Power Company, all of which will see their transition periods
19 expire on December 31, 2010. Doing so would facilitate the implementation
20 of a statewide POLR procurement process, in the event that the Commission's
21 final regulations adopt the statewide POLR procurement approach advocated
22 by PPL.

23
24 **Q. Mr. Kalcic, is PPL's proposal to obtain POLR supply on a customer class
25 basis appropriate?**

26 A. Yes, it is.

27
28 **Q. Why?**

29 A. Counsel informs me that under Section 2807(e)(3) of the Public Utility Code,
30 66 Pa. C.S. §2807(e)(3), default service rates must be based on "prevailing
31 market prices." Prevailing market prices may, however, vary across customer
32 classes, depending on the classes' load characteristics. Bidding by customer
33 class would insure, to the extent practicable, that the prices paid by all of
34 PPL's POLR customers for generation supply are consistent with prevailing
35 market prices.

1 In addition, POLR suppliers are likely to assign different levels of
2 shopping risk to individual rate classes. To the extent that suppliers include a
3 risk premium in their bid prices to compensate for shopping risk, bidding by
4 rate class would help to insure that such risk premiums are matched with the
5 classes which cause that risk.

6
7 **Q. Is there an alternative to bidding by rate class?**

8 A. Yes. For example, a utility could issue an RFP on a “slice of system” basis,
9 where each tranche is defined in terms of total system (as opposed to
10 customer class) load. However, a slice of system procurement process
11 establishes only a system-average market price for POLR supply, not class-
12 specific market prices. In order to implement the results of a slice of system
13 procurement process, the system-average market price must be “translated”
14 into a range of prices, each applicable to a given class of customers.³

15
16 **Q. Which of the above procurement methods is to be preferred?**

17 A. In my opinion, bidding by rate class is preferable since it eliminates the
18 translation step, which, by its nature, requires a certain degree of judgment.
19 Also, bidding by rate class is the more transparent approach to procuring
20 POLR supply.

21
22 **Q. Would it be appropriate to assign a single slice of system-based average
23 market price to all POLR customers?**

24 A. No. It would be pure happenstance if such an approach were to reflect
25 prevailing market prices for all customer classes. Rather, one would expect
26 system-wide pricing to establish generation-related cross-subsidies among
27 rate classes. Such subsidization can and should be avoided when pricing
28 POLR supply.

29
30 **Q. How might cross-subsidies arise when utilizing a slice of system approach
31 to obtain POLR supplies?**

32 A. Perhaps the most common way for cross-subsidies to arise is during the
33 translation step. For example, if POLR prices were to be established by

³ The translation process normally utilizes historical information pertaining to various class load characteristics, and the historical price differentials associated with such characteristics, to “de-average” the system-wide price.

1 applying an across-the-board adjustment to existing generation rates, cross-
2 subsidies will arise whenever a utility's existing (unbundled) generation
3 charges do not reflect the current *relative* cost of obtaining generation supply
4 in the marketplace for each class. In addition, assigning a single, system-
5 average market price to all rate classes will always result in cross-
6 subsidization, except for the improbable case where the same outcome would
7 have been obtained through bidding by rate class.

8
9 **Q. Mr. Kalcic, do you agree that it would be prudent for PPL to acquire**
10 **POLR supply for residential and small C&I customers over a series of**
11 **RFPs?**

12 A. Yes, I do. Recent experience has shown that energy prices can be quite
13 volatile, and that obtaining 12 months of POLR supply at prices determined
14 by market conditions on a *single day* is unnecessarily risky. While I cannot
15 state that six (6) RFPs equate to the "optimum" amount of diversity to build
16 into a POLR procurement process, I find that PPL's proposal is reasonable,
17 and clearly superior to waiting until 2009 to acquire all of the Company's
18 2010 POLR requirements.

19
20 **Q. Does the OSBA object to PPL's proposal to limit its CPB to 2010?**

21 A. No. Given the absence of final Commission regulations, it appears
22 reasonable to restrict the CPB to 2010 at this time.

23 24 **II. Generation Supply Charge ("GSC")**

25
26 **Q. Mr. Kalcic, please describe the Company's proposed GSC.**

27 A. PPL would establish a separate GSC for its proposed residential class, small
28 C&I class, and large C&I class. Each GSC would provide for the recovery of
29 all costs associated with the Company's acquisition of POLR generation
30 supply, on a "full and current basis," by customer class. In particular, the
31 GSC would recover: 1) all energy- and capacity-related costs; 2) all
32 transmission-related costs reflected in wholesale suppliers' bids; and 3) all
33 expenses incurred by PPL to implement and administer the POLR
34 procurement process.

1 **Q. Does PPL propose to reconcile the GSC?**

2 A. Yes. As filed, the GSC would provide for the annual reconciliation of any
3 over- or under-recovery of the actual costs incurred by PPL to acquire
4 generation supply on behalf of POLR customers, by customer class.

5 PPL claims that reconciliation of the GSC would protect customers
6 from paying any more than the Company's actual POLR costs, while also
7 protecting the Company from the potential financial harm that would result
8 from an inability to recover such costs on a full and current basis.

9
10 **Q. What type of rate design does PPL propose for the GSC?**

11 A. The GSC would be designed as a flat-rate consumption charge, i.e., a single
12 ¢/kWh charge applicable to all usage.

13
14 **Q. Would a flat-rate energy charge represent a departure from PPL's
15 current generation charge rate structure for the small C&I class?**

16 A. Yes, it would. For example, PPL's current Rate Schedule GS-3 tariff
17 recovers generation-related costs via a demand charge and a three-step,
18 declining block energy charge.⁴ Both the demand charge and the declining
19 block energy charge would be eliminated for Rate Schedule GS-3 customers.
20 For the smaller general service customers served on Rate Schedule GS-1, the
21 existing two-step declining block energy charge would be eliminated (i.e.,
22 there is no demand charge).

23
24 **Q. Would it be appropriate to eliminate demand charges and declining-
25 block energy charges for small C&I customers when implementing rates
26 to recover POLR supply costs?**

27 A. Yes. These types of complex rate structures are simply a remnant of the rate
28 unbundling that took place during restructuring, and can produce a wide
29 disparity in the average generation rates paid by individual small C&I
30 customers. However, such disparities have not been shown to be market-
31 based. Accordingly, it is appropriate to eliminate demand charges and
32 declining-block energy charges for POLR supply upon expiration of a
33 utility's transition period.

⁴ Rate Schedule GS-3 is available to general service customers taking service at secondary voltage, with a billing demand of 25 kW or greater.

1
2 **Q. Are you aware of any Commission decision that supports your**
3 **viewpoint?**

4 A. Yes. Counsel informs me that the Commission approved the elimination of
5 demand charges and declining-block energy charges in its recent decision
6 approving C&I POLR rates for Pennsylvania Power Company (“Penn
7 Power”) in Docket No. P-00052188.

8
9 **Q. Mr. Kalcic, has the Commission previously approved reconciliation of**
10 **POLR supply costs, as requested by PPL?**

11 A. Not to my knowledge. In fact, I have been informed by Counsel that the
12 Commission explicitly rejected reconciliation in the previously cited Penn
13 Power case.

14
15 **Q. Does PPL expect that reconciliation would have a material impact on the**
16 **GSC billed to POLR customers?**

17 A. No, it does not.

18
19 **Q. Do you agree that the impact would likely be minimal?**

20 A. Yes. Given the flat-rate energy charge contained in the GSC, there does not
21 look to be any reason to expect a significant mismatch between: a) the
22 amount PPL *collects* from POLR customers; and b) the amount *owed* by PPL
23 to wholesale suppliers.⁵ From a ratepayer perspective, absent such a
24 mismatch, there would not appear to be a need to reconcile the GSC in this
25 proceeding.

26
27 **III. Transmission Service Charge (“TSC”)**

28
29 **Q. Mr. Kalcic, please describe PPL’s TSC proposal.**

30 A. PPL is proposing to modify its TSC to reflect the purchase of POLR supply in
31 the marketplace. At present, the TSC provides for the recovery of
32 transmission charges determined by the PJM Open Access Transmission

⁵ The same conclusion would *not* follow in the situation where the GSC reflected demand and/or declining block energy charges, since the average revenue (i.e., price) per kWh collected by PPL from POLR customers would vary with usage.

1 Tariff (“OATT”). If the Company’s proposed CBP were to be approved, each
2 POLR supplier would be obliged to provide all the products and services
3 needed by PPL to fulfill its POLR obligations. Such products and services
4 would include energy, capacity, transmission, ancillary services and
5 renewable energy requirements. As a result, most transmission and ancillary
6 service charges, which are now recovered in the TSC, would be recovered
7 through the Company’s proposed GSC. In recognition of this change, PPL is
8 proposing to modify its TSC to permit the recovery of transmission costs that
9 might be imposed on the Company directly by PJM, or indirectly through a
10 supplier.

11
12 **Q. Would PPL be permitted to recover the same charges twice, i.e.,**
13 **once through the GSC and again through the TSC?**

14 A. No. PPL indicates that the only charges recovered through the TSC would be
15 those transmission-related charges that were not subject to recovery via the
16 GSC.

17
18 **Q. Mr. Kalcic, do you agree that it is appropriate to require POLR**
19 **suppliers to provide transmission services in addition to capacity**
20 **and energy services?**

21 A. Yes. By requiring transmission-related services to be provided by each
22 winning POLR supplier, POLR customers should receive the lowest available
23 market price for the *combined* transmission- and generation-related product.
24 In addition, to the extent that the cost of transmission service varies by class,
25 PPL’s proposal to bid for POLR supply (and transmission) by customer class
26 should prevent transmission-related cross-subsidies from arising.

27
28 **Q. Given the fact that transmission and ancillary services would be**
29 **provided by POLR suppliers, do you believe that PPL’s proposal to**
30 **modify its TSC is reasonable?**

31 A. Yes, since the intent of the change is to insure POLR customers pay only the
32 transmission costs incurred *by PPL* in the TSC.

33

34

1 **IV. Universal Service Programs (“USPs”)**

2
3 **Q. Mr. Kalcic, please describe PPL’s universal service proposals.**

4 A. PPL is proposing to ramp up funding for its existing low-income customer
5 assistance programs over the period 2007 through 2010, in order to mitigate
6 the impact of future increases in distribution, transmission and POLR rates on
7 low-income customers. In particular, the Company seeks to increase annual
8 funding for its OnTrack, WRAP and Operation Help assistance programs
9 from \$26.4 million in 2007 to \$32.9 million in 2010.⁶

10
11 **Q. What are the current sources of funding for the Company’s USPs?**

12 A. PPL states that funding for its OnTrack and WRAP programs is provided
13 through the distribution rates paid by its residential customers.⁷ Funding for
14 PPL’s Operation Help program is provided by donations from the Company,
15 its customers and its employees.⁸

16
17 **Q. How would the Company obtain the additional funding needed to**
18 **expand its OnTrack and WRAP programs?**

19 A. On page 7 of his direct testimony, Mr. Dahl states that PPL is requesting that
20 the Commission “specifically authorize recovery of those additional expenses
21 through customer rates.” If such authorization were to be forthcoming, PPL
22 would include the approved USP program expenses in its next distribution
23 rate proceeding.

24
25 **Q. Does PPL propose to continue to recover its OnTrack- and WRAP-**
26 **related program expenses solely through residential distribution**
27 **rates?**

⁶ PPL’s OnTrack program provides for reduced payments based upon a low-income customer’s ability to pay. The WRAP program offers free weatherization and energy conservation education to qualified households. The Operation Help program provides funds to assist qualified low-income customers with any type of home energy bill payment.

⁷ In PPL’s most recent base rate proceeding at Docket No. R-0049255, the Commission approved a funding level of \$13.2 million for OnTrack and \$6.25 million for WRAP.

⁸ PPL currently donates \$0.7 million per year to Operation Help, and would commit to ramping up its annual contribution to \$1.0 million in 2010 under its proposed CBP.

1 A. Yes, that is my understanding, based upon Mr. Dahl's testimony.
2 Specifically, on page 7 of his direct testimony, Mr. Dahl characterizes the
3 Company's USP proposals as follows:
4

5 This proposed increase in funding for PPL Electric's USPs attempts
6 to balance the need to serve more low-income customers in
7 anticipation of increased rates, *while also being sensitive to the cost*
8 *pressures on all residential customers who would fund the*
9 *programs.* (Emphasis supplied.)
10

11 **Q. Do you agree with Mr. Dahl that it would be appropriate to recover**
12 **universal service costs solely from the Company's residential rate class?**

13 A. Yes, I do. The Company's universal service costs arise from the operation of
14 its customer assistance programs. Such programs are available to payment
15 troubled *residential* customers who apply and demonstrate an annual
16 household gross income at or below certain Federal poverty guidelines. As a
17 strictly residential program, all associated benefits accrue to residential
18 customers. Likewise, all associated costs are incurred on behalf of the
19 residential class. Therefore, from either a cost-causation or benefits-received
20 perspective, the residential class should be assigned 100% of universal
21 service cost responsibility.
22

23 **Q. Mr. Kalcic, some analysts assert that it is illogical to argue that all**
24 **universal service costs should be assigned to residential customers simply**
25 **because only residential (i.e., low-income) customers benefit from the**
26 **program. Specifically, such analysts claim that if one assumes that only**
27 **low-income customers benefit from USPs, one should logically assign all**
28 **universal service costs directly to universal service program participants,**
29 **rather than to the residential class as a whole. As a result, these analysts**
30 **conclude that there is no more reason to allocate costs to non-low-income**
31 **residential customers (on the basis of benefits received) than there is to**
32 **allocate universal service costs to non-residential customers. Is such**
33 **reasoning valid?**

34 A. No. I would argue that it is possible to distinguish non-low-income
35 residential customers from non-residential customers in the cost allocation

1 process. Non-low-income residential customers may not presently qualify for
2 universal service benefits but, if their circumstances change, they could
3 become eligible for those benefits. However, unlike residential customers,
4 *commercial and industrial customers can never qualify for such programs.*
5 Since only the residential class is covered by the “insurance” offered by
6 universal service programs, it is appropriate that only the residential class pay
7 the associated insurance premiums, i.e., universal service costs.
8

9 **Q. Has the Commission affirmed that PPL’s universal service cost recovery**
10 **should be restricted to the residential class?**

11 A. Yes, in PPL’s last base rate proceeding at Docket No. R-00049255. Counsel
12 informs me that while the OCA argued that universal service costs should be
13 allocated to all customer classes in that proceeding, the Commission rejected
14 the OCA’s proposal, stating:

15
16 Universal service programs, by their nature, are narrowly tailored to the
17 residential customers and therefore, should be funded only by the
18 residential class. We note that neither the OCA nor Mr. Epstein have
19 presented any concrete evidence in the form of costs studies to support
20 their respective proposals that the universal service program cost should
21 be more broadly allocated. Accordingly, we will adopt the ALJ’s
22 recommendation on this issue. (Order at pp. 97-98.)
23

24 **Q. Mr. Kalcic, how should PPL’s universal service costs be recovered from**
25 **rate classes?**

26 A. Consistent with the previously identified Commission precedent, I
27 recommend that the Company’s universal service costs continue to be
28 recovered solely from residential customers.
29

30 **Q. Does this conclude your direct testimony?**

31 A. Yes.
32

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December, 1974. In May, 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including such subjects as Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic joined the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice which offers business and regulatory services.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, Texas, and the Bonneville Power Administration.

OSBA STATEMENT NO. 2

DEC 19 2006 P-00062227
Hbg JK

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PPL ELECTRIC :
UTILITIES CORPORATION FOR : DOCKET NO. P-00062227
APPROVAL OF A COMPETITIVE :
BRIDGE PLAN :

Rebuttal Testimony of

BRIAN KALCIC

DOCUMENT
FOLDER

On Behalf of the
Office of Small Business Advocate

DOCKETED
DEC 27 2006

Issues addressed:
Direct Energy's Procurement Proposals
Dominion's Procurement Proposals
PennFuture's Alternative Energy Proposals
OCA's Collaborative and Alternative Energy Proposals
OTS's TSC Issues

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Date Served: December 6, 2006

Date Submitted for the Record: _____

Rebuttal Testimony of Brian Kalcic

1
2
3
4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6
7 **Q. Have you previously submitted direct testimony in this proceeding?**

8 A. Yes, I have.

9
10 **Q. What is the subject of your rebuttal testimony?**

11 A. My rebuttal testimony responds to certain points raised in the direct testimony
12 of the following witnesses: 1) Mr. Frank Lacey on behalf of Direct Energy
13 Services, LLC (“Direct Energy”); 2) Mr. Thomas J. Butler on behalf of
14 Dominion Retail, Inc. (“Dominion”); 3) Dr. Thomas J. Tuffey on behalf of
15 Citizens for Pennsylvania’s Future (“PennFuture”); 4) Dr. Steven L. Estomin
16 on behalf of OCA; and 5) Mr. Michael J. Gruber on behalf of OTS.

17
18 **Direct Energy**

19
20 **Q. On pages 3-4 of his direct testimony, Mr. Lacey characterizes**
21 **PPL’s proposed “point-in-time” default supply pricing model as**
22 **“risky” for residential and small business customers. In particular,**
23 **Mr. Lacey argues, in part, that PPL’s proposed Competitive Bridge**
24 **Plan (“CBP”) would expose ratepayers to the same point-in-time**
25 **risk (i.e., outcome) experienced recently by Baltimore Gas &**
26 **Electric’s (“BG&E”) Maryland customers or Pike County Light**
27 **and Power Company’s (“Pike”) ratepayers. Do you have any**
28 **comment?**

29 A. Yes. It is precisely because of the recently completed BG&E and Pike
30 POLR supply acquisition outcomes that PPL has proposed a CBP
31 involving six (6) different procurements spread over three (3) years. As
32 I indicated in my direct testimony, I believe that PPL’s approach is
33 reasonable and clearly superior to that of BG&E and/or Pike, wherein
34 12+ months of POLR supply was acquired via a single solicitation. By
35 the same token, I find it unreasonable and misleading to attempt to

1 dismiss PPL's CBP plan as being no different than that of BG&E/Pike,
2 as suggested by Mr. Lacey.

3
4 **Q. What is Mr. Lacey's preferred approach to acquiring POLR supply?**

5 A. Mr. Lacey would prefer that an electric distribution company ("EDC")
6 implement a monthly procurement plan where, for example, PPL would
7 hold a monthly competitive wholesale auction sixty (60) days in
8 advance of the delivery month, for each month of default service. As a
9 consequence, POLR prices for residential and small business customers
10 would change monthly.

11
12 **Q. Is Mr. Lacey's monthly procurement model appropriate for residential
13 and small business customers?**

14 A. No. Ironically, such an approach would expose POLR customers to
15 more, rather than less, price volatility than PPL's proposed CBP since
16 virtually all short-term movements in energy prices would be reflected
17 in monthly POLR prices. In addition, a monthly procurement plan
18 would result in higher administrative costs (due to the frequency of the
19 required POLR supply auctions), which would presumably need to be
20 recovered from POLR customers.

21
22 **Q. On pages 4-5 of his direct testimony, Mr. Lacey argues that PPL's
23 current tariff structure already produces a different (average) price per
24 kWh, depending upon a customer's monthly usage, so that price volatility
25 should not be an issue. How do you respond?**

26 A. The existing average price changes referenced by Mr. Lacey are driven
27 by changes in customer usage patterns, not POLR prices. All else
28 equal, imposing monthly price changes on POLR customers will not
29 eliminate month-to-month changes in consumption. As a result, I
30 would expect Mr. Lacey's preferred monthly procurement model to
31 exacerbate swings in the average monthly prices paid by POLR
32 customers.

33 I would also note that PPL is proposing to replace its existing
34 generation rate design with a flat-rate consumption charge in 2010. If
35 adopted by the Commission, such a rate design would completely

1 eliminate the usage-driven impact on average POLR prices that forms
2 the premise for Mr. Lacey's argument.

3
4 **Q. Do you have any other comments on Mr. Lacey's monthly
5 procurement model?**

6 A. Yes. I would also simply point out that Direct Energy has a vested
7 interest in promoting monthly pricing for PPL's residential and small
8 business customers. The greater the number of customers subject to
9 frequent price changes, the more likely customers will choose to switch
10 to an alternative supplier such as Direct Energy.

11
12 **Dominion**

13
14 **Q. On page 5-6 of his direct testimony, Mr. Butler offers two alternatives to
15 PPL's proposed three-year acquisition process. His first choice would be
16 to (re)set POLR prices on a monthly or quarterly basis. Mr. Butler's
17 second choice would be to permit PPL (on a one-time basis) to purchase
18 its entire POLR requirements for 2010, 2011, and 2012 during 2009, and
19 to fix POLR prices for the three-year period at that time.¹ Do you have
20 any comments?**

21 A. Yes. With respect to Mr. Butler's first alternative, I would simply state that
22 my previous comments with respect to Direct Energy's proposed monthly
23 pricing model would also apply here.

24 With respect to Mr. Butler's second alternative, I would note that PPL
25 would be required to obtain three (3) years of POLR supply via competitive
26 procurements beginning no earlier than January 1, 2009. While Mr. Butler
27 explicitly allows for 2-3 solicitations, it is not clear that such few solicitations
28 would be sufficient to protect POLR customers from the outcome experienced
29 by Pike customers, particularly given the fact that all solicitations would be
30 constrained to take place within one year. Moreover, to the extent that PPL is
31 not able to avoid price spikes in the wholesale market, POLR customers could
32 be saddled with a Pike-like outcome for multiple years.

33

¹ In other words, after 2012, the Commission would direct PPL to acquire POLR supply, and set POLR prices, on a monthly or quarterly basis.

1 **Q. What is your recommendation with respect to Dominion's proposed**
2 **alternatives to PPL's CBP?**

3 A. I recommend that the Commission reject both alternatives.
4

5 **PennFuture**
6

7 **Q. On page 9 of his direct testimony, Dr. Tuffey recommends that PPL's**
8 **CBP be structured in such a way that the two (2) solicitations scheduled**
9 **for 2007 cover 100% of PPL's 2010 Tier I requirement under the**
10 **Alternative Energy Portfolio Standards Act ("AEPS Act"). Would such a**
11 **requirement be consistent with the objective of reducing price volatility?**

12 A. Not really. PPL has proposed to obtain its 2010 POLR requirements over a
13 series of solicitations, covering three years, in order to reduce the risk of its
14 buying all of its POLR supply at a market-price peak. PennFuture's proposal
15 would undermine PPL's procurement strategy with respect to its 2010 Tier I
16 requirements. In other words, all else equal, PPL's POLR customers would
17 be subject to greater price risk if Tier 1 purchases were to be restricted to
18 2007, rather than spread out over the 2007-2009 period.
19

20 **Q. On pages 9-10 of his direct testimony, Dr. Tuffey recommends that PPL**
21 **be required to implement an effective Energy Efficiency program to meet**
22 **a portion of its 2010 POLR requirements via a reduction in load growth.**
23 **In particular, Dr. Tuffey recommends that PPL solicit bids to meet a**
24 **target reduction of 1% in the projected energy requirements of all**
25 **customer groups in 2010. Dr. Tuffey indicates that such bids could**
26 **include any energy efficiency and/or conservation measures contained in**
27 **the AEPS Tier II Energy Efficiency and Demand Side Management**
28 **("DSM") Working Group rules approved by the Commission. Do you**
29 **have any comment?**

30 A. Yes, I do. The AEPS Act requires that all Pennsylvania load serving entities
31 meet a statewide standard with respect to renewable energy via an established
32 timetable. However, Dr. Tuffey appears intent on holding PPL to a separate
33 and distinct standard, rather than the one spelled out in the AEPS Act.
34

1 **Q. Please discuss how Dr. Tuffey's proposal differs from the**
2 **requirements of the AEPS Act.**

3 A. The AEPS Act requires load serving entities to meet separate Tier I and
4 Tier II supply requirements. Tier I comprises eight (8) permissible
5 alternative energy sources. Tier II encompasses seven (7) allowable
6 alternative energy sources, of which one is DSM. The AEPS Act does
7 not dictate which technologies must be used to meet Tier I and Tier II
8 energy requirements (except for a solar energy set-aside in Tier I). This
9 approach is intended to insure a level playing field for all technologies
10 identified in the legislation. In contrast, PennFuture would require PPL
11 to give a preference to (i.e., incent) DSM technology at the expense of
12 the six (6) other Tier II alternative energy sources permitted under the
13 AEPS Act. In short, Dr. Tuffey's proposal would create a non-level
14 playing field among Tier II energy resources.²

15
16 **Q. Why is it important to maintain a level playing field with respect to**
17 **alternative energy sources?**

18 A. By maintaining a level playing field, those technologies (and
19 companies) that supply the requirements of the AEPS at lowest cost
20 will grow and prosper, while those that cannot compete will exit the
21 market. In that way, the requirements of the AEPS Act will be met at
22 the lowest overall cost to ratepayers.

23
24 **Q. Is PennFuture's proposal to require PPL to implement an Energy**
25 **Efficiency program to meet a portion of its 2010 POLR**
26 **requirements necessary?**

27 A. No. If customers desire these types of programs or applications, they
28 can acquire such products from outside vendors.

29
30
31

² It is not clear whether Dr. Tuffey intends that his proposal be utilized to *meet* PPL's 2010 Tier II requirements, or be imposed *in addition to* such requirements. If it is the latter, then PennFuture's proposal would also seek to impose a higher alternative energy standard on PPL (and its POLR customers) than that required of other Pennsylvania ratepayers.

1 **Q. What is your recommendation in this area?**

2 A. I recommend that the Commission reject PennFuture's proposal to
3 require PPL to solicit bids to meet a target reduction of 1% in the 2010
4 projected energy requirements of all customer groups.
5

6 **Q. On page 10 of his direct testimony, Dr. Tuffey recommends that PPL be**
7 **required to identify the top 10% of the peak load in each rate group in**
8 **2009, and to provide those customers with voluntary strategies to reduce**
9 **or shift load away from peak periods. Do you have any comment?**

10 A. Yes. The OSBA does not oppose voluntary Demand Side Response ("DSR")
11 programs, as long as those participating in such programs pay the associated
12 costs.
13

14 **Q. For 2010, PennFuture would require PPL to implement a "real time**
15 **Demand Side Response ("DSR") program that would be structured to**
16 **enroll customers representing at least the top 10% of peak load in each**
17 **customer group." Do you have any comment on this type of program?**

18 A. Yes. The OSBA is opposed to *mandatory* DSR programs, as Dr.
19 Tuffey would seem to be suggesting, particularly when such programs
20 include a real-time pricing component.
21

22 **Q. Why does the OSBA oppose mandatory DSR programs?**

23 A. The OSBA opposes such programs for the simple reason that retail
24 business must generally be conducted during normal business hours.
25 For example, a restaurant is not in a position to switch its hours of
26 operation from 11:00 am through 10:00 pm to, say, 6:00 pm through
27 5:00 am, just to avoid the bulk of PJM's on-peak period. As a
28 consequence, small business customers may represent the group *least*
29 *likely* to be able to respond to DSR programs. In such circumstances,
30 imposing real-time pricing on small business customers would simply
31 raise their costs without producing any benefits.
32
33
34

1 **Q. Do even larger commercial and industrial customers embrace real-**
2 **time pricing?**

3 A. Apparently not. For example, in its submission to the Commission in
4 Docket No. M-00061957, Duquesne Light Company provided the
5 following comments:
6

7 Another problem with the large customer [POLR] plan is that
8 our large C&I customers have been forced to receive hourly price
9 service (HPS) as their default service. We have learned that our
10 customers, by and large, do not want hourly pricing.

11 While hourly service can be a viable option for a few
12 sophisticated customers, Duquesne Light has found that probably
13 less than 10% of its large C&I customers have the sophistication and
14 financial wherewithal to administer it effectively. Hourly priced
15 service exposes customers to price volatility and financial
16 uncertainty that most are unwilling to tolerate. For the most part,
17 Duquesne has found that customers want certainty. They need to
18 budget for expenses, and they don't want to be surprised by rapidly
19 escalating prices or extreme volatility. Volatile hourly prices are not
20 a necessary or desirable part of a competitive market. (Comments at
21 3.)
22

23 **Q. Do you recommend that the Commission adopt Dr. Tuffey's**
24 **proposal with regard to mandatory DSR programs?**

25 A. No. The Commission should reject his proposal for small business
26 customers since real-time rate designs would be unlikely to elicit any
27 meaningful load shifting response.
28

29 **OCA**
30

31 **Q. On page 11 of his direct testimony, Dr. Estomin recommends that**
32 **following the completion of the proposed 2007 procurements, PPL**
33 **be directed to convene a meeting with all stakeholders to review the**
34 **results of the initial two solicitations and assess whether any**

1 **modifications to the procurement protocols are warranted. Do you**
2 **have any comment?**

3 A. Yes. In order for such a collaborative to be productive, customer
4 representatives must be provided with detailed results from the initial
5 solicitations. Such information should include the number of bidders,
6 the number of tranches offered at various prices and the percentage of
7 total load awarded, by rate group and by winning supplier. Of course,
8 such information should be provided subject to a confidentiality
9 agreement. However, counsel informs me that the above information
10 has not generally been made available to customer representatives in
11 the past. If this “policy” were to be continued, it would seriously
12 inhibit the type of investigation envisioned by Dr. Estomin.

13
14 **Q. On page 22 of his direct testimony, Dr. Estomin recommends that PPL**
15 **issue an RFP in 2008 for bids to provide DSR and/or energy efficiency**
16 **programs to supply a set percentage of the Company’s total 2010 capacity**
17 **and energy needs for residential customers. Do you have any comment?**

18 A. Yes. As I previously discussed, the OSBA opposes a requirement that
19 PPL be obligated to solicit bids to implement energy efficiency
20 programs to meet a percentage of the 2010 energy and capacity needs
21 of all of its POLR customers. While the OSBA takes no position
22 regarding the specific components of the POLR procurement process
23 used for *residential* customers, it would strongly object to Dr.
24 Estomin’s recommendation being applied to PPL’s non-residential rate
25 groups, or becoming a precedent for future POLR proceedings.

26
27 **OTS**

28
29 **Q. On pages 7-8 of his direct testimony, Mr. Gruber comments on PPL’s**
30 **proposals with respect to its Transmission Service Charge (“TSC”). Mr.**
31 **Gruber recommends that PPL be required to seek approval from the**
32 **Commission before employing the TSC to recover any direct**
33 **transmission costs imposed on PPL by PJM. Mr. Gruber also**
34 **recommends that the Commission deny PPL’s request for permission to**

1 **recover indirect transmission charges (arising from a supplier)**
2 **automatically within the TSC. Do you have any comments?**

3 A. Yes. Mr. Gruber's first point raises a potential issue with respect to
4 using the TSC to recover directly imposed transmission charges (e.g.,
5 PJM administration costs) from POLR customers. To the extent that
6 the "direct transmission costs" imposed by PJM are related solely to
7 PPL's capacity as a transmission owner, rather than a load serving
8 entity, such charges would presumably *not* apply to alternative
9 suppliers. At the same time, all ratepayers should be responsible for
10 paying such costs. In order to insure such an outcome, that portion of
11 the TSC related to direct costs should be applicable to both POLR and
12 shopping customers, i.e., be nonbypassable.

13 With regard to Mr. Gruber's second point, I agree that the
14 recovery of "indirect transmission charges" originating from a supplier
15 via the TSC is problematic, and could create an uneven playing field in
16 the market. Unless PPL can specify the types of charges to be included
17 within its indirect cost category, and explain why such costs should be
18 recovered from select, as opposed to all, suppliers, I would agree with
19 Mr. Gruber that such costs should not be recovered within the TSC.

20
21 **Q. Does this conclude your rebuttal testimony?**

22 A. Yes.
23

OSBA STATEMENT NO. 3

DEC 19 2006

P-00062227
Hbg JK

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PPL ELECTRIC
UTILITIES CORPORATION FOR
APPROVAL OF A COMPETITIVE
BRIDGE PLAN

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DOCKET NO. P-00062227

Surrebuttal Testimony of

BRIAN KALCIC

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On Behalf of the

Office of Small Business Advocate

DOCKETED
DEC 27 2006

Issues addressed:
Revenue Decoupling
Solar Procurement
PPL's Proposed Modification of the TSC

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SECRETARY'S BUREAU

Date Served: December 15, 2006

Date Submitted for the Record: _____

1 Surrebuttal Testimony of Brian Kalcic

2
3
4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6
7 **Q. Have you previously submitted testimony in this proceeding?**

8 A. Yes, I have.

9
10 **Q. What is the subject of your surrebuttal testimony?**

11 A. My surrebuttal testimony responds to certain points raised in the rebuttal
12 testimony of Company witnesses Douglas A. Krall and Joseph M. Kleha.

13
14 **PPL Witness Krall**

15
16 **Q. On page 41 of his rebuttal testimony, Mr. Krall discusses his**
17 **opposition to the proposal of PennFuture witness Thomas J. Tuffey**
18 **to establish extensive new energy efficiency and conservation**
19 **programs in connection with PPL's proposed Competitive Bridge**
20 **Plan ("CBP"). Mr. Krall states that such programs could have a**
21 **detrimental impact on the Company's ability to recover its**
22 **distribution revenue requirement. As such, Mr. Krall concludes**
23 **that PennFuture's proposal should only be considered in the**
24 **context of a distribution rate proceeding or, alternatively, within**
25 **the context of the Commission's Demand Side Response Working**
26 **Group, which is examining the issue of revenue decoupling. Do**
27 **you have any comments?**

28 A. Yes. First, as Mr. Krall points out, the Commission has initiated a
29 separate proceeding (or forum) to examine revenue-decoupling issues.¹
30 As such, it would be inappropriate to attempt to utilize revenue
31 decoupling to facilitate the adoption of PennFuture's energy efficiency/
32 conservation proposal in this proceeding.

¹ The purpose of a revenue decoupling mechanism is to sever the link between a utility's kWh sales and revenues, and thereby provide a utility with additional revenue stability.

1 Second, with a revenue decoupling mechanism in place, a utility
2 would generally be allowed to track and to recover lost usage-related
3 revenues from ratepayers in a subsequent period(s). In practice,
4 however, the mechanism would do more than keep the utility “whole.”
5 By severing the link between sales and revenues, a revenue decoupling
6 mechanism would drastically reduce a utility’s underlying business
7 risk.² Therefore, if the Commission were to adopt a revenue
8 decoupling mechanism, it should only do so upon implementation of a
9 commensurate reduction in a utility’s allowed return on equity.

10
11 **Q. Is PPL’s allowed return on equity at issue in this proceeding?**

12 A. No, it is not. Consequently, the Commission should not consider
13 revenue decoupling in this proceeding.

14
15 **Q. On pages 43-45 of his rebuttal testimony, Mr. Krall discusses**
16 **PennFuture’s proposal that PPL be directed to include the Company’s**
17 **entire 2010 Tier I alternative energy requirement in its 2007 POLR**
18 **solicitations. Do you have any comments?**

19 A. Yes. Mr. Krall correctly (in my view) rejects PennFuture’s proposal, as
20 it would relate to all Tier I resources, arguing, in part, that Dr. Tuffey’s
21 proposal would restrict competitive market dynamics to one year (i.e.,
22 2007) and “preclude cost effective opportunities that might otherwise
23 come along in 2008 or 2009 and be available to reduce the cost impact
24 on PPL Electric’s customers.” However, Mr. Krall states that PPL is
25 willing to accept Dr. Tuffey’s proposal with respect to solar
26 photovoltaic resources only.

27
28 **Q. What is PPL’s rationale for acquiescing to PennFuture’s proposal in the**
29 **above area?**

30 A. In support of his position, Mr. Krall states only that the “Act treats
31 solar photovoltaic resources differently from Tier I or Tier II resources
32 in a number of ways.”

33

² For example, since revenues would be independent of kWh sales, a utility’s sales (and earnings) would no longer be impacted by factors such as weather and/or changes in economic conditions.

1 **Q. How does Act 213 treat solar photovoltaic resources differently?**

2 A. To my knowledge, any differential treatment afforded solar
3 photovoltaic resources is limited to the solar-specific Tier I set aside
4 included in Act 213.³

5
6 **Q. Does that distinction justify including PPL's entire 2010 solar
7 energy requirement for its Residential and Small Commercial and
8 Industrial customer groups in the Company's proposed 2007
9 POLR supply procurements?**

10 A. No. Doing so would preclude the potential utilization of more cost
11 effective solar energy applications that might arise in 2008 or 2009,
12 and thereby result in higher costs for PPL's POLR customers.
13 Consequently, the Commission should reject the PennFuture / PPL
14 proposal to obtain the Company's entire 2010 solar energy requirement
15 for its residential and small C&I customers in 2007.

16
17 **PPL Witness Kleha**

18
19 **Q. On pages 2-3 of his rebuttal testimony, Mr. Kleha discusses the
20 Company's proposal to modify its proposed CBP with respect to the
21 provision of transmission services. In its August 2, 2006 CBP filing, the
22 Company proposed that POLR suppliers be required to obtain all
23 transmission services, including ancillary services.⁴ In response to the
24 comments raised by the OCA and OTS, Mr. Kleha states that the
25 Company "will modify its CBP to specifically provide that the Company
26 will obtain directly from PJM the transmission services required to move
27 POLR supply within PJM; ancillary services will be obtained by the
28 POLR suppliers." Do you have any comments with regard to this
29 proposed modification to the CBP?**

30 A. Yes, I do. First, I would note that PPL's suggested modification represents a
31 substantial departure from its filed position, which, as discussed below, could

³ In other words, Act 213 requires all Pennsylvania load serving entities to utilize solar resources to meet a set portion of their annual Tier I alternative energy requirements.

⁴ PPL also proposed to modify its existing Transmission Service Charge ("TSC") to include the recovery of only those transmission costs imposed on PPL directly, by PJM, or indirectly, by a supplier.

1 negatively impact POLR customers. Since neither the OCA nor the OTS
2 recommended anything approaching such a course of action,⁵ it is unclear
3 why the Company would find it necessary to respond to their positions in
4 such a radical manner. Second, because PPL would be responsible for
5 obtaining (directly from PJM) all the transmission services required to move
6 POLR supply *within PJM*, POLR customers could be saddled with higher
7 overall POLR costs (i.e., combined generation and transmission costs) in
8 2010 under the modified CPB than under PPL's filed CBP proposal.

9
10 **Q. How would that be possible?**

11 A. Under the modified CBP, PPL would be responsible for obtaining all
12 transmission services necessary to move POLR supply within PJM. As such,
13 PPL will award its 2010 POLR requirements to suppliers based on the (bid)
14 cost of generation delivered to PJM, rather than PPL. This approach could
15 result in PPL accepting non-economic bids over the course of its competitive
16 procurement program simply due to the impact of transmission constraints
17 (i.e., congestion costs) across different areas of PJM.

18 For example, suppose PPL were to receive bids from two (2) potential
19 POLR suppliers: 1) Supplier A, with a PJM generation source located to the
20 west of a major PJM transmission bottleneck, bids \$75 per MWh; and 2)
21 Supplier B, with a PJM generation source located to the east (or PPL side) of
22 that same PJM transmission bottleneck, bids \$80 per MWh. Under the
23 modified CBP, PPL would accept the bid from Supplier A, independent of the
24 transmission cost associated with delivering Supplier A's generation to PPL's
25 service territory.

26 Unfortunately, if the transmission cost necessary to deliver Supplier
27 A's generation to PPL's POLR customers exceeds the cost to deliver Supplier
28 B's generation (had Supplier B been chosen), then POLR customers could be
29 worse off in 2010 under the modified CBP. In particular, POLR customers
30 would be *worse off* under the modified CPB if the difference in transmission
31 costs were to exceed \$5 per MWh (i.e., \$80 per MWh minus \$75 per MWh)
32 in the example above.

33

⁵ For example, OCA witness Estomin simply requested additional clarification from the Company regarding which types of transmission costs would be collected in the GSC versus the TSC.

1 **Q. Would the potential for awarding non-economic POLR supply contracts**
2 **exist under PPL's filed CBP proposal?**

3 A. No, since contracts would be awarded based upon the aggregate cost of
4 generation and transmission service.
5

6 **Q. What is your recommendation in this area?**

7 A. I recommend that the Commission reject PPL's proposal to modify its filed
8 CBP with respect to the acquisition of transmission service, and adopt instead
9 the approach contained in the Company's August 2, 2006 CBP filing.
10

11 In the alternative, I would recommend that the Commission direct PPL
12 to award its 2010 POLR supply requirements to suppliers based upon the bid
13 cost of generation delivered *to PPL's service territory*. (PPL would be
14 responsible for the cost of moving POLR supply *within* its service territory.)
15 In that way, the probability of PPL awarding an uneconomic POLR supply
16 contract should be moderated to a large extent.
17

18 **Q. Does this conclude your surrebuttal testimony?**

19 A. Yes.

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PAPU
UTILITY COMMISSION
SECRETARY'S BUREAU

PPLICA Statement No. 1

DEC 19 2006

P-00062227
Hbg dx

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :

v. :

PPL Electric Utilities Corporation :

Docket No. P-00062227

DOCUMENT
FOLDER

DOCKETED
DEC 27 2006

DIRECT TESTIMONY
OF
KEVIN S. WILKIE

ON BEHALF OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

Addressing:

POLR Options for Large C&I Customers in 2010
Concern Regarding Market Pricing in 2010

**TESTIMONY BY KEVIN S. WILKIE
MOUNT JOY WIRE CORPORATION**

1 **Q. Please state your name and business address.**

2 A. My name is Kevin S. Wilkie. My business address is:

3 Mount Joy Wire Corporation
4 1000 E. Main Street
5 Mount Joy, PA 17552

6 **Q. By what company are you employed?**

7 A. I'm employed by Mount Joy Wire Corporation ("Mount Joy Wire").

8

9 **Q. How long have you worked for Mount Joy Wire?**

10 A. I've worked for Mount Joy Wire for two and one-half years.

11

12 **Q. What is your current position with Mount Joy Wire?**

13 A. My current position is Controller & Treasurer.

14

15 **Q. What are your duties in your current position?**

16 A. I am responsible for managing all financial, accounting and purchasing functions.

17

18 **Q. What is your educational and employment background prior to joining**
19 **Mount Joy Wire?**

20 A. I have a B.S. in accounting. I am a CPA and was in public practice for 3 years. I
21 have been a Controller of 5 different companies for a total of 12 years and spent 7
22 years as a consultant implementing computer systems.

23

1 Q. Does Mount Joy Wire have a facility located in the service territory of PPL
2 Electric Utilities Corporation ("PPL")?

3 A. Yes. Our facility purchases distribution and generation from PPL on Rate IS-T.
4

5 Q. What does the Mount Joy Wire facility manufacture?

6 A. Mount Joy Wire manufactures high carbon steel wire. This wire is used largely in
7 the automobile, spring, brush and cable industries, among others.
8

9 Q. How many employees are at your facility.

10 A. We have approximately 145 employees.
11

12 Q. Have you reviewed the direct testimony submitted by PPL in this
13 proceeding?

14 A. Yes. I generally reviewed PPL's direct testimony.
15

16 Q. What is your understanding of PPL's proposal in this proceeding?

17 A. PPL has submitted a proposal for Large Commercial and Industrial ("Large C&I")
18 Provider of Last Resort ("POLR") generation service during 2010. Large C&I
19 customers such as Mount Joy Wire will be able to choose a fixed price POLR
20 service by committing a year in advance and prior to knowing the actual price.
21 PPL will also offer a variable hourly priced POLR service.
22

1 Q. As a larger PPL customer, what concerns do you have regarding PPL's
2 proposal?

3 A. As a large PPL customer, Mount Joy Wire's primary concern is ensuring that its
4 electricity rates and costs are as low as possible and allow us to remain
5 competitive. Due to our operations, we have only limited ability to respond to
6 market price fluctuations for electricity. Having a stable, fixed price at levels that
7 allow us to remain competitive is extremely important to us. Because there are
8 not many electric generation suppliers ("EGSs") currently offering supply service
9 to us in the PPL territory, we believe it is important for PPL to continue providing
10 a fixed price option.

11 The backstop of a fixed price offering from PPL is especially important until
12 Mount Joy Wire sees whether and how the EGS marketplace develops once PPL's
13 rate caps expire. Until we see actual evidence that the EGSs are entering the PPL
14 market, from a business planning perspective Mount Joy Wire must be prudently
15 cautious and assume that PPL may be our only option in 2010 for electric
16 generation supply.

17
18 Q. What is the basis for your belief that there are not many electric generation
19 supply competitors in the PPL Territory for large customers?

20 A. My belief is based primarily on the low number of shopping customers in our
21 category as indicated on the Office of Consumer Advocate ("OCA") shopping
22 statistics and the fact that no EGS has contacted us to present an offer since I have
23 been with Mount Joy Wire.

1

2 **Q. Under PPL's proposal, if you want the fixed price service, Mount Joy Wire**
3 **must notify PPL by the end of 2008 prior to knowing the price. Is this**
4 **consistent with your normal purchasing practices?**

5 A. No. We require our vendors to provide us with fixed prices before committing to
6 the purchase unless it is impractical under the circumstances, such as when a
7 vendor needs to examine or review something prior to giving us a quote, in an
8 emergency situation or when it is common practice for that industry.

9

10 **Q. PPL's filing projects increases of 30% to 40% in 2010. Do you have any**
11 **comments regarding these projected increases?**

12 A. Yes. The magnitude of the projected increases in 2010 is alarming. Because we
13 currently are on Rate IS-T purchasing interruptible supply service and our
14 interruptible service will be discontinued, our increases will be even higher. We
15 face formidable competition particularly overseas. They already enjoy lower
16 labor rates, pension costs, health care costs and natural gas costs than Mount Joy
17 Wire. This makes our margins extremely small and does not provide much room
18 for error or additional cost increases. I am extremely concerned about the impact
19 of electricity price increases in this projected range on our ability to remain
20 competitive and urge the Commission to do everything possible to mitigate the
21 increases.

22

23

1 **Q. Can Mount Joy respond to hourly market prices?**

2 A. No. Our process is dependent on machines that take time to shutdown and then to
3 restart back up. We also have heat treating furnaces that require electricity to run,
4 but if they are not running would cool down and then we would have to take the
5 time to reheat them. In addition, we are a union shop with a contractual minimum
6 amount of hours that an employee must be paid once he reports to work.
7 Responding to hourly price fluctuations would be impractical and costly.

8
9 **Q. Would having the hourly market prices one day in advance assist you in
10 responding?**

11 A. Yes, but only to a limited extent. If we saw that prices were sufficiently high to
12 make production uneconomic, we could make the decision to not run the shift the
13 next day; however, this is counter to our manufacturing goals of maximizing the
14 use of our equipment on a 24 x 7 basis. To be able to economically accomplish
15 this goal, we need a fixed price that we know in advance.

16
17 **Q. Will the PP&L Industrial Customer Alliance ("PPLICA") be raising
18 additional objections to the PPL Competitive Bridge Plan?**

19 A. Yes. It is my understanding that PPLICA will pursue several legal and policy
20 positions in its cross-examination and briefs that relate to my factual testimony.

21 These issues include, but are not limited to:

- 1 1. The need for PPL to include in its tariff a formula for any hourly
2 service (real time, day ahead or both) to ensure compliance with
3 the relevant sections of the Public Utility Code;
- 4 2. The introduction of a day-ahead hourly service for Large C&I
5 customers;
- 6 3. Clarification of the operation and calculation of the Generation
7 Rate Adjustment ("GRA") applicable to Large Commercial &
8 Industrial customers during 2010; and
- 9 4. The design of and costs to be flowed through the Transmission
10 Service Charge ("TSC").

11

12 **Q. Does this conclude your testimony?**

13 **A. Yes.**

Reliant Statement No. 1

12/19/06
P 00062227
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric
Utilities Corporation for
Approval of Competitive
Bridge Plan

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Docket No. P-00062227

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Direct Testimony of
James A. Ajello

On Behalf of

Reliant Energy, Inc.

DOCUMENT
FOLDER

Issues addressed:

POLR Plan for Large C&I Customers

DOCKETED
DEC 27 2006

Date Served: November 15, 2006

Date Submitted for the Record: _____

REDACTED VERSION

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.		
III.	SUCCESSFUL POLR DESIGN.....	5
IV.		
V.		
VI.	CONCLUSION.....	19

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is James A. Ajello. My business address is 1000 Main, Houston, Texas,
4 77002.

5

6 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

7 A. I am testifying on behalf of Reliant Energy, Inc. ("Reliant").

8

9 Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL
10 BACKGROUND.

11 A. I hold a bachelor's degree from the State University of New York and a master's
12 degree from Syracuse University. In addition, I am a graduate of the Advanced
13 Management Program of the European Institute of Business Administration in
14 Fountinebleau, France. I also currently serve as the chairman of the U.S.
15 Department of Energy's Environmental Management Advisory Board.

16 I joined Reliant in 2000 and have been responsible for managing Reliant's
17 retail electric marketing business for mid-sized and large commercial and
18 industrial ("Large C&I") customers. I am currently the Senior Vice President of
19 C&I Business Development. Before joining Reliant, I was vice president of
20 Enron North America, based in Houston, where I was responsible for a team
21 originating business with large industrial clients. Previously, I was based in New
22 York as managing director of the Energy & Natural Resources Group of UBS
23 Warburg. My client base included oil and gas exploration and production

1 companies, pipelines and mining companies in North America. Prior to this
2 assignment, I was managing director and manager of UBS Chicago for four years
3 and before that I was head of the UBS North American project finance team.
4 Including previous work at U.S. Synthetic Fuels Corporation in Washington D.C.,
5 I have over 25 years of finance and management experience in the chemicals,
6 refining, energy and natural resources sectors. A *Curriculum Vitae* is being
7 submitted with my testimony as JAA-1.

8
9 **Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT**
10 **OF C&I BUSINESS DEVELOPMENT?**

11 A. As Senior Vice President of C&I Business Development, I manage Reliant's
12 efforts to grow its retail business in markets in which Reliant is not currently
13 active. My responsibilities include advocating regulatory and commercial
14 policies in numerous jurisdictions to promote robust and sustainable retail
15 competition.

16
17 **Q. PLEASE PROVIDE THE SCOPE OF RELIANT'S PRESENCE IN**
18 **PENNSYLVANIA AND THE SURROUNDING AREAS?**

19 A. Reliant employs over 1,300 individuals in Pennsylvania and is the third largest
20 generator in the Commonwealth with approximately 5,300 MW of capacity in
21 Pennsylvania.¹

22 In addition to Reliant's wholesale presence, Reliant Energy Solutions
23 East, LLC ("RESE") is a licensed Electric Generation Supplier ("EGS") in

¹ Summer/winter average capacity.

1 Pennsylvania. RESE is an active participant in the Large C&I market in the
2 Duquesne Light service territory in Pennsylvania, as well as in New Jersey and
3 Maryland. RESE is not currently active in any other Pennsylvania electric
4 distribution company's ("EDC") territory, but we look forward to entering other
5 venues as rules are put in place that encourage the development of robust and
6 sustainable competition across the Commonwealth.

7

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

9 A. The purpose of my testimony is to

10

11

discuss the

12

attributes of a successful provider of last resort ("POLR") product.

13

14

15

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20

21 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

22 A. Yes. I am sponsoring the following exhibits which are being submitted with my
23 testimony:

Exhibit JAA-1 *Curriculum Vitae*

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III. SUCCESSFUL POLR DESIGN

Q. WHAT IS THE SINGLE MOST IMPORTANT FEATURE OF POLR SERVICE NECESSARY TO ALLOW FOR THE DEVELOPMENT OF ROBUST, SUSTAINABLE COMPETITION?

A. It is imperative that POLR service prices adhere to the “prevailing market price” standard established in the Choice Act.

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Experience in Pennsylvania provides a good example. In the Duquesne Light service territory, where hourly priced service (“HPS”) is the default service for customers above 300 kW, competitive electric suppliers were serving 92.8% of load as of December 31, 2005.³ Maryland has similar experience. The October 2006 Electric Choice Enrollment Report shows that 94.1% of the large commercial and industrial load in Maryland is served by competitive electric suppliers.⁴ Other jurisdictions provide similar examples. In the commercial and industrial energy pricing (“CIEP”) class in New Jersey, which employs hourly

³ See *Petition of Duquesne Light Company for Approval of Its Plan for Post-Transition Period POLR Service*, Pa. P.U.C. Docket No. P-00032071, Fourth Compliance Filing (approved Feb. 14, 2006), page 34.

⁴ The hourly threshold in MD is 600 kW. See <http://www.psc.state.md.us/psc/electric/enrollmentrpt.htm>.

1 priced default service, 84% of the load was being served by competitive electric
2 suppliers as of September 30, 2006.⁵
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⁵ The CIEP class in New Jersey currently consists of commercial and industrial customers with peak load obligations of 1,250 kW or greater. On June 1, 2007, the CIEP class and, by extension, hourly priced default service, will be expanded to customers with peak load obligations of 1,000 kW and higher. See New Jersey Board of Public Utilities Docket No. EO05040317, *I/M/O the Provision of Basic Generation Service For The Period Beginning June 1, 2006*, Decision and Order (Dec. 18, 2005) at 15-16.

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VI. CONCLUSION

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4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5 A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

Reliant Energy, Inc.

**Exhibits of James A. Ajello
JAA-1 – Curriculum Vitae**

EXHIBIT JAA-1

CURRICULUM VITAE

James A. Ajello
2705 Cason, Houston, TX 77005

713-497-3870 (W)
713-497-9225 (WF)

jajello@reliant.com
713-666-1800 (H)
713-299-1131 (C)

EXPERIENCE

2000-Present, Reliant Energy (NYSE:RRI) **Houston, Texas**
Senior Vice President and General Manager, Commercial & Industrial Marketing. Responsible for developing, operating and growing Reliant Energy's C&I business. This business has over \$2.5 billion in annual revenues, over 200 staff and provides customized, integrated energy solutions, including commodity, consulting, e-commerce and risk management, as well as energy and demand side management services, to large and mid-sized commercial, industrial and institutional clients in Texas, New Jersey, Maryland, D.C. and Pennsylvania. Member of the RRI Leadership Forum, and Chairman of the Reliant Benefits Committee.

1998-2000, Enron Corporation (North America) **Houston, Texas**
Vice President, Downstream Origination. Responsible for business development in the chemicals/plastics, refining, fertilizers, industrial gases and metals sectors in North America. As Group Head, duties included managing the integrated delivery of products in risk management, finance and energy asset development (outsourcing). Supervised a team of 35.

1995-1998, UBS Warburg /UBS Securities LLC **New York, NY**
Managing Director, Energy & Natural Resources Group. Responsible for corporate finance, advisory products, equity and debt issuance, underwriting products, and relationship management. Primary origination and execution responsibility for selected oil and gas exploration and production companies, pipelines and mining companies in North America. Co-manager and developer of 20-person Group.

1993-1995, UBS Securities, Inc. **New York, NY**
Senior Banker/Managing Director, Business Development/Corporate Finance Group. Responsible for corporate finance, advisory and underwriting products for UBS' most important client base in the Midwest. Relationship manager coordinating all UBS products.

1989-1993, Union Bank of Switzerland **Chicago, IL**
Branch Manager & Managing Director. Responsible for all UBS business in 16 states in the Midwest, managed staff of 50 people and maintained core banking relationships providing corporate finance, advisory and underwriting products. Developed the most profitable (per capita) office of UBS in North America.

1984-1989, Union Bank of Switzerland **New York, NY**
Managing Director and Head – Project Finance. Responsible for managing a staff of 15 professionals, advising clients on and arranging capital for large infrastructure projects in mining, power, oil and gas, chemicals, refining and pipelines. Successful at migrating the business to a leadership position, focusing on advisory and capital markets products.

James A. Ajello

1980-1984, U.S. Synthetic Fuels Corporation **Washington, D.C.**
Project Manager. Responsible for managing a team (finance, legal, engineering, environmental) providing financial incentives to accelerate the development of alternative fuels to lessen dependence on imported sources of petroleum. Successfully completed world scale projects negotiating financial incentives exceeding \$3 billion with Exxon, Tosco, Unocal, Texaco, Tenneco, Panhandle, et al.

1976-1980, U.S. Department of Energy **Washington, D.C.**
 Various duties and assignments including: (a) Presidentially-directed study of the 1000 megawatt Davis Hydroelectric Project; (b) one year assignment at the Strategic Petroleum Reserve in New Orleans to negotiate oil acquisitions from industry majors and Mexico; (c) negotiated oil supply and operating arrangements for the Elk Hills, CA Naval Petroleum Reserve; (d) management intern to Admiral Hyman Rickover (father of the Nuclear Navy) in finance and contracts working with GE on the Trident submarine program.

EDUCATION

- | | | |
|------------------|--|------------------------------|
| 1991 | Advanced Management Program of the European Institute of Business Administration (INSEAD) | Fontainebleau, France |
| 1975-1976 | Syracuse University, Maxwell School
MPA/MBA, Summa cum laude | Syracuse, NY |
| 1971-1975 | State University of New York
BA, cum laude | Oneonta, NY |

PERSONAL

Married, two children. Interests include reading biographies of famous people, opera and classical music, tennis, bicycling, and curling.

OTHER

Chairman of the U.S. Department of Energy's Environmental Management Advisory Board;
 Board Member, Junior Achievement (Southeast Texas)