

November 15, 2006

FES Statement No. 1

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PPL ELECTRIC UTILITIES CORPORATION
DOCKET NO. P-00062227

DOCUMENT
FOLDER

Direct Testimony
of
Irena M. Prezelj
On behalf of FirstEnergy Solutions Corp.

DOCKETED
DEC 28 2006

List of Topics Addressed

Default POLR Service for Large C&I Customers

- The Process
- The Rules
- The Products

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DIRECT TESTIMONY OF IRENA M. PREZELJ

I. Introduction and Purpose

Q. Please state your name and business address for the record.

A. My name is Irena M. Prezelj and my business address is FirstEnergy Solutions, Corp., 395 Ghent Road, Akron, Ohio 44333.

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

A. I am currently employed by FirstEnergy Solutions Corp. ("FES"), a wholly owned subsidiary of FirstEnergy Corp., as Market Intelligence Manager in FES' Marketing Department.

Q. What is the nature of FES' business?

A. FES is a wholesale and retail provider of electric generation and related services and is a licensed electric generation service ("EGS") provider in the State of Pennsylvania.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of FES's retail marketing group.

Q. Would you briefly describe your educational background and employment history?

A. I have more than 22 years of experience with FirstEnergy Corp. and its predecessor companies. Since 1999, I have held various positions at FES, all of which involve some aspect of tracking legislative and regulatory developments in various utility service territories located within either PJM Interconnection, LLC ("PJM"), or the Midwest Independent Transmission System Operator, Inc. ("MISO"). I received my undergraduate degree in Communications from Cleveland State University and a Master of Business Administration from Baldwin Wallace College.

1 **Q. Please describe some of your current responsibilities.**

2 A. In my current capacity as Market Intelligence Manager, I am responsible for, among
3 other things, monitoring regulatory activities in electric utility service territories,
4 especially as these activities relate to issues dealing with the close of the transition period
5 from regulation to full competition -- as is the case here with the Competitive Bridge Plan
6 ("CBP") being proposed by PPL Electric Corp., Inc. ("PPL Electric"). I also lead a team
7 that is responsible for developing FES' marketing strategy and electric price product
8 offerings made to retail customers within these restructured electric markets.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is (i) to address FES' concerns with the process, rules and
11 products proposed in PPL Electric's CBP for POLR service to its Large Commercial and
12 Industrial ("C&I") customers; and (ii) to suggest modifications to the same.

13 **Q. How do you define "Large C&I Customers?"**

14 A. When I discuss Large C&I customers, I am referring to those customers taking service at
15 primary and transmission level voltage.

16

17 **II. PPL Electric's Proposed Plan**

18 **Q. Please generally explain PPL Electric's proposed process for obtaining POLR
19 supplies to serve Large C&I customers.**

20 A. For Large C&I customers, the CBP proposes an RFP POLR procurement process in
21 which two solicitations, for 19 tranches each, are to be held "sometime during 2009."
22 Although the CBP indicates that the RFPs will be initiated in March and September of

1 each year for other customer classes, the RFP schedule for Large C&I customers is
2 unclear in the CBP.

3 **Q. How will PPL Electric price these POLR supplies to Large C&I customers?**

4 A. Large C&I customers will have at least two POLR price options under the CBP. The first
5 option is a fixed price option; the second, an hourly price option. In order to qualify for
6 the fixed price option Large C&I customers must affirmatively opt-in, sometime in late
7 2008, for power to be obtained during the 2009 RFP process, for power flow in 2010.
8 Any Large C&I Customers that do not opt in to the fixed price option during 2008 will
9 receive POLR service under the hourly priced option. For customers that elect to leave
10 POLR service during 2010, they will be required to pay the "Generation Rate
11 Adjustment" ("GRA") currently included in PPL Electric's tariffs.

12
13 **III. Concerns With the PPL Electric CBP**

14 **Q. Do you agree with this POLR process for Large C& I Customers?**

15 A. No, I do not.

16 **Q. Why not?**

17 A. I disagree with the current structure of the CBP POLR process because I believe that it is
18 impractical, unnecessarily complicated, and creates barriers to shopping.

19 **Q. Why do you believe this?**

20 A. This is a classic case of "the chicken and the egg" -- should the supply be procured before
21 the participants are known? Or should the participants be known before the power is
22 procured? The CBP prefers the latter approach and requires Large C&I customers to
23 make a business decision regarding the cost of their electric service, which is generally

1 one of their more significant business costs, without knowing the price to be charged for
2 their service. The CBP approach very likely will create a lack of market participants
3 prior to the completion of the RFP process. From a retail marketing perspective, it makes
4 little sense to spend significant amounts of money on sales and marketing without first
5 knowing whether there is a market in which to sell. And until the RFP price is known,
6 retail marketers cannot make this determination. Therefore, not only does the current
7 CBP force these customers to blindly make a business decision with regard to fixed price
8 POLR service, but it requires them to do so before they even know what other options (if
9 any) exist in the marketplace. Furthermore, customers choosing to "opt-in" to fixed price
10 service and later determining that it is in their interest to switch to an alternative supplier
11 would be required to pay, in addition to the generation price charged by this alternative
12 supplier, the GRA charge. The GRA charge is another "unknown" price and, as I will
13 discuss later in my testimony, a barrier to competition. I am not aware of any other
14 services that are purchased under these conditions and it is impractical to require Large
15 C&I customers to purchase their electric generation service in this way, especially when
16 alternative solutions exist.

17 **Q. To what alternative solutions are you referring?**

18 **A.** I believe that the best POLR service design for Large C&I customers is one in which all
19 of these customers are offered POLR service on an hourly price basis. This completely
20 eliminates the need for an RFP process during 2009 for this group of customers, supports
21 the development of a competitive market as envisioned in Pennsylvania's Electric
22 Competition Act, and is easy for customers to understand. However, for reasons more
23 fully explained below, this may not be practical given that the CBP is a one year "bridge"

1 plan. Therefore, if the Commission determines that a fixed price option should be offered
2 to Large C&I Customers through the CBP, then the "opt-in" should be placed on the
3 hourly price option rather than the fixed price option. Under this approach, all Large
4 C&I Customers would be included in the fixed price pool for purposes of the RFP
5 process, requiring those that prefer hourly pricing to take affirmative steps to obtain it.
6 This approach, when coupled with the elimination of the GRA charge, which I discuss
7 later in my testimony, is the simplest form of fixed price POLR service. Further, if the
8 "opt-in" requirement is placed on hourly service, the process will not inadvertently place
9 customers on a service that they more than likely do not want. Those customers that
10 would have performed analyses to determine whether to shop, opt-in to the fixed price
11 program or take service on an hourly rate basis under the CBP as currently proposed will
12 still perform these analyses. However, by shifting the "opt-in" requirement to the hourly
13 price option, those customers that are not quite as savvy in the areas of forward price
14 curves, generation and transmission pricing, congestion issues and the like, will not
15 automatically be placed on a more complex pricing plan. Based on my experience in
16 electric price product design, the vast majority of customers -- especially those that do
17 not understand the subtle nuances involved in generation pricing -- generally prefer a
18 fixed price option to a variable, hourly price option. This is true more so with the recent
19 volatility in electric prices and uncertainties in the market. My experience has also taught
20 me that customers do not like significant change without having a say in it. Under the
21 current CBP, all customers would be taken from a fixed price service that probably most
22 are familiar with and be put into an hourly price service. Generally fixed price service is
23 what these customers know, what they expect and what they want. PPL Electric's "opt-

1 in" proposal, especially when combined with the GRA charge imposed on those
2 customers that elect to shop, is unnecessarily complicated and will likely result in
3 disgruntled customers and perhaps litigation. Past practice tends to indicate that quite a
4 few customers fail to take the affirmative steps necessary to change electric service for
5 reasons such as lack of understanding or lack of notice to the appropriate level of
6 management. *In order to create less confusion and problems down the road, the CBP*
7 *should not require all customers to be placed on a service that many will probably not*
8 *want. Rather, all customers should start with the service to which they have grown*
9 *accustomed and require only those that truly see benefits of taking service on an hourly*
10 *basis to take affirmative steps to change their service. Therefore, assuming that the*
11 *Commission does not desire to place all Large C&I customers on hourly priced service*
12 *and forego the RFP process for these customers, the "default" POLR price should be the*
13 *fixed price option, with customers having the option to "opt-in" to the hourly price option*
14 *(with no additional GRA charges) instead.*

15 **Q. Doesn't your suggested plan impact the prices that will be charged by potential**
16 **POLR service providers because of the volume risk created by shopping?**

17 **A.** I do not believe it does. First, under the CBP, those customers that originally elected to
18 shop and are returning to POLR service for any reason are required to take service under
19 the hourly price option, thus creating uncertainty for suppliers only when a customer
20 leaves the fixed price pool. Second, the CBP is only in effect for one year, thus
21 minimizing the amount of switching that can take place, if for no other reason than the
22 amount of time it takes to solicit and sell to Large C&I customers. Third, the winning
23 wholesale supply bidders are generally sophisticated participants in the market that deal

1 regularly with volume risk. By requiring customers to make a choice prior to knowing
2 the price at which the service will be offered removes from the potential wholesale
3 suppliers any volume risk caused by shopping and, in essence, shifts it to the customer.
4 Ideally risk should be placed on the party that is most capable of managing it and, in this
5 case, that party is the wholesale supplier. And, fourth, requiring customers to make a
6 choice regarding fixed price POLR service in 2008 does not alleviate the potential
7 volume risk problem for the supplier because there is nothing in the CBP that requires a
8 fixed price customer to remain a fixed price customer through the end of 2010. These
9 customers are permitted to shop at any time, albeit, under the current CBP, by paying the
10 GRA if they choose to leave after the power has been procured. Requiring customers to
11 make a choice as to the fixed price program prior to knowing the cost of that program
12 does nothing to alleviate the rationale for requiring the GRA. It is an unnecessary barrier
13 to shopping that is contrary to Pennsylvania's Competition Act.

14 **Q. Do you have any other concerns with the CBP as proposed?**

15 A. Yes, I do. As I indicated earlier, the CBP does not specify the time frame in which PPL
16 Electric will issue the RFPs for the Large C&I customers. Assuming that my
17 recommendation to obtain supply before customers are required to make a decision
18 regarding fixed price service is adopted, then the RFPs must be issued enough in advance
19 so as to allow these customers time to properly evaluate their options. Therefore, I would
20 suggest that the fixed prices for POLR service be made known to customers no later than
21 September 30, 2009. This provides both the customers and the potential retail marketers
22 time to evaluate the market, make informed decisions and incorporate those decisions
23 into their business plans for 2009.

1 Q. Do you agree with the GRA being proposed in the CBP?

2 A. No, I do not. I believe that the GRA is another unnecessary barrier to shopping.

3 Q. Why?

4 A. It is an unnecessary barrier to shopping for several reasons. First, the GRA was
5 implemented during the transition from regulated to competitive markets. The transition
6 period for PPL Electric will end as of December 31, 2009; so too should the GRA charge.
7 Second, the GRA charge is only imposed on customers that elect to shop, thus increasing
8 the costs to switch to an alternative supplier. It is an unknown charge that, in essence,
9 penalizes those customers that elect to shop and is, therefore, counter to the goals set
10 forth in the Electric Competition Act. Third, the GRA is a risk mitigation factor imposed
11 by the regulated utility on behalf of competitive electric suppliers. This is not the role of
12 a regulated utility in a competitive marketplace. As I indicated earlier, these potential
13 suppliers are generally sophisticated in risk management and are familiar with volume
14 risk. Therefore, rather than impose this artificial charge in an effort to manage volume
15 risk on behalf of these suppliers, I believe that the better approach is to allow each of the
16 wholesale suppliers to manage this risk as they deem necessary. Only by putting this risk
17 on the potential suppliers will there be opportunities for them to “sharpen their pencils”
18 when submitting a bid, and developing innovative ways to manage this type of risk in the
19 future. And finally, the removal of the GRA should also require less administration and
20 oversight by PPL Electric which, in theory, should reduce PPL Electric’s overall costs.
21 Given that PPL Electric is passing on the revenues from the GRA to suppliers, PPL
22 Electric should be indifferent to the removal of the GRA charge. Therefore, I
23 recommend that this anti-competitive charge be eliminated so that customers will be free

1 to move in and out of the market without penalty consistent with the overall goals of the
2 Electric Competition Act.

3 **Q. PPL Electric will also be charging what they refer to as a “Generation Service**
4 **Charge” or “GSC”? Do you see any problems with this?**

5 A. In theory, I do not see a problem. I am concerned, however, that there are no details
6 surrounding how the GSC is to be calculated. On page 20 of the CBP Application, it
7 *only indicates that the GSC will be a “flat cents per kilowatt hour” charge.* Before the
8 GSC is approved, additional details must be provided as to the basis on which the flat
9 cents per kilowatt hour charge will be determined and exactly how the GSC will be
10 translated from RFP prices to retail rates.

11 **Q. On page 22 of the CBP Application, PPL Electric indicates that the plan will include**
12 **an extension and enhancement of their two Demand Side Response (“DSR”)**
13 **programs. Do you agree with this part of the plan?**

14 A. Neither I nor FES is opposed to energy conservation and believe that there is a place for
15 it in competitive markets. That place, however, is not with regulated utilities. PPL
16 Electric is required by law to provide POLR service to those customers that either elect
17 not to shop, or do shop and subsequently return for any reason to PPL Electric for their
18 electric generation service. POLR service is a “default service”, meaning it is there when
19 there is *no other choice* that appeals to the customer. If, indeed, this is the role of PPL
20 Electric – to provide an option when no other option appeals to the customer – then there
21 should only be one option, not a multitude of product offerings from which the customers
22 can choose. Otherwise the service is not "default" service. In essence, by expanding the
23 DSR programs, PPL Electric will be offering electric price products that compete with

1 those that could (and should) be offered through the competitive marketplace. For these
2 reasons I oppose the extension and enhancement through the CBP of the DSR programs
3 as they relate to Large C&I customers. If these types of programs are desired by
4 customers, the market will provide them.

5 **Q. Could you please summarize your position?**

6 A. In sum, if the Commission desires a robust electric generation market, then obstacles to
7 entry and “penalties” for participation must be eliminated from the market place. Given
8 that the CBP is a one year "bridge" plan, the following recommendations are made in this
9 context and are not necessarily the same position that I would take under a longer-term
10 plan. At a minimum, I believe that the CBP must be modified as follows: (1) all Large
11 C&I customers should be included in the solicitation for the fixed price service, in
12 essence shifting the “opt-in” requirement from the fixed price option to the hourly price
13 option; (2) the CBP should establish a RFP time line that completes the RFP process in
14 sufficient time so as to afford both customers and marketers the opportunity to make
15 informed business decisions related to the PPL market and the products offered in that
16 market; (3) the GRA charge should be eliminated so as to place the volume risk caused
17 by shopping on those best able to manage it -- potential suppliers; (4) the CBP should
18 provide more details as to how RFP pricing will be translated into retail rates through the
19 GSC; and (5) the CBP should eliminate any extension or enhancement of DSR programs.

20 **Q. Does this conclude your direct testimony?**

21 A. Yes, it does.

December 15, 2006

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PPL ELECTRIC UTILITIES CORPORATION
DOCKET NO. P-00062227

DOCUMENT
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Surrebuttal Testimony
of
Irena M. Prezelj
On behalf of FirstEnergy Solutions Corp.

DOCKETED
DEC 28 2006

List of Topics Addressed
Default POLR Service for Large C&I Customers
Comments on Mr. Krall's Rebuttal Testimony

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3 **SURREBUTTAL TESTIMONY OF IRENA M. PREZELJ**
4

5 **I. Introduction and Purpose**

6 **Q. Please state your name and business address for the record.**

7 A. My name is Irena M. Prezelj and my business address is FirstEnergy Solutions, Corp.,
8 395 Ghent Road, Akron, Ohio 44333.

9 **Q. On whose behalf are you submitting this surrebuttal testimony?**

10 A. I am submitting this testimony on behalf of the competitive retail group of FirstEnergy
11 Solutions Corp. ("FES"). I previously submitted direct testimony (FES Statement No. 1)
12 in this proceeding.

13 **Q. What is the purpose of your surrebuttal testimony?**

14 A. There are 2 purposes to my surrebuttal testimony: First, to clarify Mr. Krall's
15 mischaracterization of FES's position on the POLR procurement process for Large
16 Commercial and Industrial ("C&I) customers as set forth in the Competitive Bridge Plan
17 ("CBP"); and second, to discuss several of the proposed modifications of PPL Electric
18 Utilities Corporation ("PPL Electric") to the CBP, as also discussed by Mr. Krall.

19
20 **II. FES' Position on the POLR Process for Large C&I Customers.**

21
22 **Q. Starting on page 11 of his rebuttal testimony (PPL St. 1-R), Mr. Krall discusses**
23 **several positions taken by various parties, including FES, on the CBP's Large C&I**
24 **POLR supply procurement program. Do you agree with his characterization of**
25 **FES's position?**

26
27 A. No, I do not. On page 11 of his rebuttal testimony, Mr. Krall states that FES proposes
28 "that PPL Electric not offer fixed price service to customers in the Large Customer and
29 Industrial Class, and, instead, offer only hourly service." This was not my testimony.

1 Beginning on page 5 line 18 of my initial testimony (FES St. 1), I stated that it was my
2 belief that the best POLR service design for Large C&I customers is one in which all of
3 these customers are offered POLR service on an hourly price basis. However, I further
4 state at page 5, line 23 of my initial testimony, that this may not be practical for PPL
5 Electric, given that the CBP is a one-year bridge plan. My recommendation was that if
6 the Commission felt that a fixed price option was the better approach for PPL Electric's
7 Large C&I customers during the CBP one year period, then the POLR supply
8 procurement process for Large C&I customers should be structured so that all customers
9 are included in the fixed price option for RFP purposes, with an option to elect hourly
10 priced service after the customer knows the fixed price being offered. I also concluded
11 that the GRA penalty as originally proposed by PPL Electric is anti-competitive and,
12 therefore, recommended that it be removed in its entirety.

13
14 **III. Concerns With PPL Electric's Proposed Modifications to the CBP.**

15 **Q. Starting on page 14 of his rebuttal testimony, Mr. Krall describes several**
16 **modifications to the CBP as originally filed. Do you agree with these proposed**
17 **changes?**

18
19 **A.** No, I do not. I believe that any change to the CBP as originally filed should make the
20 POLR procurement process easier to administer and easier to understand. The proposed
21 modifications discussed by Mr. Krall accomplish neither.

22 **Q. Why do you say this?**

23 **A.** Under the original CBP, Large C&I customers had to elect the fixed price option before
24 knowing the fixed price that would be offered. According to Mr. Krall, this was done to
25 eliminate load shape uncertainty for suppliers in an effort to reduce potential price risk

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1 premiums included in RFP bids due to shopping risk. (PPL St. 1-R, p. 14.) Rather than
2 accept my suggestion in my initial testimony and simply include all Large C&I customers
3 in the original RFP bidding with an option to choose hourly pricing after the fixed price is
4 known, the CBP, as modified by PPL Electric in Mr. Krall's rebuttal testimony, doubles
5 the work for all involved and does not solve the perceived problem. According to Mr.
6 Krall (PPL St. 1-R, p.14), under the modified CBP, Large C&I customers would first opt
7 in to the fixed price option prior to the RFP. If these customers do not make such an
8 election for the fixed price option, they would automatically receive the hourly priced
9 option. Then, once the RFP is completed and the fixed price is known, Large C&I
10 customers that originally elected the fixed price option would have a 30-day window in
11 which to *again* choose the fixed price option. If the customers who originally elected to
12 take the fixed price service offering fail to elect it *for a second time*, they too will
13 automatically receive hourly priced service. In other words, rather than fix the problem,
14 PPL Electric's suggested modification creates unnecessary confusion, and (a) duplicates
15 the notification and response process, (b) increases the amount of time, money and
16 resources that has to be expended by customers when making their choice; (c) doubles
17 the opportunities for customers to receive their lesser preferred service option; and (d)
18 doubles the opportunities for the process to break down. The two-step "opt-in"
19 modification proposed by PPL Electric is worse than that included in the original CBP.

20 **Q. On line 5 above, you state that PPL Electric's two-step "opt-in" modification does**
21 **not solve the perceived problem. Why do you say that?**

22 **A.** Mr. Krall explained at page 14 of his rebuttal testimony that PPL Electric is trying to
23 minimize prices by eliminating shopping risk through a load shape that better reflects that

1 which will be served by potential suppliers. Under the modified CBP, however, the
2 potential supplier still has no load shape certainty, because the customers have a 30-day
3 window in which to elect the hourly priced option. In fact, if customers do not elect for a
4 second time the fixed price option, they too default to the hourly priced POLR service.
5 Under the modified CBP, there is more risk of an inaccurate load shape on which
6 potential suppliers bid, because there are now two opportunities for customers to take
7 service under the hourly priced option -- one, voluntary; one, involuntary. As a result,
8 potential suppliers, when submitting their bids, will still have to factor in shopping risk
9 through risk premiums.

10 **Q. What do you suggest?**

11 A. As I stated at page 6 of my initial testimony (FES St. 1), all Large C&I customers should
12 be included in a fixed price pool for purposes of the RFP process, with an opportunity to
13 elect hourly pricing once the fixed price to be offered is known. My rationale supporting
14 this approach is also set out in my initial testimony at pages 6 and 7.

15 **Q. On page 14 line 19, Mr. Krall withdraws PPL Electric's proposed revisions to the**
16 **Generation Rate Adjustment ("GRA"), but still requires customers to comply with**
17 **the existing GRA. Do you agree with this modification to the CBP?**

18 A. No, I do not. As outlined in my initial testimony (FES St. 1) beginning on page 9 line 4,
19 the imposition of a GRA during PPL Electric's CBP would clearly be anti-competitive
20 for all the reasons stated therein. Elimination of the existing GRA, coupled with a more
21 simple process to obtain POLR service as previously discussed, should result in a
22 substantially better "bridge" design because it will better reflect what is necessary as we
23 go forward in a fully competitive electric generation market.

1 **IV. Summary.**

2 **Q. Would you please summarize your recommended approach to 2010 POLR supply**
3 **procurement for Large C&I Customers in PPL Electric's service territory?**

4 A. a. A single solicitation for fixed price service for Large C&I customers for 2010
5 occurs as early as possible, but no later than early October 2009. All PPL Electric
6 Large C&I customers are part of this bid group.

7 b. Bidding results are approved by the Commission and publicly-released as soon
8 as practical following the solicitation. Customers have a known fixed-price to
9 compare against either hourly service or competitive generation supply offers.

10 c. Customers desiring hourly price service opt-in to this option no later than
11 December 1, 2009.

12 d. Customers that do not elect hourly priced service receive fixed price service on
13 January 1, 2010 if they do not choose a competitive generation provider prior to
14 that date.

15 e. All Large C&I customers are permitted to switch to a competitive supplier at
16 any time during 2010 without the need to pay the GRA or any other penalty.

17 **Q. Why do you believe that your recommended approach is better than that proposed**
18 **and modified by PPL Electric?**

19 A. My approach outlined above is easier to administer and much easier for customers to
20 understand. It places market risk where it belongs -- on potential suppliers who are
21 accustomed to dealing with such risks. It provides fixed price service as the default

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1 option which appears to be the option preferred by most customers. And, it eliminates
2 the duplication of efforts and costs incorporated into PPL Electric's proposed process.

3 **Q. Does this conclude your surrebuttal testimony?**

4 **A. Yes, it does.**

12/20/00

1109 pm

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE PETITION)
OF THE PPL ELECTRIC UTILITIES)
CORPORATION FOR APPROVAL OF A)
COMPETITIVE BRIDGE PLAN)

DOCKET NO. P-00062227

**DOCUMENT
FOLDER**

DIRECT TESTIMONY

OF

STEVEN L. ESTOMIN, PH.D.

Regarding Competitive Bridge Plan Program Design

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

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1 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

2 A. My name is Steven L. Estomin. I am a Senior Economist and principal with Exeter
3 Associates, Inc. Our offices are located at 5565 Sterrett Place, Suite 310, Columbia,
4 Maryland 21044. Exeter Associates, Inc. is a firm of consulting economists specializing in
5 issues pertaining to public utilities.

6 Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND BACKGROUND.

7 A. I received a Bachelor of Arts degree with a major in economics in 1975, a Master of Arts
8 degree in economics in 1978, and a Ph.D. in economics in 1986, all from the University of
9 Maryland. My areas of specialization in graduate school were industrial organization,
10 econometrics, and environmental economics.

11 I joined Exeter Associates, Inc. in 1981 as an economist and have been involved with
12 economic analysis related to regulated industry since that time. A detailed statement of my
13 qualifications is included as Appendix A to this testimony.

14 Q. HAVE YOU TESTIFIED AS AN EXPERT WITNESS IN OTHER REGULATORY
15 PROCEEDINGS?

16 A. Yes, I have provided expert witness testimony in more than 30 regulatory proceedings. I
17 have testified before the utility commissions in Maine, Maryland, Vermont, New Mexico,
18 New Jersey, Illinois, Rhode Island, Kentucky, and the District of Columbia on issues related
19 to load forecasting, weather normalization, production planning, statistical analysis and other
20 issues. I have also testified in U.S. District Court and before the Federal Energy Regulatory
21 Commission on issues related to statistical estimation.

22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

23 A. Yes. I testified in Docket No. P-00051288 (Pennsylvania Power Company) in 2005 on
24 behalf of the Office of Consumer Advocate ("OCA") regarding that company's proposed
25 interim plan for Provider of Last Resort Supply.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

2 A. My testimony addresses certain elements of PPL Electric Utilities Corporation's ("PPL" or
3 "the Company") proposed Competitive Bridge Plan ("CBP") for providing Provider of Last
4 Resort ("POLR") service to its residential customers. The specific issues addressed include
5 PPL's proposed flat-rate energy charges for all residential customers, PPL's universal service
6 and customer education proposals, and PPL's proposal regarding demand-side management
7 and energy conservation programs.

8 Q. HOW DOES THE INTERIM (ONE-YEAR) NATURE OF PPL'S PROPOSAL
9 AFFECT YOUR RECOMMENDATIONS?

10 A. PPL has proposed a Competitive Bridge Plan that would allow the Company to move to the
11 same POLR schedule as other Pennsylvania electric utilities and develop a more permanent
12 arrangement following issuance of Pennsylvania Public Utility Commission regulations
13 concerning the provision of POLR service. As such, the CBP should not be viewed as a
14 precedent for any future PPL plan or as a precedent for any other service area in
15 Pennsylvania. However, the CBP should be structured to position the Company to meet the
16 goals of POLR service in the long-term, that is, following the issuance of Commission
17 regulations on POLR service for all Pennsylvania electric distribution companies.

18 Q. ARE YOU ADDRESSING ANY IMPLEMENTATION OR POLICY ISSUES
19 ASSOCIATED WITH POLR SERVICE FOR COMMERCIAL OR INDUSTRIAL
20 CUSTOMERS?

21 A. No. My testimony addresses issues related principally to the residential class.

1 **POLR SERVICE CHARACTERISTICS**

2 Q. WHAT FUNDAMENTAL CHARACTERISTICS SHOULD BE CONSIDERED IN
3 PROVIDING POLR SERVICE FOR RESIDENTIAL CUSTOMERS?

4 A. The provision of electricity is an essential service for residential customers and POLR
5 services must be designed to ensure that the service remains affordable. Residential POLR
6 service should be characterized by the lowest reasonable level of rates, stability in rates, a
7 diversified power supply arrangement as a means to facilitate rate stability and mitigate risk,
8 and the availability of demand-side management and energy efficiency resources to provide
9 residential customers an opportunity to manage electric power costs.

10 Q. ARE THERE OTHER FACTORS TO BE CONSIDERED WITH RESPECT TO
11 POLR SERVICE TO BE PROVIDED SPECIFICALLY TO PENNSYLVANIA
12 RESIDENTIAL CUSTOMERS?

13 A. Yes. Pennsylvania utilities no longer under capped rates are obligated to provide POLR
14 service based on prevailing market prices. Prevailing market prices, however, are not simply
15 spot prices from an organized market; they reflect the term over which the product is
16 provided and the time when the power is procured. Satisfaction of this requirement,
17 however, can be accomplished in the context of the desirable characteristics for residential
18 POLR service identified above.

19 Q. WHY IS IT IMPORTANT THAT POLR SERVICE FOR RESIDENTIAL
20 CUSTOMERS BE PROVIDED AT THE LOWEST REASONABLE COST?

21 A. The provision of electricity is an essential service that must remain available and affordable
22 to residential customers. For most residential customers, electric service is a major
23 household expense. The reality in restructured retail electric power markets, including those
24 in Pennsylvania, is that the proportion of residential customers that have migrated to
25 competitive suppliers has been negligible. Similarly, and for related reasons, the number of

1 competitive suppliers offering service to residential customers has tended to be small and in
2 some distribution company service areas in states that have implemented retail electric
3 industry restructuring, there are no competitive suppliers offering new service to residential
4 customers. One of the underlying reasons for this result is that opportunities for significant
5 cost savings associated with service from competitive suppliers are not available for
6 residential customers. This is due to a combination of factors including the relatively high
7 administrative costs of operating in the residential market due to the small size of the
8 individual loads.

9 Q. WHY HAVE YOU IDENTIFIED RATE STABILITY AS AN IMPORTANT
10 CHARACTERISTIC OF RESIDENTIAL POLR SERVICE?

11 A. Rate stability has long been recognized as a desirable feature for all electric rates. Rate
12 stability is important for reasons of affordability, budgeting, planning, and making rational
13 decisions regarding appliance and equipment purchases. Even under stable rates, residential
14 customers experience changes in monthly electric power costs associated with weather-
15 related usage. Given the greater degree of weather sensitivity of residential loads relative to
16 *non-residential loads, frequent and large changes in rates exacerbate household budgetary*
17 *difficulties.* Price stability, however, does not necessarily mean strictly invariant prices. As
18 I discuss below, periodic changes in price to reflect changes in the supply portfolio used to
19 serve residential customers may be needed.

20 Q. YOU NOTE DIVERSIFIED POLR SUPPLY AS AN IMPORTANT
21 CHARACTERISTIC OF POLR ARRANGEMENTS. PLEASE EXPLAIN.

22 A. Supply diversification is important from several perspectives. First, from a temporal
23 perspective, procurement of POLR supplies to satisfy the full POLR requirement at a single
24 point in time exposes customers to excessive market timing risk. By the term "market timing
25 risk," I mean the risk associated with price at any point in time relative to average price over

1 a longer time period. Electricity prices fluctuate unpredictably based on a wide range of
2 factors that affect both short-term and long-term supply and demand conditions, including
3 random external shocks (e.g., the 2005 Gulf Coast hurricanes). Procuring all electric power
4 requirements at fixed contract prices based on market conditions prevailing on the single day
5 that bids are submitted exacerbates this risk. Such risk could be easily mitigated through
6 structuring the purchasing arrangements such that portions of the overall load are purchased
7 at different times. This procedure, for example, is followed with respect to residential POLR
8 service in New Jersey. Fixed-price supply in New Jersey is procured using laddered three-
9 year contracts, that is, each year, one-third of the load is procured to replace the load that was
10 covered under expiring contracts and the risk of making a one-time purchase at the “wrong”
11 time is therefore reduced.

12 Q. WOULD DIVERSIFICATION OF POLR SUPPLY BY PROCURING A PORTION
13 OF THE OVERALL REQUIREMENT AT DIFFERENT TIMES CONFOUND THE
14 GOAL OF PRICE STABILITY?

15 A. To some degree, a trade-off between rate stability and risk mitigation exists. Since market
16 timing risk mitigation entails only a portion of the overall POLR supply requirement to be
17 re-solicited in any one year, the impact on rates (either positive or negative) would be
18 tempered and not be severe.

19 Q. YOU HAVE INDICATED THAT THE AVAILABILITY OF DEMAND-SIDE
20 MANAGEMENT PROGRAMS WOULD BE A DESIRABLE
21 CHARACTERISTIC OF RESIDENTIAL POLR SERVICE. PLEASE EXPLAIN.

22 A. Cost-effective and voluntary programs to reduce electric power service costs by reducing
23 loads and/or improving load shapes should be included as an aspect of residential POLR
24 service. Such programs have not been as readily available from the private sector for
25 individual residential customers as for individual non-residential customers. Energy service

1 companies (ESCOs) have tended to market principally to larger customers, i.e., large
2 commercial and industrial customers and institutional customers (e.g., schools, hospitals,
3 government facilities), and the availability of demand-side management (DSM) and energy
4 efficiency programs may be highly beneficial to residential customers who chose to avail
5 themselves of those options.

6 Q. DOES THE PPL COMPETITIVE BRIDGE PLAN ADEQUATELY ADDRESS
7 THE VARIOUS CONSIDERATIONS THAT YOU HAVE NOTED ABOVE?

8 A. Some of the concepts discussed above are recognized in PPL's CBP. For example, the CBP
9 addresses timing risk through a solicitation approach that entails procurement of the full
10 residential POLR supply requirement in six separate solicitations occurring over a three-year
11 period, relying on the incurred market cost of power for POLR rate setting. The Company
12 also proposes to expand demand-side response programs for residential customers.

13 Q. IS YOUR POSITION THAT THE CBP SHOULD ADDRESS ALL OF THE
14 DESIRABLE FEATURES OF A POLR SERVICE PLAN THAT YOU HAVE
15 IDENTIFIED?

16 A. Given the limited role and purpose of the CBP, certain of the features discussed above
17 should more appropriately be considered in the context of a more permanent, longer-term
18 arrangement for POLR service. In particular, because the PPL plan is intended to provide
19 POLR supplies for only a one-year period, the longer-term features, such as supply contracts
20 of differing durations, including the potential for longer term contracts, are not applicable.

21 Q. ARE THERE ASPECTS OF THE PPL CBP, AS IT RELATES TO THE
22 RESIDENTIAL CUSTOMER CLASS, THAT CAN BE IMPROVED AND THAT
23 YOU ADDRESS IN YOUR TESTIMONY?

24 A. Yes. There are several aspects of the proposed CBP that should be modified, including the
25 implementation of flat generation rates for all residential customers beginning

1 January 1, 2010, issues related to procurement of demand-side management and energy
2 efficiency programs, and the Company's proposed consumer education program.
3 Additionally, PPL should clarify its intentions regarding its proposed treatment of
4 transmission-related costs.

5
6 **DESCRIPTION OF PPL'S PROPOSED COMPETITIVE BRIDGE PLAN**

7 Q. PLEASE DESCRIBE PPL'S PROPOSED CBP.

8 A. PPL has proposed a Competitive Bridge Plan to procure POLR supplies for a one-year
9 period -- calendar year 2010. This would allow the Company to move from the termination
10 of its transition period (December 31, 2009) to 2011, which would correspond to the
11 transition period termination for other major Pennsylvania utilities (Metropolitan Edison,
12 Pennsylvania Electric, PECO, and West Penn Power). PPL proposes to procure POLR
13 supply for calendar year 2010 by conducting six separate procurements, using a Request for
14 Proposals (RFP) approach, over the 2007 through 2009 period. Any individual bidder would
15 be limited to an award of not more than 85 percent of the solicited POLR load for a
16 particular customer class. The six solicitations are designed to procure the total POLR
17 supply requirements for each of the customer classes. The products to be solicited by PPL
18 are proportionate slices of the class POLR loads, e.g., the residential class load is proposed to
19 be procured through six solicitations, each solicitation being for 10 tranches, with each
20 tranche representing one-sixtieth of the residential POLR supply requirement in 2010
21 (approximately 1.67 percent). Similarly, the small commercial class requirement is proposed
22 to be procured through six solicitations of seven tranches each (42 tranches, total), and the
23 large commercial and industrial class requirement is proposed to be procured through two
24 solicitations of 19 tranches each (38 tranches, total). Each of the tranches for each of the
25 classes is structured to approximate a 50-MW load.

1 Q. IN ADDITION TO ENERGY AND CAPACITY, WHAT OTHER
2 PRODUCTS/SERVICES DOES PPL PROPOSE THAT THE WINNING BIDDERS
3 PROVIDE?

4 A. The winning bidders would provide network integrated transmission service, ancillary
5 services, and renewable energy to comply with the Alternative Energy Portfolio Standards
6 (AEPS) Act.

7 Q. HOW DOES PPL PROPOSE TO COLLECT REVENUES SUFFICIENT TO
8 RECOVER ITS POLR SUPPLY COSTS?

9 A. For residential customers, the Company has proposed to establish a fixed, per-kWh rate
10 reflecting the weighted average per-kWh cost resulting from the six POLR supply
11 solicitations. Additionally, the Company has proposed an annual reconciliation mechanism
12 to address any under- or over-recovery of POLR revenues relative to POLR costs incurred,
13 both contract payments for power supply and the CBP administrative costs.

14 Q. HAS PPL PROPOSED ANY CBP ELEMENTS RELATED TO DEMAND-SIDE
15 RESOURCES FOR RESIDENTIAL CUSTOMERS?

16 A. Yes. The Company has proposed to augment its existing residential demand-side response
17 (“DSR”) program. The residential DSR augmentation proposed by PPL entails:

- 18
- 19 • modifying the existing termination date (2007) to December 2010;
 - 20 • increasing the participation ceilings in 2008 and 2009 and removing the participation
21 ceiling in 2010; and
 - 22 • modifying the existing program from summer-only to all-year.

1 Q. WHAT HAS THE COMPANY PROPOSED REGARDING CONSUMER
2 EDUCATION?

3 A. PPL proposes to use the existing \$875,000 balance of its customer choice education account
4 to fund consumer education in 2007, 2008, and 2009, covering issues that include customer
5 choice, DSR, POLR rates, and the efficient use of energy.

6 Q. HAS PPL PROPOSED ANY MODIFICATIONS TO ITS EXISTING LOW-
7 INCOME ASSISTANCE PROGRAM?

8 A. Yes. The Company has proposed to increase funding from \$27.425 million (estimated 2006)
9 to \$32.925 million (2010), an increase of 20 percent.
10

11 **PPL'S PROPOSED POLR SUPPLY PROCUREMENT APPROACH**

12 Q. IS PPL'S PROPOSED RESIDENTIAL POLR SUPPLY PROCUREMENT PLAN
13 APPROPRIATE?

14 A. In its limited role as a "bridge" program, it is generally appropriate. The residential
15 component of CBP, as noted previously, entails a series of six competitive procurements of
16 ten tranches each over a three-year period (2007 through 2009) to obtain the required
17 residential POLR supply. The multi-year procurement method is a useful and valuable
18 feature of PPL's plan to mitigate the timing risk associated with the procurement of a one-
19 year supply.

20 Additionally, PPL's proposal is structured such that the procurement for each major
21 customer class is conducted individually. That approach mitigates the potential for any
22 possible inter-class subsidies.

1 Q. HOW DOES THE PPL CBP PROPOSAL SERVE TO MITIGATE MARKET
2 TIMING RISK, AND WHY IS MARKET TIMING RISK MITIGATION
3 IMPORTANT?

4 A. Were PPL to procure the full residential class POLR requirement for 2010 at one time,
5 residential customers would bear the risk that the procurement timing could coincide with
6 extremely unfavorable market conditions. By conducting six separate procurements spread
7 out over three years, the risk of unfortunate market timing is reduced. This is important
8 given that the PJM wholesale power supply market has exhibited considerable price
9 volatility in recent years. Exposure to the potential adverse impacts of volatile wholesale
10 market prices is greatly reduced through the approach proposed by PPL.

11 Q. HOW DO THE SEPARATE PROCUREMENTS FOR EACH OF THE MAJOR
12 CUSTOMER CLASSES, AS PROPOSED BY PPL, ELIMINATE THE
13 POTENTIAL FOR INTER-CLASS SUBSIDIES?

14 A. Each of the major customer class loads has certain characteristics that affect the overall
15 market cost to serve those loads and consequently the bid prices that will be received under
16 the competitive procurement process. For example, commercial and industrial loads
17 generally exhibit higher load factors than residential loads. Other factors held constant,
18 commercial and industrial loads, therefore, may be less expensive to serve than residential
19 loads. Residential customers, however, are less likely to migrate out of POLR service than
20 are commercial and industrial customers. Consequently, the risk of load migration, and
21 hence the risk that the load bid upon may ultimately be smaller than the load anticipated at
22 the time the bid was prepared, typically is lower for the residential class than for other
23 customer classes. By procuring the POLR supply requirements for each major customer
24 class separately, the bids submitted to serve the class loads will more accurately reflect the

1 market-determined costs to serve each of the classes than if the loads of different customer
2 classes were aggregated.

3 Q. WOULD THE POLR SUPPLY PROCUREMENT APPROACH PROPOSED BY
4 PPL BE APPROPRIATE FOR POLR SUPPLY PERIODS EXCEEDING THE
5 ONE-YEAR PERIOD AT ISSUE IN THIS PROCEEDING?

6 A. No. For POLR supply under more permanent conditions, alternative procurement
7 approaches should be considered. For example, under a procurement process for POLR
8 supplies to satisfy POLR loads over a multi-year period, longer-term resources may be
9 beneficial to enhance price stability. Additionally, procurement of power supply products of
10 different durations (e.g., a combination of one-year, two-year, three-year and longer
11 contracts) may be desirable along with procurement of different types of resources and
12 products. For these reasons, and others, the PPL CBP proposal should be viewed as
13 transitional and should be accorded no precedential value for future procurements or
14 procurements for other Pennsylvania service areas.

15 Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING PPL'S PROPOSED
16 PROCUREMENT PROCESS?

17 A. Yes. I would recommend that following the completion of the first two procurements,
18 scheduled to occur in 2007, PPL convene a meeting with customer representatives to review
19 the results of the initial two procurements and assess whether any modifications to the
20 procurement protocols are warranted. As part of this process, PPL should informally obtain
21 input from other stakeholders, such as POLR suppliers, concerning potential refinements or
22 improvements. Additionally, PPL should explore the potential benefits associated with
23 conducting a competitive procurement of demand-side response and energy efficiency, as
24 discussed later in this Testimony.

25

RESIDENTIAL RATE DESIGN

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Q. WHAT IS PPL'S PROPOSAL REGARDING RESIDENTIAL GENERATION SUPPLY RATES UNDER THE CBP?

A. PPL has proposed that all residential customers be charged a flat, per-kWh rate equal to the blended (i.e., weighted average) POLR supply rate obtained through the laddered procurements. Additionally, the fixed, per-kWh rate would include PPL's administrative expenses related to the POLR supply procurements. The revenue collected under the flat, per-kWh rate, which PPL refers to as the Generation Supply Charge (GSC), would be subject to reconciliation following conclusion of the one-year POLR supply period, 2010.

Q. IS PPL'S PROPOSED METHOD OF COST RECOVERY FOR THE RESIDENTIAL CLASS APPROPRIATE?

A. No, it is not. PPL currently supplies residential customers under three residential tariffs: RS-Residential Service; RTS-Residential Service, Thermal Storage; and RTD-Residential Service, Time of Day. None of these tariffs is presently structured as having flat, per-kWh charges. The RS tariff contains declining priced blocks; the RTD tariffs contains on-peak and off-peak rate differentials; and the RTS rate contains on-peak, per-kW charges for demands in excess of 2 kW plus flat, per-kWh charges. Application of a uniform per-kWh charge for all residential customers can be anticipated to place disproportionate burdens on certain customers depending upon the rate schedule under which they are served and the amount of energy consumed each month.

The table below provides summary information regarding the average number of customers, usage, and average costs for PPL residential tariffs for calendar year 2005. These data were obtained from the Company's 2005 FERC Form No. 1 and reflect all rate components, i.e., distribution, transmission, energy and capacity, competitive transition charge, and intangible transition charge.

Tariff	Average No. of Customers	Average Annual kWh sales/customer	Total Average cost/kWh	Total Revenue (\$ Million)	Total MWh
RS	1,175,003	11,752	\$0.0893	\$1,233.1	13,808,615
RTD	268	19,201	\$0.0865	0.4	5,146
RTS	14,000	28,183	\$0.0636	25.1	394,556
Total	1,189,271	11,947	\$0.0886	\$1,258.6	14,208,317

PPL has indicated an expected increase in residential rates in 2010 under the CBP of between 20 percent and 30 percent compared to 2006 rates and estimates that the energy/capacity component alone of the 2010 residential rates to be \$0.08869 per kWh.

Moving to flat rates in 2010 at the PPL-estimated energy/capacity charge of \$0.08869 would entail a total bill increase of 27.1 percent for the average RS customer (estimated usage of 1,000 kWh per month based on PPL's 2005 FERC Form No. 1) and 56.7 percent for the average RTS customer (with 2,349 kWh per month of energy usage). RTD customers with average use of 1,600 kWh per month would see a total bill increase of 35.7 percent. These rate impacts are summarized in the table below.

	<u>RS¹</u>	<u>RTD²</u>	<u>RTS³</u>
2006 Average Tariff Rate	\$0.0966	\$0.0912	\$0.0665
2010 Average Tariff Rate	\$0.1228	\$0.1238	\$0.1042
Percentage change in moving from 2006 Average Tariff Schedule Rate to 2010 Flat Rate	27.1%	35.7%	56.7%

1. Based on usage of 1,000 kWh/month.
2. Based on usage of 1,600 MWh/month, with 27.1 percent of usage on-peak, as derived from 2005 usage and revenues as shown in PPL's 2005 FERC Form No. 1.
3. Based on monthly usage of 2,349 kWh/month and on-peak demand of 6.9 kW, as derived from 2005 usage and revenues as shown in PPL's 2005 FERC Form No. 1.

This means that the percentage cost impact for RTS customers (approximately 57 percent) would be about twice as high as the average percentage impact for RS customers and about 60 percent higher than the increase for RTD customers. Compounding this impact is the

1 much higher level of annual consumption for RTS customers -- 28,183 kWh per year
2 compared with 11,752 kWh per year for RS customers and 19,201 kWh per year for RTD
3 customers.

4 A rate increase of 57 percent, even absent consideration of the relatively high level of
5 usage by RTS customers, is clearly excessive and would constitute unacceptable rate shock
6 for these customers.

7 Q. DO YOU HAVE A RECOMMENDATION REGARDING RTS CUSTOMERS?

8 A. Yes. To temper the magnitude of the rate increase to RTS customers, I recommend that the
9 absolute difference in 2006 average rates (i.e., the cents/kWh difference rather than the
10 percentage difference) between RS and RTS be maintained, with RS rates and RTD rates
11 moved to equality. This approach preserves the simplicity of PPL's revenue collection
12 approach, places only a very modest additional burden on the RS and RTD customers, and
13 provides a measure of relief to the RTS customers. Though the RTS customers would
14 continue to receive a larger percentage increase than either the average RS or RTD customer,
15 the percentage increase would be substantially less than the 57 percent estimated increase
16 under the Company's proposal.

17 Q. CAN YOU ESTIMATE THE PERCENTAGE INCREASE TO WHICH THE RTS
18 CUSTOMERS WOULD BE EXPOSED UNDER THIS RECOMMENDATION?

19 A. Yes. Under the recommended arrangement described above, RTS customers would see an
20 increase of approximately 39 percent. Average RS rates would increase by less than a mill
21 per kWh to mitigate what otherwise would be severe rate shock for RTS customers.

22 Q. ARE THERE REASONS OTHER THAN AVOIDANCE OF RATE SHOCK TO
23 THE RTS CUSTOMERS THAT SHOULD BE CONSIDERED?

24 A. Yes. First, these customers made investments in long-lived equipment to qualify for the RTS
25 rate based on the incentives offered by PPL. As an issue of equity and fairness, these

1 customers should not be unduly penalized for having responded to these incentives. Second,
2 there may be benefits to the overall residential class that would favorably affect bid rates
3 from potential POLR suppliers as a result of the investments made by RTS customers.
4 Specifically, because the impact of residential thermal storage equipment is to shift usage
5 away from a portion of the peak period and onto the off-peak period and the fringes of the
6 peak period, the overall load shape of the residential class may be improved, thereby
7 benefiting all residential customers. This suggests there is a market price basis for a lower
8 RTS rate since more RTS usage is in the lower cost off-peak period relative to usage under
9 the RS rate.

10 Q. DO YOU HAVE ANY RECOMMENDATIONS FOR RATE DESIGN UNDER
11 THE CBP FOR CUSTOMERS SERVED UNDER THE RS AND RTD
12 SCHEDULES?

13 A. Yes. The RS schedule, as noted above, is characterized by declining block rates. Moving to
14 a flat, per-kWh rate would result in larger percentage increases for large customers (i.e.,
15 those who use a greater portion of monthly energy in the lower-cost tail block) than for small
16 customers (i.e., those who use a greater portion of monthly energy in the higher-cost initial
17 block). To provide an example of the disparity in the percentage increase that may apply to
18 individual customers at different levels of usage, consider four customers--one using 500
19 kWh per month, one using 1,000 kWh per month (approximately average for 2005), one
20 using 1,500 kWh per month, and one using 2,000 kWh per month. Based on the 2006 rate
21 elements of customer charge, transmission charges, distribution charges, energy/capacity
22 charges, competitive transition charges, and intangible transition charges, the monthly bills
23 for these customers would be:
24

500 kWh/month	\$ 53.95
1,000 kWh/month	96.55
1,500 kWh/month	137.28
2,000 kWh/month	178.00

1
2 If the 2006 declining block rates for energy/capacity plus transition charges were converted
3 to a flat rate set equal to the rate applicable to the average customer (i.e., the customer using
4 1,000 kWh per month) then the flat energy/capacity plus transition charge rate would be
5 \$0.06249/kWh and the total monthly bill (i.e., including all billing components) would be:

	Flat Rate Bill (<u>\$</u>)	% Change from <u>2006 Block Rates</u>
500 kWh/month	\$ 52.61	-2.5%
1,000 kWh/month	96.55	0.0
1,500 kWh/month	140.13	2.1
2,000 kWh/month	183.71	3.2

7
8 By increasing the flat rate charge to \$0.08869/kWh (PPL's estimate of 2010 energy and
9 capacity charges) from the 2006 flat rate charge of \$0.06249/kWh, the monthly bills would
10 be:

	Flat Rate Bill (<u>\$</u>)	% Change from <u>2006 Block Rates</u>
500 kWh/month	\$ 65.71	21.8%
1,000 kWh/month	122.75	27.1
1,500 kWh/month	179.43	30.7
2,000 kWh/month	236.11	32.7

12 Under this example, by moving to a flat rate from the declining block arrangement contained
13 in the current RS tariff combined with an overall increase in average customer rates of 27
14 percent, small customers would receive an increase of less than 22 percent, while larger
15 customers would receive an increase of over 32 percent.

1 To mitigate the expected RS rate increase disparity, I recommend that rates be moved
2 half of the way to flat rates, i.e., the differential in the rate blocks be reduced by 50 percent.
3 This approach would modestly reduce the percentage increase to the larger residential
4 customers, slightly increase the percentage increase to smaller customers, and have no effect
5 on the average customer (relative to the Company's flat, per-kWh rate proposal).

6 Q. HOW WOULD THIS PROPOSAL AFFECT 2010 RATES USING THE
7 EXAMPLE PROVIDED ABOVE?

8 A. Based on the example above, adjusting the block rates for energy and capacity from a flat,
9 per-kWh rate of \$0.08869 (the Company's estimate of 2010 energy and capacity) to a 50
10 percent differential compared to the current declining block rate structure would result in the
11 first block (the first 200 kWh per month) being price at \$0.09474, the second block (the next
12 600 kWh) remaining at \$0.08869 per kWh, and the last block (all additional kWh) being
13 priced at \$0.08508. This would entail the following percentage changes in rates for
14 customers of varying size:
15

	Percentage Change in Rates Relative to 2006 Rates
500 kWh/month	23.0%
1,000 kWh/month	27.6
1,500 kWh/month	30.0
2,000 kWh/month	31.0

16
17 Consequently, this approach can be seen to modestly reduce the degree of disparity in
18 percentage increases in monthly charges relative to the flat rate proposal put forth by the
19 Company.

1 Q. WOULD RESIDENTIAL POLR REVENUES MATCH RESIDENTIAL POLR
2 SUPPLY COSTS UNDER YOUR PROPOSAL AS CLOSELY AS THE
3 COMPANY'S FLAT RATE PROPOSAL?

4 A. In all likelihood, no. I would expect the Company's flat rate proposal to more precisely
5 match POLR supply revenues and costs. For example, in an extremely hot month, more
6 consumption would occur in the lower cost tail block rate than would be the case for a
7 normal weather month. That would mean that total collected revenues may be below POLR
8 supply costs for that month. Similarly, a milder than normal month could result in
9 overcollections of POLR supply revenue during the month. Further, it should be recognized
10 that even if 2010 were characterized by normal weather in each and every month, the level of
11 POLR revenues under differently priced blocks as shown above may not match POLR costs
12 due to the specific nature of the size distribution of customers. This can be easily addressed,
13 however, by adjusting the initial block rates and the tail block rates to more closely match
14 POLR revenues and POLR supply costs.

15 Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE RTD RATE?

16 A. As of the end of 2005, there were less than 300 customers served under this rate. The
17 average RTD rate is approximately 5.6 percent lower than the average RS rate with average
18 RTD usage approximately 600 kWh per month greater than average RS usage, which would
19 place a higher proportion of average RTD usage in the lower cost tail block of the RS rate
20 than is the case for the average RS customer. These factors, taken together, support the
21 Company's proposal to essentially eliminate the RTD rate and fold those customers into the
22 same group as the RS customers.

23

1 **RECONCILIATION**

2 Q. IS THE RECONCILIATION MECHANISM PROPOSED BY PPL AS IT MAY
3 AFFECT THE RESIDENTIAL CLASS REASONABLE IN THE CONTEXT OF
4 THE CBP?

5 A. Yes. This is particularly the case if at least some portions of residential customers are not
6 paying an average rate precisely equal to the blended cost of the residential procurements.
7 Given my recommendation of a lower absolute rate for RTS customers relative to the
8 blended cost, a slightly higher average rate for RS customers relative to the blended cost, and
9 maintaining declining block rates for RS customers, POLR revenues may not precisely
10 match POLR costs. This imprecision arises because the assumed billing determinants used
11 to set rates in 2010 may not precisely match what actually happens. The difference,
12 however, is not anticipated to be large, and the annual (i.e., post-2010) reconciliation of
13 POLR costs and revenues would eliminate this risk to PPL. Since the Company is not
14 proposing to earn any return on POLR generation costs, a reconciliation arrangement is not
15 unreasonable. The reconciliation accounting, however, should be subject to audit to ensure
16 accuracy.

17
18 **TRANSMISSION COSTS**

19 Q. PLEASE EXPLAIN PPL'S PROPOSAL AS IT RELATES TO TRANSMISSION
20 COSTS FOR POLR SUPPLIES.

21 A. PPL indicates that the bidders for POLR supply will be responsible for providing PJM
22 Network Integrated Transmission Service (NITS), along with ancillary services, and the
23 costs of those elements would be reflected in the flat, per-kWh bid prices. As such, those
24 cost elements would also be included in the prices charged to POLR consumers as part of the
25 GSC.

1 Q. DOES THIS MEAN THAT PPL WILL BE ELIMINATING ITS TRANSMISSION
2 SERVICE CHARGE (TSC)?

3 A. PPL indicates that the TSC would be reduced, but not eliminated. The reasons underlying
4 the retention of the TSC are unclear. In its response to OCA's Interrogatory II-17, the
5 Company stated:

6
7 In 2010, the TSC may reflect two categories of costs: (1) charges
8 for any transmission-related services acquired directly by PPL
9 Electric, and (2) charges for any transmission-related services
10 acquired on behalf of PPL Electric by a POLR supplier, but not
11 collected through the GSC.

12 In response to an interrogatory submitted by the PPL Industrial Consumer Alliance
13 (Set I, No. 8), the Company provided a non-exhaustive list of 18 elements that may be
14 collected through the TSC, including NITS and a host of ancillary services (e.g., black start
15 service, reactive supply and voltage control, operating reserve-spinning reserve service).
16 Both interrogatory responses are included with this testimony in Appendix B.

17 Q. CAN YOU RECONCILE THE COMPANY'S CBP PROPOSAL REGARDING
18 TRANSMISSION COSTS AND THE RESPONSES TO THESE
19 INTERROGATORIES?

20 A. No. Additional clarification is required to identify precisely which transmission-related costs
21 are anticipated to be provided by POLR suppliers, and ultimately included in the GSC, and
22 which will be acquired by/for PPL and ultimately included in the TSC.

23
24 **LOW-INCOME ASSISTANCE PROGRAMS**

25 Q. WHAT HAS PPL PROPOSED REGARDING LOW-INCOME ASSISTANCE
26 PROGRAMS IN THE CONTEXT OF THE CBP?

27 A. The Company currently operates four low-income assistance programs: OnTrack, WRAP,
28 Operation Help, and CARES. These programs are described in the Direct Testimony of PPL

1 witness Timothy R. Dahl, pages 4-5. The estimated 2006 funding levels for the three major
2 programs (OnTrack, WRAP, and Operation Help), in aggregate, is \$27.425 million. The
3 Company has proposed to increase funding for these programs, in 2009 and 2010 (to \$28.025
4 million and \$32.925 million, respectively). The 2009 proposed funding level represents an
5 increase of approximately 6 percent relative to the 2006 estimated funding level; the 2010
6 proposed funding level represents a 25 percent increase relative to 2006 estimated funding.
7 The Company has stated that it would include the universal service program expenses in a
8 future distribution rate case.

9 Q. DO YOU SUPPORT THE COMPANY'S PROPOSAL WITH REGARD TO
10 UNIVERSAL SERVICE PROGRAMS?

11 A. Electric generation costs anticipated to emerge in 2010 at the conclusion of the PPL
12 transition period are expected, by the Company's estimates, to result in a 20 percent to 30
13 percent increase in overall rates. An increase of this magnitude, or potentially more,
14 combined with growth in the number of customers, suggests the need for an increase in
15 funding and enrollment.

16
17 **DEMAND-SIDE RESPONSE**

18 Q. WHAT HAS PPL PROPOSED WITH RESPECT TO RESIDENTIAL DEMAND-
19 SIDE RESPONSE (DSR) PROGRAMS?

20 A. The Company proposes to eliminate certain residential DSR programs (e.g., off-peak water
21 heating and thermal storage) effective December 31, 2009, and expand the Demand-Side
22 Response Rider-Residential by increasing the cap on participation in 2008 and 2009 and
23 eliminating the participation cap in 2010. This program, designed to induce customers to
24 shift energy use from on-peak to off-peak periods, is currently applicable only to the summer
25 season. PPL proposes to extend the program to all months.

1 Q. ARE THERE OTHER DSR OPTIONS THAT SHOULD BE CONSIDERED BY
2 PPL?

3 A. Yes, there are. The availability of DSR-type programs and energy efficiency programs to
4 residential customers, on a voluntary basis, represents an important avenue by which
5 residential customers may be able to mitigate large increases in electric power supply costs.
6 PPL witness Douglas A. Krall notes at page 20 of his Direct Testimony that "... the
7 Company does believe that these programs represent products that might be more
8 appropriately offered by EGSs ..." These types of programs, however, have not been
9 generally targeted to residential customers.

10 As a means of possibly expanding the ability of residential customers to avail
11 themselves of cost-effective DSR and energy efficiency programs, the OCA recommends
12 that PPL explore the potential of competitive bidding for demand-side response and energy
13 efficiency. At least two states are currently pursuing the alternative of competitive bidding
14 for DSR-type resources as part of POLR procurement: Maine and Connecticut. In assessing
15 the potential for competitive bidding of DSR and energy efficiency programs, PPL should
16 consider the experience of these other states when results from their efforts become
17 available.

18 Q. ARE YOU RECOMMENDING THAT COMPETITIVELY BID PROGRAMS BE
19 ADOPTED IN LIEU OF THE PPL-SPONSORED PROGRAMS?

20 A. No. Any competitively bid DSR-type programs that may be adopted should be in addition to
21 PPL's programs. I therefore recommend that PPL issue an RFP in 2008, or shortly
22 thereafter, for bids to provide DSR and/or energy efficiency programs for a certain
23 percentage of their 2010 capacity and energy needs for residential customers. This would
24 permit the 2009 supply-side POLR RFPs to be adjusted, if necessary, to reflect the
25 DRS/energy efficiency RFP responses. Alternatively, PPL could request that the bidders for

1 one or more 50-MW supply tranches in the 2008 or 2009 supply-side RFPs satisfy a portion
2 of the load requirement through DSR and/or energy efficiency programs.

3
4 **CONSUMER EDUCATION**

5 Q. WHAT IS PPL'S PROPOSAL REGARDING CONSUMER EDUCATION?

6 A. The Company proposes to use \$875,000 of existing funds from its customer choice education
7 account to support customer education over the 2007 through 2009 period, addressing
8 customer choice, DSR, POLR rates, and energy efficiency. The Company has proposed to
9 expend \$200,000 in 2007, \$300,000 in 2008, and the balance (\$375,000) in 2009. (See
10 Direct Testimony of Douglas A. Krall, PPL Statement No. 1, page 21.)

11 Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE COMPANY'S
12 PROPOSAL FOR CUSTOMER EDUCATION EXPENDITURES?

13 A. Without commenting on the adequacy of the overall \$875,000 level of expenditures, the
14 temporal distribution of expenditures appears to be too heavily weighted towards the early
15 part of the three-year period and too lightly weighted towards 2009. The favorable effects of
16 customer education expenditures made in 2007 and 2008 may substantially decay by 2010,
17 when customers will be affected by the CBP. I therefore recommend more heavily
18 weighting expenditures in 2009, and reducing the 2007 and 2008 expenditures to much lower
19 levels. For example, an expenditure distribution of \$100,000 in 2007, \$200,000 in 2008, and
20 the remaining \$575,000 in 2009 may provide greater overall effectiveness than the year-by-
21 year distribution proposed by PPL. Additionally, at this time, the consumer education
22 program is not sufficiently defined so as to assess its potential effectiveness. PPL should be
23 directed to work with the parties and appropriate Commission staff to develop a more
24 detailed design of the consumer education program. A group comprised of representatives of

1 the Company, the parties, and the Commission staff could address the program design issues
2 in 2007, with any remaining outstanding issues resolved by the Commission.

3 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

4 A. Yes, it does.

5

6

7

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APPENDIX A
STATEMENT OF QUALIFICATIONS
FOR
STEVEN L. ESTOMIN

STEVEN L. ESTOMIN

Dr. Estomin is a principal in Exeter Associates, Inc. He is a senior economist whose academic training and professional experience are in the areas of microeconomic applications, industry analysis, econometric modeling and environmental economics. At Exeter, Dr. Estomin specializes in utility load forecasting, computer modeling, financial analysis, utility contract negotiation, issues of competition, antitrust, and damage estimation.

Dr. Estomin has testified on issues related to load forecasting, statistical analysis, economic damage analysis, class cost-of-service and rate design. He has prepared numerous electric load forecasts and has directed projects for state and federal regulatory agencies. Dr. Estomin has prepared reports on load forecasting, energy conservation, alternative power supply procurement, bulk power supply planning, and damage estimations for federal and state agencies and for private firms. He has also provided technical support to federal agencies in utility contract negotiations and in the development of requests for proposals for competitive power supply procurement.

Education:

B.A. (Economics) - University of Maryland, 1975.

M.A. (Economics) - University of Maryland, 1978.

Ph.D. (Economics) - University of Maryland, 1986.

Previous Employment:

1980-1981 - Faculty Researcher, Bureau of Business and Economic Research, University of Maryland, College Park, Maryland.

1976-1980 - Research/Teaching Assistant, and Instructor, University of Maryland, Department of Economics, College Park, Maryland.

1976-1978 - Economist, U.S. Department of Labor, Bureau of International Labor Affairs, Office of Trade Adjustment Assistance, Washington, D.C.

Professional Work:

At the Bureau of Business and Economic Research, Dr. Estomin supervised the development of an environmental pollution forecasting model which he linked to a county level regional *economic model*. This task included developing submodels for industrial/commercial activity, municipal wastes generation, and transportation and energy-related emissions. Several reports and estimations using the model were provided to the Bureau of Land Management (U.S. Department of the Interior) and were used to develop analyses of future development of the outer-continental shelf.

As a Graduate Teaching Assistant for the Department of Economics at the University of Maryland, Dr. Estomin was initially engaged in aiding senior faculty members in a variety of teaching-related tasks and later autonomously taught micro and macroeconomic theory courses. As an Instructor for the University, he taught upper-level courses in the economics of poverty and discrimination and the economics of American industry. As a Graduate Research Assistant, Dr. Estomin conducted extensive research in pollution abatement cost modeling.

At the U.S. Department of Labor, Dr. Estomin collected firm-specific data covering sales, inventory, employment, and production and used these data together with industry production, employment, and import data to analyze causes of employment reductions. Companies analyzed by Dr. Estomin include American Motors Corporation, Bethlehem Steel, and numerous smaller firms.

Major Publications and Reports:

“Forecasted Electric Energy Consumption and Peak Demands in Maryland,” prepared for the Power Plant Research Program, Maryland Department of Natural Resources, November 2006 (with David Chen and Michael P. Lee).

“Maryland’s Options to Reduce and Stabilize Electric Power Prices Following Restructuring,” prepared for the Power Plant Research Program, Maryland Department of Natural Resources and the Maryland Energy Administration, September 2006 (with Matthew I. Kahal).

“Electric Power Supply Options for Holloman Air Force Base, New Mexico,” prepared for the U.S. Air Force, Air Force Civil Engineer Support Agency, September 2005.

“Forecast of Electric Energy Consumption and Peak Demands in Maryland,” prepared for the Power Plant Research Program, Maryland Department of Natural Resources, May 2005.

“Economic Analysis of a Power Plant Fueled by Poultry Litter to be Located on Maryland’s Eastern Shore,” prepared for the Power Plant Research Program, Maryland Department of Natural Resources, May 2005.

“Yucca Mountain Project – Evaluating Alternative Electric Power Service Options,” prepared for the U.S. Department of Energy, Federal Energy Management Program, August 2004.

- “Short-term Steam Supply options for the Savannah River Site,” prepared for the U.S. Department of Energy, Federal Energy Management Program, June 2004.
- “Assessment of Economic Damages,” prepared for Supra Telecommunications and Information Systems, Inc., CPR Institute for Arbitral Tribunal, Supra Telecommunications and Information Systems v. BellSouth Telecommunications, Arbitration V, October 2003 (with Marvin H. Kahn).
- “Costs and Benefits for Overhead/Underground Utilities,” prepared for the Maryland State Highway Administration, October 2003 (with William H. Albeck).
- “Economic Assessment of Damages,” prepared for Supra Telecommunications and Information Systems, Inc., U.S. District Court, Southern District of Florida, Case No. 99-1706, March 2003 (with Marvin H. Kahn).
- “Forecasted Electric Energy Consumption and Peak Demand in Maryland,” prepared for the Power Plant Research Program, Maryland Department of Natural Resources, October 2002.
- “The Technical Potential for Electric Energy Conservation in Maine,” prepared for the Maine Office of Consumer Advocate, September 2002.
- “Energy Conservation and Efficiency Baseline,” prepared for Governor Paris N. Glendening’s Task Force on Energy Conservation and Efficiency, the Maryland Energy Administration, and the Maryland Department of Natural Resources, December 2001 (with Allan R. Evans and Michael P. Lee).
- “Alternative Electricity and Natural Gas Procurement Strategies for U.S. Department of Defense Installations,” prepared for the U.S. Department of Defense, Defense Logistics Agency, Defense Energy Support Center, July 2001 (with Richard A. Galligan).
- “Electricity in Maryland Fact Book,” prepared for the Power Plant Research Program, Maryland Department of Natural Resources, January 2001.
- “Steam Supply Options Analysis for the Savannah River Site,” prepared for the U.S. Department of Energy, March 2000.
- “The Feasibility of a Renewables Portfolio Standard in Maryland,” prepared for the Power Plant Research Program, Maryland Department of Natural Resources and the Maryland Energy Administration, January 2000.
- “Undergrounding Electric Utility Lines in Maryland,” prepared for the Maryland Energy Administration and the Power Plant Research Program, Maryland Department of Natural Resources for the Governor’s Task Force on Utility Preparedness, December 1999.
- “Nevada Test Site Utility Options Study,” prepared for the U.S. Department of Energy, June 1999.

"Spallation Neutron Source Electrical Facilities Study," prepared for the U.S. Department of Energy, April 1999.

"Forecasted Electric Power Demands for the Delmarva Power and Light Company," prepared for the Power Plant Research Program, Maryland Department of Natural Resources, December 1998 (with Andrés Escalante).

"Assessment of DOD Electric Power Supply Options, Strategies, and Costs under Retail Open Access," prepared for the U.S. Department of Defense, Office of the Deputy Under Secretary of Defense, February 1998.

"The Engineering and Economic Feasibility of Using Poultry Litter as a Fuel to Generate Electric Power at Maryland's Eastern Correctional Institute," prepared for the Maryland Environmental Service, February 1998 (with Gary Walters).

"Power Supply and Cogeneration Options for the Eastern Correctional Institute," prepared for the Maryland Environmental Service," April 1997 (with Thomas King, P.E.)

"Cooperative Integrated Resource Plan for U.S. Department of Energy Installations Having Power Allocations from the Western Area Power Administration," prepared for the U.S. Department of Energy, June 1997.

"Cooperative Integrated Resource Plan for U.S. Navy Installations Having Power Allocations from the Western Area Power Administration," prepared for the U.S. Navy, SOUTHWESTNAVFACENGDIV, June 1997.

"Cooperative Integrated Resource Plan for U.S. Air Force Installations Having Power Allocations from the Western Area Power Administration," prepared for HQ AFCESA/CESE (Tyndall Air Force Base, Florida), June 1997.

"Analysis of Service Reliability -- Duquesne Light Company," prepared for the Pennsylvania Office of Consumer Advocate, June 1997.

"Estimated Power Supply Costs for the Accelerator Production of Tritium Project," prepared for the U.S. Department of Energy, Office of Project and Fixed Asset Management, October 1996.

"Customized Energy Conservation and Demand-Side Management Agreements between U.S. Air Force Bases and Utility Service Suppliers," prepared for HQ AFCESA/CESE (Tyndall Air Force Base, Florida), January 1996 (with Richard I. Chais).

"Evaluating and Implementing Privatization of Utility Distribution Systems at U.S. Air Force Bases," prepared for HQ AFCESA/CESE (Tyndall Air Force Base, Florida), December 1995 (with Richard I. Chais).

"Power Supply Options Study for Vandenberg Air Force Base," prepared for HQ AFCESA/CESE (Tyndall Air Force Base), December 1995 (with Richard Zumwalt,

P.E.).

“U.S. Department of Energy Savannah River Site Power System Privatization Study,” prepared for the U.S. Department of Energy, February 1995 (with Richard Zumwalt).

“Technical Report: Special Study of the MacDill Cogeneration Project,” prepared for the Department of the Air Force, Headquarters Air Combat Command, May 1994.

“The Feasibility of Centralized Purchase of Electric Utility Service,” prepared for the Department of the Air Force, March 1994.

“Long Range Energy Requirements for Charleston Air Force Base,” (two volumes), prepared for the Department of the Air Force, July 1994.

“Long Range Energy Requirements for Wright-Patterson Air Force Base,” (three volumes) prepared for the Department of the Air Force, Headquarters Air Force Logistics Command, April 1993.

“Forecasted Electric Power Demands for the Potomac Electric Power Company,” (two volumes), prepared for the Power Plant Research Division, Maryland Department of Natural Resources, March 1992 (with John E. Beach).

“Optimal Allocation of Western Area Power Administration (Billings Area) Federal Preference Power Among Ellsworth, Minot, and Offutt Air Force Bases,” prepared for the U.S. Air Force, November 1991.

“Impacts of Missile Site Deactivation on Electric Power Costs,” *Environmental Impact Statement -- Deactivation of the Minuteman II Missile Wing at Ellsworth Air Force Base, South Dakota*, prepared for the Department of the Air Force, Headquarters Strategic Air Command, October 1991.

“Forecasted Electric Power Demands for the Baltimore Gas and Electric Company,” (two volumes), prepared for the Power Plant and Environmental Review Division, Maryland Department of Natural Resources, May 1991 (with John E. Beach).

“Forecasted Electric Power Demands for the Delmarva Power and Light Company,” (two volumes), prepared for the Power Plant and Environmental Review Division, Maryland Department of Natural Resources, September 1990 (with John E. Beach).

“Year 2000 Power Supply Reliability Assessment: SERC and SPP Regions,” prepared for the U.S. Air Force, August 1990 (with Dennis Goins).

“Market and Regulatory Effects of the Elimination of the Manufacturing Restriction on the Regional Bell Operating Companies,” prepared for the Telecommunications Committee of the National Association of State Utility Consumer Advocates (NASUCA), November 1989.

"Alternative Electric Power Supply Sources for Onizuka Air Force Base, California," prepared for the U.S. Air Force, June 1989.

"Vandenberg Air Force Base Power Supply Study," prepared for the U.S. Air Force, March 1989.

"Forecasted Electric Power Demands for the Potomac Electric Power Company," (two volumes), prepared for the Power Plant Research Program, Maryland Department of Natural Resources, July 1988 (with Walter Asmuth, III).

"Economic Damage Estimation -- Pittcon Industries, Inc.," Exeter Associates, Inc., prepared for Pittcon Industries, Inc., February 1988 (with Marvin H. Kahn).

"Report and Recommendations of the U.S. Air Force on Adjustments to the Mather AFB Surcharge," prepared for the U.S. Air Force for submission to the Board of Directors of the Sacramento Municipal Utility District, August 1987.

"Preliminary Assessment of Options Available to the U.S. Air Force to Reduce Electric Power and Energy Costs to the Northern California Air Force Bases," Exeter Associates, Inc., prepared for the U.S. Air Force, March 1987.

"An Analysis of the Optimal Allocation of Available Western Area Power Administration Preference Power Among the Northern California Air Force Bases," Exeter Associates, Inc., prepared for the U.S. Air Force, March 1987.

"A Survey of Methods Used to Estimate Conservation Potential," Exeter Associates, Inc., prepared for the Power Plant Research Program, Maryland State Department of Natural Resources, February 1987.

"End-Use Forecasting," presentation at the Power Plant Research Program Load Forecasting Workshop, Annapolis, Maryland, January 1987 (published in proceedings volume).

"Survey and Analysis of End-Use Modeling Practices," Exeter Associates, Inc., prepared for the Power Plant Research Program, Maryland State Department of Natural Resources, October 1986.

"Economic Damage Estimation -- Yacht Buyers Group," Exeter Associates, Inc., prepared for Yacht Buyers Group, Inc., August 1986 (with Marvin H. Kahn).

"Updated Load Forecast of Energy and Peak Demand for the Allegheny Power System," Exeter Associates, Inc., prepared for the Power Plant Research Program, Maryland State Department of Natural Resources, June 1986 (with Matthew I. Kahal).

The Determinants of Profitability and Premiums in Conglomerate Mergers, Ph.D. dissertation, University of Maryland, 1986.

"Updated Load Forecast of Energy and Peak Demand on the Delmarva Peninsula," Exeter

Associates, Inc., prepared for the Power Plant Siting Program, Maryland State Department of Natural Resources, February 1986 (with Matthew I. Kahal).

“Estimated Value of Experimental Breeder Reactor II Generation to the Idaho National Engineering Laboratory -- 1985 Through 1986,” Exeter Associates, Inc., prepared for the Idaho National Engineering Laboratory, U.S. Department of Energy, January 1986.

“An Economic Estimation of Electric Power Demands for the Baltimore Gas and Electric Company,” (two volumes), Exeter Associates, Inc., prepared for the Power Plant Siting Program, Maryland State Department of Natural Resources, April 1985 (with Matthew I. Kahal).

“An Assessment of the State-of-the-Art of Gas Utility Load Forecasting,” (with Thomas Bacon, Jr. and Matthew I. Kahal) published in the *Proceedings of the Fourth NARUC Biennial Regulatory Information Conference*, 1984.

“Projected Electric Power Demands for the Potomac Electric Power Company,” (three volumes), Exeter Associates, Inc., prepared for the Power Plant Siting Program, Maryland State Department of Natural Resources, March 1984 (with Matthew I. Kahal).

“Economic and Demographic Forecasts for the PEPCO Service Area,” Exeter Associates, Inc., prepared for the Power Plant Siting Program, Maryland State Department of Natural Resources, September 1982.

“The Behavior of Regulatory Agencies,” published in *Attacking Regulatory Problems: An Agenda for Research in the 1980's*. (Allen Furgeson, ed.), Ballinger Publishers, Cambridge, Massachusetts, 1981 (with Wes Magat).

“Report on the Environmental Impacts from Outer-Continental Shelf Development in the Baltimore Canyon,” Bureau of Business and Economic Research, University of Maryland, prepared for the Bureau of Land Management, U.S. Department of the Interior, September 1980 (with Virginia McConnell).

“The Environmental Systems Model,” Bureau of Business and Economic Research, University of Maryland, June 1980 (with Virginia McConnell).

“Economic-Environmental Models of Regional Development -- The U.S. Experience,” Department of Economics Working Paper 80-15, University of Maryland, November 1979 (with John H. Cumberland and Alan Krupnick).

Expert Testimony Presented:

Before the Pennsylvania Public Utility Commission in Docket No. P-00662227, PPL Electric Utilities Corporation, 2006, for the Pennsylvania Office of Consumer Advocate.
Testified of Provider of Last Resort service.

Before the Maryland Public Service Commission in Docket No. 9063, Investigation into the

Optimal Structure of the Electric Utility Industry in Maryland, 2006, for the Power Plant Research Program, Maryland Department of Natural Resources and the Maryland Energy Administration. Testified on standard offer service issues, customer choice, demand-side management and energy efficiency, and market-related issues.

Before the Pennsylvania Public Utility Commission in Docket No. P-00052188, Pennsylvania Power Company, 2005, for the Pennsylvania Office of Consumer Advocate. Testified on Provider of Last Resort service.

Before the Maryland Public Service Commission in Case No. 9018, Potomac Edison Company, 2005, for the Maryland Department of Natural Resources, Power Plant Research Program. Testified on jurisdictional cost impacts of proposed transmission and distribution facilities.

Before the Maine Public Utilities Commission in Docket No. 2004-339, Central Maine Power Company, 2004, for the Maine Public Advocate. Testified on sales forecasting issues.

Before the Maine Public Utilities Commission in Docket No. 2002-770, Central Maine Power Company, 2003, for the Maine Public Advocate. Testified on load forecasting issues.

Before the Maine Public Utilities Commission in Docket No. 2001-239, Bangor Hydro Electric Company, 2001, for the Maine Public Advocate. Testified on load forecasting issues.

Before the Maine Public Utilities Commission in Docket No. 2001-232, Central Maine Power Company, 2001, for the Maine Public Advocate. Testified on load forecasting issues.

Before the Kentucky Public Service Commission in Case No. 99-070, Western Kentucky Gas Company, 1999, for the Office of Rate Intervention of the Attorney General. Testified on functionalization of distribution system costs.

Before the Kentucky Public Service Commission in Case No. 99-176, Delta Natural Gas Company, Inc., 1999, for the Office of Rate Intervention of the Attorney General. Testified on functionalization of distribution system costs.

Before the Maine Public Utilities Commission in Docket No. 97-580, Central Maine Power Company, 1998, for the MPUC Staff. Testified on generation-related administrative and general expenses.

Before the Maine Public Utilities Commission in Docket No. 96-116, Bangor Hydro Electric Company, 1997, for the MPUC Staff. Testified on load forecasting issues.

Before the New Mexico Public Service Commission, El Paso Electric Company, 1996, for the U.S. Air Force. Testified on rate design issues.

Before the State of Rhode Island and Providence Plantation Public Utilities Commission in Docket No. 2290, Narragansett Electric Company, 1995, for the Division of Public Utilities and Carriers. Testified on load forecasting issues.

Before the Illinois Commerce Commission in Docket No. 94-0065, Commonwealth Edison Company, June 1994, for the U.S. Department of Energy. Testified on load forecasting.

Before the Federal Energy Regulatory Commission in Docket No. RP91-203, *et al.*, Tennessee Gas Pipeline Company, May 1994, for the Tennessee Rate Design Customer Group. Testified on issues related to econometric analysis.

Before the Public Service Commission of the District of Columbia in Formal Case No. 926, Chesapeake and Potomac Telephone Company, September 1993, for the Office of People's Counsel. Testified on issues related to finance and statistical analysis.

Before the Public Service Commission of the District of Columbia in Formal Case No. 814, Phase III, Chesapeake and Potomac Telephone Company, October 1992, for the Office of People's Counsel. Testified on issues related to competition in the telecommunications industry.

Before the Maine Public Utilities Commission in Docket No. 92-101, Maine Public Service Company, September 1992, for the Commission Staff. Testified on load forecasting.

Before the Maryland Public Service Commission in Case No. 8413, Potomac Electric Power Company, March 1992, for the Maryland Power Plant Research Division. Testified on load forecasting.

Before the State of New Jersey Board of Regulatory Commissioners in Docket No. GF91081393J, New Jersey Natural Gas Company, March 1992, for the Division of Rate Counsel. Testified on weather normalization.

Before the State of Rhode Island and Providence Plantations Public Utilities Commission in Docket 2019, Narragansett Electric Company, November 1991, for the Division of Public Utilities and Carriers. Testified on load forecasting.

Before the Maine Public Utilities Commission in Docket No. 91-010, Bangor Hydro-Electric Company, June 1991, for the Maine Public Advocate. Testified on load forecasting.

Before the Maryland Public Service Commission in Case No. 8241, Phase II, Baltimore Gas and Electric Company, May 1991, for the Maryland Power Plant and Environmental Review Division. Testified on load forecasting.

Before the State of Rhode Island and Providence Plantations Public Utilities Commission in Docket 1976, Narragansett Electric Company, October 1990, for the Revision of Public Utilities and Carriers. Testified on load forecasting.

Before the Maryland Public Service Commission in Case No. 8201, Delmarva Power and Light Company, October 1990, for the Maryland Power Plant and Environmental Review Division. Testified on load forecasting.

Before the Maine Public Utilities Commission in Docket No. 90-076, Central Maine Power Company, September 1990, for the Maine Public Advocate. Testified on load forecasting.

Before the Public Service Commission of the District of Columbia in Formal Case No. 890, District of Columbia Natural Gas, February 1990, for the Office of People's Counsel of the District of Columbia. Testified on load forecasting.

Before the Maryland Public Service Commission in Case No. 8102, Southern Maryland Cooperative, July 1988, for the Maryland Power Plant Research Program. Testified on load forecasting.

Before the Maryland Public Service Commission in Case No. 8063 Phase II, Potomac Electric Power Company, July 1988, for the Maryland Power Plant Research Program. Testified on load forecasting.

Before the U.S. District Court for the Eastern District of Pennsylvania in Civil Action No. 87-0805, March 1988, for Pittcon Industries, Inc. Testified on economic damages.

Before the Sacramento Municipal Utility District Board, September 1987, for the U.S. Air Force. Testified on the applicability and appropriate calculation of a special surcharge.

Before the Sacramento Municipal Utility District Board, September 1987, for the U.S. Air Force. Testified on cost estimation and cost allocation.

Before the Sacramento Municipal Utility District Board, February 1987, for the U.S. Air Force. Testified on rate design and cogeneration.

Before the Vermont Public Service Board in Docket No. 4661, Green Mountain Power Corporation, November 1982, for the Vermont Department of Public Service. Testified on production planning, fuel costs, and maintenance scheduling for nuclear plant on behalf of the Vermont Public Service Board.

APPENDIX B
INTERROGATORY RESPONSES

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set II
Dated October 19, 2006
Docket No. P-00062227**

- Q.17. Mr. Kleha (page 5) states that the TSC “will decrease significantly” because the suppliers will provide all transmission. Please explain why this will not cause the TSC to disappear entirely. That is, what will be the purpose of the TSC in 2010? What costs will it recover?
- A.17. In 2010, the TSC may reflect two categories of costs: (1) charges for any transmission-related services acquired directly by PPL Electric, and (2) charges for any transmission-related services acquired on behalf of PPL Electric by a POLR supplier, but not collected through the GSC. See the response to Question 8 of Interrogatories of the PP&L Industrial Customer Alliance, Set I, dated October 6, 2006.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
PP&L Industrial Customer Alliance, Set I
Dated October 6, 2006
Docket No. R-00062227**

- Q.8. Reference PPL Statement No. 4, p. 7, lines 5-18.
- a) During 2010, will the Transmission Service Charge ("TSC") apply to all customers purchasing generation supply from PPL?
 - b) Please describe in detail all "transmission charges that may be imposed on [PPL] directly by PJM or indirectly through a supplier" for customers on the fixed GSC that PPL proposes to recover through the TSC.
 - c) For each charge identified in the response to question 8(b), please specify whether the charge will be recovered from the particular customer class (i.e.: Residential, Small Commercial, Large C&I) for which it was incurred
- A.8.
- a) During 2010, the TSC will apply to all customers taking POLR service from PPL Electric.
 - b) PPL Electric currently recovers all expenses incurred to acquire transmission service on behalf of its POLR customers through its PUC-approved TSC. The Company proposes to continue recovering expenses that it incurs to acquire transmission service for 2010. The expenses that the Company would expect to recover through the TSC mechanism could include, but are not limited to, the following:
 - Network Integration Transmission Service
 - PJM System Control and Dispatch Service
 - Transmission Owner Scheduling, System Control and Dispatch Service
 - Reactive Supply and Voltage Control from Generation Sources Service
 - Black Start Service
 - Regulation and Frequency Response Service
 - Operating Reserve-Supplemental Reserve Service
 - Operating Reserve-Spinning Reserve Service
 - MAAC
 - PJM West Transition Charge
 - Seams Elimination Cost Assignment-SECA Charge/SECA Call Option
 - Transmission Losses (Point-to-Point) Credits
 - Non-Firm Point-to-Point Transmission Service Credits

- Seams Elimination Cost Assignment-SECA Charge/SECA Call Option
- Transmission Losses (Point-to-Point) Credits
- Non-Firm Point-to-Point Transmission Service Credits
- PJM Membership
- Congestion Charges (if applicable)

Under the proposed CBP, the POLR supplier would obtain POLR services and would include one or more of these transmission-related services in the cost of its generation supply to PPL Electric. The Company would recover the cost of these transmission-related services through the GSC, rather than the TSC.

- b) It is PPL Electric's intent to recover charges incurred to acquire transmission service on behalf of its POLR customers pursuant to its PUC-approved TSC mechanism, which is based upon an allocation of the total PJM transmission service charges to PPL Electric, not an allocation of individual transmission-related services.

12/20/06

1/10/07
[Signature]

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE PETITION)
OF THE PPL ELECTRIC UTILITIES)
CORPORATION FOR APPROVAL OF A)
COMPETITIVE BRIDGE PLAN)

DOCKET NO. P-00062227

**DOCUMENT
FOLDER**

REBUTTAL TESTIMONY
OF
STEVEN L. ESTOMIN, PH.D.

ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

DOCKETED
DEC 28 2006

DECEMBER 2006

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, MD 21044

RECEIVED
2006 DEC 27 PM 1:46
PA PUC
SECRETARY'S BUREAU

1 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

2 A. My name is Steven L. Estomin. My business address is Exeter Associates, Inc., 5565
3 Sterrett Place, Suite 310, Columbia, Maryland 21044.

4 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

5 A. Yes. I submitted Direct Testimony in this proceeding on behalf of the Pennsylvania Office
6 of Consumer Advocate.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

8 A. My Rebuttal Testimony on behalf of the Office of Consumer Advocate (“OCA”) responds to
9 issues addressed in the Direct Testimony of Parties to this proceeding, other than PPL
10 Electric Utilities Corporation (“PPL”) that could affect PPL’s residential customers under
11 Provider of Last Resort (“POLR”) service arrangements to be effective January 2010. My
12 Rebuttal Testimony should be considered in conjunction with the Rebuttal Testimony filed
13 by Barbara R. Alexander on behalf of the OCA in this proceeding. Specifically, my Rebuttal
14 Testimony addresses: (1) the Parties’ comments relating to the issue of “prevailing market
15 prices” and the interpretation of that term, and (2) the Parties’ recommendation that the
16 Commission delay consideration of PPL’s proposed Competitive Bridge Plan (“CBP”) and
17 have PPL develop a POLR supply plan in 2008 after issuance of Commission regulations on
18 POLR supply.

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Prevailing Market Prices

21 Q. TO WHICH OF THE PARTIES’ COMMENTS REGARDING THE ISSUE OF
22 PREVAILING MARKET PRICES ARE YOU RESPONDING?

23 A. Interpretations of the term “prevailing market prices” are provided in the Direct Testimonies
24 of Mr. Thomas J. Butler filed on behalf of Dominion Retail, Inc.; Mr. Frank Lacey filed on
25 behalf of Direct Energy Services, LLC; and Mr. Jams A. Ajello filed on behalf of Reliant
26 Energy, Inc. The uniform position put forth by each of these witnesses, each testifying on
27 behalf of a competitive energy supplier, is that in order to satisfy the statutory requirement

1 that POLR supplies be acquired at prevailing market prices, POLR supply prices should be
2 temporally aligned with wholesale market prices on a short-term basis, e.g., POLR supplies
3 should be procured monthly, with POLR prices to residential and small commercial
4 customers changing monthly.¹

5 Q. DO YOU AGREE WITH THIS POSITION?

6 A. No, I do not. At any given time, there exists a menu of prevailing market prices based on the
7 particular characteristics of the electric product to be purchased. The wholesale market
8 provides extensive options with respect to product type, including day-ahead products,
9 month-ahead, multi-month, year-ahead, multi-year products, block products (on-peak, off-
10 peak, all-hours), and requirements contracts. Each such product will entail its own
11 prevailing market price at the time the purchase is transacted. To limit the definition of
12 “prevailing market price” as applicable to only one or a small subset of short-term products
13 is inconsistent with the market reality, which provides an array of prevailing market prices
14 which vary by the wide range of product types commonly available. Consequently, the
15 method of procurement, which needs to be designed to effectively ensure that the price paid
16 for POLR supplies is appropriate, is what determines whether the prevailing market price is
17 secured, not the duration of the contract or the nature of the electric product.

18 Q. ARE THERE REASONS WHY POLR SUPPLY ARRANGEMENTS LONGER
19 THAN THOSE CHARACTERIZED BY MONTHLY OR QUARTERLY
20 PROCUREMENTS, AND ASSOCIATED MONTHLY OR QUARTERLY POLR
21 SERVICE PRICE CHANGES, ARE DESIRABLE FOR RESIDENTIAL
22 CUSTOMERS?

23 A. Yes. These reasons are discussed in the Rebuttal Testimony of Barbara R. Alexander.
24

¹ See Direct Testimony of James Ajello, pp. 10-11; Direct Testimony of Frank Lacey, pp. 6-7; Direct Testimony of Thomas J. Butler, pp. 3-4.

PPL POLR Plan Deferral

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Q. WHAT IS THE RECOMMENDATION MADE BY RELIANT ENERGY'S WITNESS JAMES AJELLO, AND SUPPORTED BY DIRECT ENERGY'S WITNESS FRANK LACEY, REGARDING DEFERRAL OF A COMMISSION DECISION ON PPL'S PROPOSED CBP FOR RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS?

A. Mr. Ajello's recommendation, as I understand it, is that the Commission should delay acting on PPL's CBP proposal at this time and that PPL should be required to submit a plan for residential and small commercial customers in 2008, after the Commission has finalized the POLR Rulemaking.

Q. DO YOU CONCUR WITH THIS RECOMMENDATION?

A. No. PPL's CBP is for a one-year period, calendar year 2010, which would facilitate the alignment of PPL's POLR schedule with that of the other major utilities in Pennsylvania. By delaying the ability of PPL to implement its CBP, as recommended by Mr. Ajello, until at least 2008 and perhaps into 2009, PPL would lose the ability to conduct the procurement for 2010 supplies over the three-year period (2007 through 2009), as proposed by PPL. The PPL-proposed three-year period would be compressed to a period of less than two years, and perhaps less than one year. This compression would deprive residential customers of the benefits associated with procurement of POLR supplies over the longer period and expose these customers to the increased market risk associated with procurements made over a much shorter time period.

1 Q. WHY IS THE THREE-YEAR PROCUREMENT PERIOD FOR ACQUIRING
2 POLR SUPPLIES, AS PROPOSED BY PPL, MORE BENEFICIAL TO
3 RESIDENTIAL CUSTOMERS THAN A MORE COMPRESSED PERIOD OF
4 LESS THAN TWO YEARS?

5 A. Market prices are subject to fluctuation based on a wide range of factors. A recent extreme
6 *example of this was the impact that the 2005 Gulf coast storms had on electricity prices in*
7 *the months following the storms.* Procurement of POLR power supplies over a three-year
8 period using multiple acquisition dates serves to dampen the impacts of short-term
9 fluctuations in price and mitigates the risk that power supplies would be purchased at a time
10 of unfavorable market conditions. By reducing the time period available in which to conduct
11 the procurements, the ability to mitigate the market risk is also reduced.

12 Q. IS THERE ALSO A POSSIBILITY THAT THE PPL-PROPOSED PLAN WILL BE
13 DIFFERENT FROM THE REGULATIONS ULTIMATELY ISSUED BY THE
14 COMMISSION?

15 A. Certainly this risk exists. It needs to be recognized, however, that the PPL CBP proposal is
16 restricted to POLR service for only 2010. The countervailing risk, i.e., the increased market
17 risk to which residential customers would be exposed with adoption of Mr. Ajello's
18 recommendation for delaying a Commission decision, appears to significantly outweigh the
19 potential that the PPL interim arrangement would not be identical to the Commission's final
20 POLR regulations for a one-year period.

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes, it does.

23

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE PETITION)
OF THE PPL ELECTRIC UTILITIES)
CORPORATION FOR APPROVAL OF)
A COMPETITIVE BRIDGE PLAN)

DOCKET NO. P-00062227

SURREBUTTAL TESTIMONY
OF

STEVEN L. ESTOMIN, PH.D.

DOCUMENT
FOLDER

DOCKETED
DEC 28 2006

ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

DECEMBER 2006

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, MD 21044

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1 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

2 A. My name is Steven L. Estomin. My business address is Exeter Associates, Inc., 5565
3 Sterrett Place, Suite 310, Columbia, Maryland 21044.

4 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

5 A. Yes. I submitted Direct and Rebuttal Testimony in this proceeding on behalf of the
6 Pennsylvania Office of Consumer Advocate.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

8 A. My Surrebuttal Testimony on behalf of the Office of Consumer Advocate (“OCA”) responds
9 to issues addressed in the Rebuttal Testimony of Parties to this proceeding that could affect
10 PPL’s residential customers under Provider of Last Resort (“POLR”) service arrangements
11 to be effective January 2010. In particular, I address POLR rates for residential customers
12 served under the RS and RTS rate schedules, issues related to the concept of “prevailing
13 market prices,” Demand Side Response (“DSR”) programs in the context of PPL’s
14 Competitive Bridge Plan (“CBP”), and issues related to PPL obtaining stakeholder input
15 following completion of its first two (“POLR”) solicitations.

16 **Residential Customer Pricing**

17 Q. DESCRIBE YOUR RECOMMENDATIONS REGARDING RESIDENTIAL
18 PRICING UNDER PPL’S CBP FOR POLR SERVICE.

19 A. My Direct Testimony submitted on behalf of the Pennsylvania OCA in this proceeding
20 contained three recommendations related to pricing of residential POLR service under the
21 Competitive Bridge Plan. These recommendations were:

22 1. Residential Time-of-Day service (“Schedule RTD”) customers be combined
23 with Residential Service (RS) customers and receive POLR service under the
24 CBP at the same rates;

- 1 2. The absolute difference in rates between the RS schedule and the Residential
- 2 Service-Thermal Storage (RTS) schedule be maintained; and
- 3 3. The rate differentials between blocks in the declining block RS schedule be
- 4 reduced by half, but not eliminated as was proposed by PPL in its CBP filing.

5 Q. WHAT WAS THE COMPANY'S RESPONSE TO YOUR
6 RECOMMENDATIONS?

7 A. PPL witness Krall addresses these rate structure issues in his Rebuttal Testimony at pages 25
8 through 29. Therein, he agrees that the recommendation made for RTD customers is
9 consistent with what PPL proposed in its filing. Mr. Krall also indicated PPL's acceptance
10 of the recommended concept for the RTS rates, i.e., maintaining the absolute differential
11 between the RS and RTS energy rates, though relying on the approved 2009 rates (energy,
12 capacity, and competitive transition charge) as the basis rather than making the rate
13 calculations based on the 2006 rates, as contained in my Direct Testimony. Finally, Mr.
14 Krall rejects the third recommendation regarding the retention of a portion of the rate block
15 differentials in the RS rates and prefers to retain the Company's original proposal that the
16 energy supply component of those rates be flat, without any declining block feature.

17 Q. WHAT IS YOUR RESPONSE TO MR. KRALL'S POSITION REGARDING THE
18 RTS RATES?

19 A. I see no problem in basing the 2010 RTS rates on the 2009 cost differential between RS and
20 RTS rates for energy, capacity, and competitive transition charges. The differential
21 calculated by Mr. Krall is \$0.135 per kWh, which represents a reasonable adjustment for the
22 reasons described in my Direct Testimony.

1 Q. WHAT IS YOUR RESPONSE TO MR. KRALL'S POSITION REGARDING
2 PARTIAL RETENTION OF THE DECLINING BLOCK DIFFERENTIALS
3 CURRENTLY CONTAINED IN THE RS RATE SCHEDULE?

4 A. Mr. Krall indicates in his Rebuttal Testimony at page 28 that the third recommendation put
5 forth in my Direct Testimony, to reduce the differential in the RS block rates by half rather
6 than move the customers served under the RS schedule to a flat rate per kWh, as proposed by
7 PPL, "...produces less than a 2% difference from flat rates in 2010." Mr. Krall asserts that
8 this change is too small to justify the burden on PPL to administratively handle the block rate
9 arrangement. (Mr. Krall's Rebuttal Testimony, page 28, line 22 through page 29, line 2.)
10 The 2 percent differential noted by Mr. Krall, however, would increase if the flat per-kWh
11 rate currently estimated by PPL to be applicable in 2010 ultimately proves to be higher.
12 Additionally, if the differentials applicable to the largest RS customers were to be
13 considered, e.g., customers with usage in excess of 3,000 kWh per month, which are not
14 represented in the numerical example provided in my Direct Testimony, the 2 percent
15 differential cited by Mr. Krall also would be somewhat higher. Most important, however, is
16 the consideration that the overall price increases for larger RS customers, i.e., those with
17 usage above 1,500 kWh per month, are anticipated by PPL to be in the neighborhood of 30
18 percent. Even the relatively modest reductions in total billings for these customers (relative
19 to PPL's flat rate proposal) contemplated in my Direct Testimony warrant favorable
20 consideration given the already large increases that are expected to emerge under the CBP.

Prevailing Market Prices

1
2 Q. PLEASE COMMENT ON THE REBUTTAL TESTIMONY SUBMITTED BY MR.
3 FRANK LACEY ON BEHALF OF DIRECT ENERGY SERVICES RELATED TO
4 THE ISSUE OF “PREVAILING MARKET PRICES.”

5 A. Mr. Lacey’s fundamental position, as I understand it, is that the concept of “prevailing
6 market prices” requires that the price of power charged to customers should be reflective of
7 market prices at the time the power is delivered. He disagrees with my interpretation of the
8 term “prevailing market prices” to mean that the price at which the power is acquired or
9 purchased, given the characteristics of the product (e.g., a block product for a particular time
10 period, requirements service, on-peak power only) is the relevant standard for establishing
11 the rates for POLR service. Mr. Lacey’s contention is that the three-year laddered
12 purchasing approach that characterizes PPL’s CBP, and which Mr. Lacey assesses will
13 violate the “prevailing market price” concept, will have adverse consequences, including: (1)
14 distorting the price signals to consumers which would serve to confound their ability to make
15 reasonable decisions regarding efficient energy use, conservation, and demand response; and
16 (2) presenting a barrier to market entry for competitive suppliers. (Rebuttal Testimony of
17 Frank Lacey, page 1, line 11 through page 2, line 19.) Mr. Lacey’s arguments, if taken to
18 their logical conclusion, would suggest that POLR supplies be procured exclusively on the
19 spot market and that the price charged to consumers at any particular time correspond to the
20 spot market price of power at that time. To my knowledge, no Commission has required that
21 POLR service for residential customers be purchased on the spot market and rates be
22 established based on spot market prices. In fact, Mr. Lacey does not suggest that this
23 arrangement is appropriate. Rather, Mr. Lacey recommends that POLR supplies for
24 residential customers be secured one month at a time, two months in advance of the delivery

1 date. There is no assurance, however, that market prices two months in advance of delivery
2 would meet the test that Mr. Lacey has established.

3 With respect to shorter-term prices providing price signals for appropriate investment
4 in energy conservation and efficiency, short-term price may not be a reasonable decision
5 parameter. Energy efficiency and conservation investments have long lives and decisions
6 should be made on the basis of the expected life-cycle cost savings, not simply the short-term
7 cost savings associated with a monthly price.

8 Q. MR. LACEY INDICATES THAT THE LADDERED PROCUREMENT
9 APPROACH DOES NOT OFFER INCREASED PRICE STABILITY RELATIVE
10 TO AN APPROACH WHERE POLR SUPPLIES ARE PROCURED MONTHLY.
11 DO YOU AGREE?

12 A. No. First, the prices paid by residential consumers in 2010 under the CBP will be stable over
13 the year, in contrast to an arrangement entailing the monthly purchasing of POLR supplies,
14 in which case we would expect that prices would change monthly. Second, one of the key
15 benefits associated with the laddered approach to procurement is that it minimizes the risk
16 that all POLR supplies will be purchased under unfavorable market conditions. The
17 mitigation of market timing risk is extremely important, and failure to do so in the case of
18 other utilities, e.g., BGE in Maryland and Pike County Light & Power in Pennsylvania,
19 resulted in substantial increases in price that would not have prevailed had the procurements
20 been temporally diversified.

21 Mr. Lacey is correct in his assertion that the laddered procurement approach does not
22 ensure that the lowest possible price for POLR service will be attained at all times. It does
23 ensure, however, that residential consumers will not be burdened with the highest possible
24 price, or with prices per kilowatt hour that could change substantially on a monthly basis.

1 Q. DO YOU AGREE WITH MR. LACEY'S POSITION THAT PRICE STABILITY IS
2 NEITHER IMPORTANT NOR NECESSARY IN DETERMINING RETAIL POLR
3 PRICES FOR RESIDENTIAL CUSTOMERS?

4 A. No, I do not. Residential consumers, particularly low-income residential consumers, require
5 price stability to allow for budgeting of electric bills. The cost of electricity represents a
6 major monthly expenditure, and volatility in prices seriously erodes the ability of low- and
7 middle-income households to deal with balancing those expenditures with other household
8 expenditures. This would be particularly true if monthly prices were relied upon, as
9 recommended by Mr. Lacey. Those months in which consumption tends to be greatest are
10 the same months in which wholesale prices on the spot market tend to be highest. This
11 relationship between monthly usage levels and monthly prices serves to exacerbate the
12 *difficulties associated with budgeting for electric supply costs, which will only be*
13 *compounded with the anticipated increases in power supply costs in 2010 relative to current*
14 *levels (estimated to be between 20 and 30 percent by PPL). Price stability must be*
15 *considered to be a principal component of reasonable terms and conditions under which*
16 *POLR supply for residential customers is provided.*

17 **Demand-Side Response Programs**

18 Q. PLEASE SUMMARIZE YOUR PROPOSAL REGARDING DEMAND-SIDE
19 RESPONSE PROGRAMS THAT YOU PRESENTED IN YOUR DIRECT
20 TESTIMONY.

21 A. My recommendation was that, in addition to the residential DSR programs contained in
22 PPL's Competitive Bridge Plan, PPL should explore the potential for competitive bidding for
23 DSR and energy efficiency and issue a Request for Proposals (RFP) in 2008 or early 2009
24 for a to-be-defined percentage of PPL's 2010 energy and capacity needs for residential
25 customers.

1 Q. HAS PPL AGREED WITH THIS RECOMMENDATION?

2 A. No. PPL addresses this issue in the Rebuttal Testimony of Mr. Douglas Krall. Mr. Krall
3 indicates that conducting a solicitation for demand-side programs in the context of a one-
4 year bridge plan would: (1) introduce complexity, (2) not provide significant benefits, (3)
5 cause uncertainty for POLR suppliers regarding load shapes and therefore may result in
6 higher bid prices, and (4) create the need for additional educational funding. Additionally,
7 Mr. Krall notes that it may not be practical to obtain interest on the part of customers or on
8 the part of aggregators to participate in a one-year program. Mr. Krall states that it would be
9 best to wait until a statewide POLR process has been implemented and has matured before
10 embarking on a competitive solicitation process such as I recommended in my Direct
11 Testimony. (Rebuttal Testimony of Douglas Krall, page 42, line 19 through page 43, line
12 17.)

13 Q. HOW DO YOU RESPOND TO MR. KRALL'S CONCERNS?

14 A. Mr. Krall has expressed several valid concerns which need to be addressed and resolved. His
15 suggestion, however, that a competitive solicitation for residential sector energy conservation
16 and efficiency be postponed until a statewide POLR supply program has matured would
17 entail deferring such a competitive acquisition until 2012 or later. This timeframe would be
18 required to accommodate some maturation of the POLR process that would not see wide
19 application until 2011. This kind of postponement would adversely affect the ability of
20 residential customers to control usage (and consequently expenditures), which will grow
21 increasingly important with the significant increases in residential electricity costs
22 anticipated by PPL. The recommendation made in my Direct Testimony was for PPL to
23 explore the potential for competitive bidding of energy conservation and efficiency for
24 residential customers, with issuance of an RFP in late 2008 or early 2009. Assessment of the
25 potential for competitive acquisition of energy conservation and efficiency for residential

1 customers will necessarily entail identification of potential stumbling blocks and
2 development of resolution. Given the importance of the availability of these programs to
3 residential customers, particularly in the face of significant electricity price increases, the
4 potential development of a competitive acquisition program for conservation and energy
5 efficiency should be carefully assessed and evaluated.

6 **Review of Solicitation Results**

7 Q. PLEASE SUMMARIZE YOUR RECOMMENDATION FOR REVIEW OF PPL'S
8 EARLY COMPETITIVE ACQUISITION RESULTS.

9 A. *My recommendation, contained in my Direct Testimony, was for PPL to convene a meeting*
10 *of customer representatives to review the results of its first two solicitations, accompanied*
11 *with informal discussions with other stakeholders such as bidders and potential bidders. The*
12 *purpose of this meeting would be to address possible opportunities to improve the*
13 *solicitation process.*

14 Q. DO YOU HAVE A RESPONSE TO THE COMMENTS RELATED TO THIS
15 MEETING MADE BY MR. KALCIC IN HIS REBUTTAL TESTIMONY, FILED
16 ON BEHALF OF THE OFFICE OF SMALL BUSINESS ADVOCATE?

17 A. Yes. Mr. Kalcic has indicated that absent certain detailed information regarding the
18 solicitation results, e.g., the number of tranches offered at various prices, by rate group and
19 winning supplier, the efficacy of the recommended customer representative review would be
20 hindered. (Rebuttal Testimony of Mr. Brian Kalcic, page 8, lines 3 through 12.) From a
21 customer perspective, more information is certainly preferable to less information, and the
22 availability of the data identified by Mr. Kalcic would serve to enhance the productivity of
23 such a meeting. While I would certainly support the provision of the data identified by Mr.
24 Kalcic, the unavailability of that detailed data should not be perceived as negating the
25 benefits that could emerge from customer representative input.

1 Consequently, I would strongly encourage that this meeting be held, regardless of
2 whether detailed formation concerning the results of the solicitation is available.

3 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

4 A. Yes, it does.

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**PPLICA/PENNFUTURE STIPULATIONS
IN LIEU OF CROSS EXAMINATION
OF DR. TUFFEY**

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P-00067227

1. In referencing DSR programs, Dr. Tuffey's testimony contemplated programs in which customers would voluntarily enroll. Dr. Tuffey does not advocate for mandatory DSR programs.
2. The "no fuel cost" resources referenced on p. 5 of Dr. Tuffey's Direct Testimony may sell their electric supply output through a bi-lateral contract or may sell the electric supply into the PJM spot market, which results in the hydro, wind or solar facility being paid a market clearing price that reflects the generating and fuel costs of natural gas and coal generating facilities in some hours.
3. Under the Pennsylvania Alternative Energy Portfolio Standards Act, the EDC or EGS that purchases alternative energy credits from a wind, solar or hydro generating resource is not automatically entitled to purchase the output of the facility at a rate based on the resource's fuel cost.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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~~Docket No. P-00062227~~

Citizens for Pennsylvania's Future

PennFuture ~~Statement No. 1~~

Direct Testimony of Thomas J. Tuffey

*12/28/06
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Concerning: Alternative Energy Portfolio Standards Act
Energy Conservation Programs
Demand Side Management Programs

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PA PUC

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Q: Please state your name.

A: My name is Thomas J. Tuffey.

Q: By who are you employed?

A: I am employed by Citizens for Pennsylvania's Future.

Q: What is your position with PennFuture?

A: I am the Director of the Center for Energy, Enterprise and the Environment. My office is located at 212 West Gay Street, West Chester, Pennsylvania.

Q: What are your responsibilities?

A: I am responsible for directing the Center, which advocates for development of a clean energy market in Pennsylvania.

Q: Describe your educational background.

A: I attended Rutgers University, where I was a Cook Scholar, and graduated in 1968 with a Bachelor of Science degree in Preparation for Research. In 1972, I received a Masters Degree in Environmental Science from Rutgers University. In 1973, I received my doctorate, also from Rutgers University, and also in Environmental Sciences. In 1988, I attended and completed the Wharton Advanced Management Program at the University of Pennsylvania. From 1973 to 1976, I was an Assistant Professor, Water Resources Research Institute and the Bureau of Engineering Research with faculty appointment in Chemical Engineering at Rutgers University.

Q: Summarize your work experience.

From 1976 to 1992, I was employed by Roy F. Weston Inc. I held many positions in this 3,000-person environmental engineering and consulting firm including Executive Vice President and President of Weston International. In 1992, I founded and was President and Chief Executive Officer of EMAX Solution Partners, a firm specializing in information management systems for chemicals management, and the environmental, health and safety aspects of drug discovery. Emax was subsequently purchased by Sciquest. Between 1992 and 1996, I was also affiliated with Safeguard Scientifics, then the leading venture capital organization in Southeastern Pennsylvania, and participated as an equity investor in several environmental companies.

From 1996 to 2000, I was President to EMIS Tech Publishing, Inc. EMIS Tech focused on information systems and technologies for Environmental, Health and Safety managers. EMIS Tech published the EMIS Tech Newsletter and produced conferences on environmental information systems and technologies. During this period, I also maintained a private management consulting practice, T.J. Tuffey and Associates, providing management consulting expertise to large organizations, such as Oracle and PPL.

From 2000 through October of 2004, I was Executive Director of the Sustainable Energy Fund of Central Eastern Pennsylvania, the clean energy fund within PPL Electric's territory. In that capacity I routinely evaluated and made grants, loans, and equity investments in a host of clean energy technologies. These included a debt placement with PowerWeb Technologies, which has demand side management software and systems similar to those installed at PPL Electric. I met with the company to review products, markets and performance at least quarterly for close to three years.

In November of 2004, I joined PennFuture in my current position.

Q: Describe your recent experience related to the development of renewable energy in Pennsylvania.

A: I serve on the Governor's Energy Advisory Board and the Governor's Agricultural Renewable Energy Council, of which I am the Chair of the Economic Development and Finance Committee. I was an advisor to Secretary Kathleen McGinty of the Pennsylvania Department of Environmental Protection (DEP) on the reauthorization of the Pennsylvania Energy Development Authority (PEDA). At the request of DEP, I assisted staff in the design of the DEP Energy Harvest Grant Program to encourage renewable energy development in Pennsylvania. At the request of the Governor's Office and DEP Secretary McGinty, I recently facilitated a wind industry collaborative with state and local government that produced a Model Wind Facility Ordinance endorsed by the Pennsylvania State Association of Township Supervisors, and a methodology for tax assessment of wind facilities, approved by the Board of the Pennsylvania Tax Assessors Association. At the request of DCNR Secretary DeBernadinis, I am currently co-facilitating, with Audubon Pennsylvania, a collaborative of state and federal agencies, environmental and wildlife non-governmental organizations, and the wind industry to develop agency policy and practices regarding wildlife and wind facilities, and to recommend state policy for wind power development on public lands. I served on the Executive Committee of the Clean Energy States Alliance (CESA), which is a professional association that represents Clean Energy Funds throughout the country.

From 2000, I designed and hosted the annual Pennsylvania Sustainable Energy Partners Retreats, which hosts all of the various funding sources and market makers

throughout Pennsylvania. I am an active participant in the Public Utility Commission Working Group, responsible for drafting rules to implement Act 213, the Advanced Energy Portfolio Standards Act. With John Hanger, PennFuture's President, I designed and co-hosted the recent Sixth Annual Clean Energy Conference held in Harrisburg, Pennsylvania. I currently manage the Mid-Atlantic Renewable Energy Coalition, the association of private and public entities most active in Pennsylvania wind resources development.

I am directing the development of the first community scale wind energy project in the Commonwealth, which emphasizes a new business model enabled by Act 213 for critical community infrastructure. The project will power the City of Hazelton's wastewater treatment plant. I am also directing the development of one of the largest solar energy installations in Pennsylvania at Turkey Hill's manufacturing plant.

In a related renewable energy area, I commissioned the just released report on "The Economic Impact of biofuels in Pennsylvania."

Q: What is the subject matter on which you will testify?

A: I will describe why renewable energy, energy efficiency and conservation programs, and demand side management programs are critical components of a diversified portfolio approach to obtaining reliable supply that mitigates against generation cost escalation, and recommend incorporating such programs into PPL Electric's Competitive Bridge Plan ("CBP") for 2010 POLR supply.

Q: Please summarize your opinions on these matters.

A: In its CBP, PPL expresses concern for future "rate shock" and proposes a series of six POLR solicitations over a three year period as a principle means to counter that threat. The Company also indicates that it will increase the caps on its Demand Side Response (DSR) programs to 300 and 600 customers and requests approval to use consumer education residuals from existing programs to fund further education on the wise use of electricity. In its petition the Company indicates that increased fuel costs directly relate to increased generation costs and the potential for "rate shock."

I do not believe that the petition adequately addresses the problem that the Company has posed, and believe that the potential for increased future generation costs can be better controlled by:

- Effectively incorporating compliance with the Alternative Energy Portfolio Standard (AEPS) Act, and specifically Tier I generation sources, into the proposed solicitations;
- Offset energy demand growth by using energy efficiency programs that have proven to be cost effective and cheaper than adding new generation capacity; and

- Use its investments in advanced metering equipment and Meter Data Management to implement more effective Demand Side Response (“DSR”) programs.

Q: What do you recommend for the Commission in this proceeding?

A: I recommend that the Commission issue an order that requires PPL Electric to:

- Include provisions in each of the six POLR solicitations proposed in the CBP that ensure PPL Electric’s compliance with the Alternative Energy Portfolio Standards (AEPS) Act and the associated regulations promulgated by the Commission. In order to provide emerging Tier I generation sources adequate time to finance and build generation, the two POLR solicitations for 2007 should include PPL Electric’s full 2010 Tier I obligation under the AEPS Act, including its solar set aside.
- Extend and expand PPL Electric’s two existing DSR programs (the Demand Side Response Rider-Residential and the Demand Side Initiative Rider). Using the advanced metering equipment now installed throughout the PPL Electric system and the Nexus Energy Software for meter data management, PPL Electric should identify and provide notice to customers representing the top 10% of peak load in each customer class. Using the Nexus Energy Software, or similar means, PPL Electric should provide those customers with voluntary strategies to reduce or shift load. The program should provide these same customers with information the day after at least two critical events, and recommend strategies that would reduce cost for the next peak event. PPL Electric should submit to the Commission by December 31, 2009, for implementation in 2010, a real time DSR program that would be structured to enroll customers representing at least the top 10% of peak load in each customer class. The program should include an evaluation of the avoided costs of new peak generation capacity that can be achieved by the DSR program and the enrollment goal set to optimize that cost benefit determination.
- Implement the development of an effective Energy Efficiency program, to partially offset forecasted load growth. In conjunction with the bidding conducted in the second year of the program (2008), PPL Electric should be required to conduct a bid to receive proposals designed to reduce the Company’s energy and capacity needs in the year 2010. The bids should seek a 1% reduction in the projected Kw hours consumed for each customer class. Bids should include energy efficiency and conservation measures such as those provided for in the AEPS Tier II Energy Efficiency and DSM Working Group rules approved by the Commission. At PPL Electric’s option, the bids may include programs and measures that exceed one year. As necessary, PPL Electric should also implement its own customer programs to achieve the 1% reduction goal for 2010.

PPL Electric should be required to submit to the Commission by December 31, 2009, for implementation in 2010, a real time Energy Efficiency and Conservation program that would be structured to annually reduce Kw hours consumed by the equivalent of the projected annual load growth in the PPL Electric system.

Q: Have you testified previously before this Commission?

A: I testified in 2004 on behalf of the Sustainable Energy Fund in the PPL Electric rate case, Docket No. R-00049255. I also testified in 2005 on behalf of PennFuture and related parties in the PECO-PSEG merger case, Docket No. A-110550F0160.

Q: Does renewable energy mitigate generation cost escalation?

A: Renewable energy technologies like wind power, solar, and hydroelectric power have no fuel costs. Consequently, there can be no fuel cost escalation for renewable energy compared to electric power generated from the burning of coal and natural gas.

Q: Does the company have a statutory obligation to produce electricity using renewable energy sources?

A: The AEPS Act imposes an obligation on PPL Electric to produce a percentage of its generation supply using Tier I technologies. PPL Electric has recognized this obligation and indicated in its responses to PennFuture's Interrogatories its intention to comply with the AEPS Act in making solicitations under its CBP.

Q: Are there specific timing requirements that should be considered to ensure PPL Electric's compliance with the AEPS Act?

A: Renewable energy projects are still an emerging generation source in the PJM territory. For projects to be built, they must first be financed. The financing entities require that a project have a long term power purchase agreement in place before they will fund the construction of an alternative energy project. To effectively procure renewable energy as required by the AEPS Act, power purchase agreements with the generation sources must be signed at least two years in advance of anticipated delivery. For purposes of PPL Electric's CBP, in order to provide the emerging Tier I generation sources adequate time to finance and build generation for delivery of alternative power in 2010, that power, including solar set asides, must be included in the two POLR solicitations scheduled for 2007.

Q: Why do you believe that energy efficiency is an important means to mitigate cost escalation?

A: Energy demand growth in PPL Electric's territory is projected by the company to be about 1.4% annually; residential and commercial accounts will rise and industrial accounts will fall. The increased demand can be met by generating new supply or by making better use of existing supply by employing conservation methods. The cost of new supply will often exceed the costs of implementing energy efficiency and conservation methods. These conservation programs typically address all rate classes by promoting the replacement of old appliances, outdated commercial and industrial pumps and motors, and HVAC systems, encouraging lighting upgrades, new construction and retrofit projects, and furthering customer education and outreach.

Q: How does Pennsylvania rank in comparison to the rest of the nation at using energy efficiency programs?

A: A 2005 summary of state spending and saving on energy efficiency ranks Pennsylvania 34th in spending per capita and 45th in the nation for cumulative annual kilowatt-hour savings as a percentage of kilowatt-hour sales in the year 2003. *ACEEE's 3rd National Scorecard on Utility and Public Benefits Energy Efficiency Programs: A National Review and Update of State-Level Activity.* Dan York and Marty Kushler. October 2005, pp 16-18. According to this report, more than half of the nation out-performs Pennsylvania in energy efficiency spending.

Q: Are you aware of any reports that assess the effectiveness of energy efficiency programs?

A recent report published by the US Department of Energy and the US Environmental Protection Agency estimated that well-designed energy efficiency programs cut electricity and natural gas loads by providing annual savings for a given program year of 0.15 to 1 percent of energy sales. *The National Action Plan for Energy Efficiency. U.S. Department of Energy and U.S. Environmental Protection Agency. July 2006.* Importantly for long-term benefits, the report indicated that these savings typically will accrue at this level for 10 to 15 years.

New Jersey was the principle model state for the AEPS Tier II Energy Efficiency and DSM Working Group rules approved by the Commission. In 2005, New Jersey allocated a total of \$113,800,000 million to energy efficiency programs that created an estimated \$44,198,200 in annual savings, and a projected \$403,297,100 in lifetime savings, typically 10 or more years, for the products installed. *New Jersey's Clean Energy Program™ 2005 Annual Report.* New Jersey Board of Public Utilities, Office of Clean Energy, p. 26.

Energy efficiency programs also offer indirect economic benefits. The Massachusetts Division of Energy Resources reported that the \$113.5 million spent in 2002 energy efficiency activities produced 2,093 jobs, increased disposable income by \$79 million, and created \$21.5 million in annual energy savings to participants. *2002 Energy Efficiency Activities, A Report by the Division of Energy Resources: An Annual Report to the Great and General Court on the Status of Energy Efficiency Activities in Massachusetts. Summer 2004, p. 3.*

Q: Has Pennsylvania begun to look at specific energy efficiency tools?

A: The AEPS Energy Efficiency and DSM Working Group developed a catalogue approach to the most cost effective measures that would yield the best results for Pennsylvania. The catalogue of technologies is based on pumps, motors, HVAC systems, lighting, and other technologies that have certified energy efficiency ratings that are better than conventional new or replacement equipment. PPL Electric was an active participant in the Working Group. It should be the cornerstone of any PPL Electric program.

Q: How would Energy Efficiency be incorporated into the proposed CBP?

A: The process is fairly straightforward; the Company would include energy efficiency requirements in the RFP process. The Company solicits third parties that can deliver energy savings. These could be ESCOs, large commercial building operators, industries, or others that have large loads or that can aggregate load reductions. The categories of entities were identified in the AEPS DSM Working Group activities. The process starts with a broadly disseminated Request for Information (RFI). From the responses the company develops a short list, followed by a Request for Proposals (RFP). A sample RFP currently in use by the Pacific Gas and Electric Company may be found on their web site at www.pge.com/3PEnergyEfficiencyRFP. The procurement process at varying stages is ongoing in California by PG&E, in the state of Washington by Puget Sound Energy, in Montana and Idaho as part of Northwestern Energy's Default Service Procurement Plan (www.montanaenergyforum.com), in Maine as a PUC Request for Comments for Central Maine Power and Bangor Hydro-Electric residential and small commercial programs, and should shortly begin in both Maryland and Delaware. There are a number of models that PPL Electric could use to formulate its Energy Efficiency program.

Q: Why is Demand Side Management an important means to mitigate cost escalation?

A: The cost of procuring energy at times of peak demand is considerably higher than that at non peak times, and often several times more expensive. This cost is passed on to

the consumer when it could be avoided by curtailing load through efficiency and conservation programs, or shifting load to a less costly time. Additionally, the cost of building new supply to meet that peak demand, and maintaining the capacity to meet the demand, can all be avoided if either means are used to reduce overall demand or shift it to when there is less demand.

Although the amount of savings must be determined by the company, the 1999 PJM State of the Market Report provides an indication of expected savings. The 1999 Report states:

If a supply curve were established for imports, for reserves, for ALM and for capacity backed exports, the relative significance of these elements of the market for affecting price can be seen. At the margin, a relatively small change in the MW supplied to the PJM market can have a significant impact on price. On June 7, during the peak demand hours, an increase in supply or a decrease in demand of 500 MW would have reduced the price by about \$100/MW. An increase in supply or a decrease in demand of 1,000 MW would have reduced the price by in excess of \$200/MW. An increase in supply or a decrease in demand of 2,000 MW would have reduced the price by about \$400/MW. *PJM Interconnection. State of the Market Report 1999. Market Monitoring Unit PJM Interconnection, L.L.C. June 2000.*

Q: Is the Company equipped to implement a Demand Side Management program?

A: I believe that PPL Electric is capable of implementing a more aggressive DSR Program. The company has indicated it intends to complete installation of a DSR system, including Distribution Control Systems, Inc. Meter technology, Two-Way Communications Systems meter communications technology, and the Nexus Energy Software. I am aware that the company has been working on this integrated system for several years. The company indicates in both its CBP and responses to PennFuture's Interrogatories that it intends to expand the Demand Side Response Program beyond the existing 300 residential customers, and to initiate another program, which the company calls its Demand Side Initiative.

Q: Are there other Demand Side Management programs throughout the country that can be used as models?

A: According to Nexus Energy Software's web site (www.nexusenergysoftware.com), over three dozen electric or gas utilities use its software in various Demand Side Management programs. I presume that these companies would use similar metering and communications equipment to that used by PPL Electric. The Nexus information indicates that a principle functionality of the software application is to identify customers for both energy reduction and load shifting potential, and to present that customer with educational information, including analysis of load and strategies for

reduction and shifting of demand. I believe there is a rich environment of experience that can inform PPL Electric.

According to a 2006 Federal Energy Regulatory Commission (FERC) report, PPL Electric is one of three Pennsylvania utilities with advanced metering infrastructure in place.

Announced Large Advanced Metering Infrastructure (AMI) in PA				
Source: FERC Demand Response and Advanced Metering Survey				
Utility	Commodity	AMI Type**	Number	Year Started
Duquesne Light	Electric	Fixed RF	550,000	1995
Exelon	Electric and Gas	Fixed RF	2,100,000	1999
PPL Electric	Electric	PLC	1,300,000	2002

** Fixed RF meters communicate over a private network and PLC systems send data through power lines. Citation: *The Federal Energy Regulatory Commission (FERC) Assessment of Demand Response and Advanced Metering. Staff Report. Docket AD06-2-000. August 2006*

Q: Based on your testimony and review of PPL Electric's Competitive Bridge Plan, do you recommend that the Commission's order require the Company to address renewable energy in its solicitations?

A: I recommend that the solicitations proposed in the CBP be structure in a manner that ensures PPL Electric's compliance with the AEPS Act, including all regulations promulgated by the Commission. In order to provide emerging Tier I generation sources adequate time to finance and build generation, the two POLR solicitations for 2007 should include PPL Electric's full 2010 Tier I obligation, including its solar set aside obligation.

Q: Based on your testimony and review of PPL Electric's Competitive Bridge Plan, do you recommend that the Commission's order require the company to address energy efficiency in its solicitations?

A: I recommend that PPL Electric be required to implement and develop an effective Energy Efficiency program to partially offset forecast load growth in conjunction with the bidding conducted in the second year of the program. The company should solicit proposals designed to not only provide supply, but to reduce the Company's energy and capacity needs in the year 2010. The bids should seek to meet a target of 1% reduction in the projected Kw hours consumed for each customer class in 2010. Bids may include energy efficiency and conservation measures as detailed in the AEPS Tier II Energy Efficiency and DSM Working Group rules approved by the Commission. At the Company's option, the bids could include programs and measures implemented over the course of more than one year. As necessary, the

Company should also be allowed to implement its own customer programs to achieve the 1% reduction goal for 2010. The Company should be required to submit to the Commission by December 31, 2009, for implementation in 2010, a real time Energy Efficiency and Conservation program that would be structured to annually reduce Kw hours consumed by the equivalent of the projected annual load growth in the PPL Electric system.

Q: Based on your testimony and review of PPL Electric's Competitive Bridge Plan, do you recommend that the Commission's order require the Company to address Demand Side Management in its solicitations?

A: I recommend that the Company extend and expand its two existing Demand Side Response (DSR) programs (the Demand Side Response Rider-Residential and the Demand Side Initiative Rider). In addition, in 2009, using the AMR metering system installed throughout the PPL Electric system and the Nexus Energy Software meter data management, the Company should identify and provide notice to customers representing the top 10% of peak load in each customer class. Using the Nexus Energy Software, or similar means, the Company should provide those customers with voluntary strategies to reduce or shift load away from peak demand. The Company should provide the same customers with information the day after at least two critical events that recommends strategies to reduce cost further for the next peak event. The Company should submit to the Commission by December 31, 2009, for implementation in 2010, a real time DSR program that would be structured to enroll customers representing at least the top 10% of peak load in each customer class. The submitted program should include an evaluation of the avoided costs of new peak generation capacity that can be achieved by the DSR program and the enrollment goal set to optimize that cost benefit determination.

Q: Does this conclude your testimony?

A: Thank you, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCUMENT
FOLDER

~~Docket No. P-00062227~~

Citizens for Pennsylvania's Future

PennFuture

~~Statement No. 1-SR~~

Sur-Rebuttal Testimony of Thomas J. Tuffey

*12/20/06
HOS [signature]*

Concerning: **Alternative Energy Portfolio Standards Act
Energy Conservation Programs
Demand Side Management Programs**

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Q: Please state your name.

A: My name is Thomas J. Tuffey.

Q: By who are you employed?

A: I am employed by Citizens for Pennsylvania's Future.

Q: What is your position with PennFuture?

A: I am the Director of the Center for Energy, Enterprise and the Environment. My office is located at 212 West Gay Street, West Chester, Pennsylvania.

Q: Have you previously testified in this proceeding?

A: Yes, I offered direct testimony on the following areas:

- Demand Side Response programs
- Compliance with the Alternative Energy Portfolio Standards Act; and
- Energy Efficiency and Conservation programs

Q: What did you recommend with respect to Demand Side Response?

A: I recommended that the company:

- 1) Identify and provide notice to customers representing the top 10% of peak load in each customer category. Under my proposal, the company would notify those customers that most critically affect peak demand about the company's existing metering, communications, and information systems.
- 2) Using the installed software, provide the customers with voluntary strategies to reduce or shift load.
- 3) Provide those customers with day after information following two events.
- 4) Submit to the Commission by December 31, 2009 a real time DSR program to *enroll* customers representing at least 10% of peak load for each customer class.

Q. How did the Company respond to your testimony?

A: The Company argued that notice to the key load demanding customers would cost \$1 per account, for as many as 100,000 customers. The Company proposed that any customer communications concerning DSR depend on the decisions of a customer education collaborative.

Q. Do you agree?

A. I do not.

Q. Please explain.

A. My explanation is in two parts.

I do not believe that notifying the top demand customers is a cost that should be included solely in the customer education budget. Although placing some of that cost within the education budget may be acceptable, arguing that the key notification component is “educational” in nature and should be subject to the company’s limited education budget seems an artificial distinction. The Company has invested hundreds of millions of dollars in building what appears to be one of the best DSR delivery systems in the Commonwealth, and possibly the country. The heart and soul of extracting value for both the customer and the Company from this system requires that the system’s abilities be communicated to those capable of using the system. The company proposes to expand availability of its DSR system from 2007 through 2010 as part of its CBP. That expansion will not be successful without a firm commitment designed to not only educate, but encourage use of the system.

Additionally, the Company appears to be arguing that a cost of \$1 per mailing for the top 100,000 customers would be cost prohibitive. This seems to be an odd position to take considering the millions of dollars that the company has expended to install the hardware and software for its DSR system.

Q. Please explain.

A. The Company has installed advanced meters for each of its customer, at a cost of hundreds of millions of dollars. The Commission has allowed these costs to be recovered by the Company. The Company has invested an additional sum near \$10 Million and several years’ worth of effort to install and ready software systems with high DSR functionality. I do not believe that the Company has yet sought cost recovery for this expenditure, but it will likely do so. To argue now that a \$1 cost,

only applied to the accounts representing the top 10% of peak load, is prohibitive or not in the public interest begs credibility.

I cannot imagine a responsible company executive standing before a customer group and advising them that after spending several hundred dollars per household of their money, without their prior knowledge, the Company was unwilling to spend an additional \$1 to notify them of the system's capacity to save those persons many times that in savings.

Q. Did the Company respond to your second DSR recommendation, that the Company provide its customers with voluntary strategies to reduce or shift load?

A. On page 38 of its rebuttal testimony, the Company describes some of the sophisticated, web based functionality of the Nexus software system that it has installed. As presented in my direct testimony, the Nexus web site also discusses its functionality and ease of use at some detail. At the November 16, 2006 Commission sponsored DSR Working Group, Mr. Krall presented a description of his company's hardware and software. I believe that the system is fully capable of providing customers with the information needed to allow them to voluntarily reduce or shift load. Again, the principle cost has already been invested. The cost of use should be minimal.

Q. From where did you derive your recommendation that selected customers be notified the day after two peak demand events?

A. This was one of the recommendations found on the Nexus software web site. Although it appears useful, we accept the Company's argument that such notice may not be practicable at this point.

Q: On page 41 of its rebuttal, the Company argues that its two proposed DSR programs will be available to all customers and already meet the goal of enrolling the top 10% of peak load in each customer class. Do you agree?

A: No, we need clarity and definition. The programs proposed in the CBP petition are pilots with capped participation until 2010, hence they are not available to all customers. Further, those who will participate are likely to be early technology adopters who may or may not have significant potential to benefit from use of the system.

The Company proposes pilot projects that may not appear targeted to enroll those likely to benefit the most from load shifting. We recommend that the company identify and notify those customers representing the top 10% of peak load.

Q: How does that relate to your last recommendation that the Company submit a DSR Plan to the Commission by December 31, 2009?

A: My recommendation is that upon completion of its DSR and DSI pilots that the Company commit to submission of a plan to the Commission that would be designed to target enrollment and use of its system. We seek to have the Company develop a specific plan that would identify who would benefit the most, and establish specific dates for submittal, enrollment goals, and content to include an evaluation of the avoided costs of new generation that can be achieved by the DSR program.

This recommendation is a natural extension of the Company's petition to perform a pilot program, in that upon completion of the program a performance report and Plan would be submitted to the Commission. If the Company is not prepared to offer such a program and report, it should be so ordered by the Commission.

Q: What were your energy efficiency and conservation recommendations?

A: Several utilities in the West and some in the East have begun to include energy efficiency and conservation programs in their power procurements. Our proposal recommended:

1) That in the 2008 and 2009 procurements, that the Company would conduct a bid to reduce projected energy needs for each customer class by 1%, using efficiency and conservation measures as detailed in the AEPS Tier II Energy Efficiency and DSM Working Group rules approved by the Commission.

2) That by December 31, 2009, the Company would submit an Energy Efficiency and Conservation Plan to the Commission that would be structured to annually reduce energy needs by the equivalent of the projected annual load growth.

Q: How did the Company respond?

A: In its rebuttal testimony on page 41, the Company states that it does not believe it appropriate to include energy efficiency in a one-year bridge plan for POLR supply and that the energy efficiency programs targeted to achieve the recommended reductions would affect the recovery of distribution revenue and, consequently, should only be considered in the context of a distribution rate proceeding, or alternatively as part of the recently organized Commission Demand Response Working Group.

Q: Please comment on the practicality of this proposal.

A: The essence of our recommendation is that the Company should begin to use Energy Efficiency and Conservation as a means of avoiding rate escalation, which is exactly the stated goal that underlies the Company's CBP proposal. Energy efficiency empowers the consumer to reduce their usage, and substitutes "negawatts" for the more expensive cost of the new generation that would otherwise be necessary to meet load growth.

We could accept the Company's position that including energy efficiency requirements in the CBP procurements may be too complex, if we had assurance that Energy Efficiency and Conservation would be addressed in a future filing with the Commission. This could be accomplished by the Company committing to a collaborative process that it would facilitate, which in turn would result in a report that would "inform" the Company on including such a component in its next distribution rate proceeding.

The Commission's Demand Response Working Group has only had one full meeting this past November, and one specialty meeting focused on rate decoupling. At this time, we cannot rely on that process to resolve our concerns.

Q: What was your recommendation for procuring AEPS generation?

A: I recommended that in its 2007 solicitation the Company seek to procure its full 2010 compliance requirement for Tier I resources. Tier I resources are fuel-less, and therefore constitute a hedge against fuel-based price escalation. The Company's CBP recognizes that it must comply with the AEPS Act and indicates that the Company will include compliance as a term in its RFPs. We seek clarity on how this compliance will be accomplished through the RFPs, from a timing perspective. I suggested that the Company front-end the process and enter contracts of sufficient length so as to allow renewable resource projects to secure financing and be constructed, which would thereby enhance prospects for compliance.

Q: How did the Company respond to your procurement recommendations?

A: The Company agreed to our proposal with respect to solar photovoltaic resources, but not the remaining Tier I resource requirements. The Company expressed concern that by agreeing to procure the full 2010 requirement in 2007, they would limit the market dynamics and preclude cost effective opportunities that may arise in 2008 and 2009.

Q: Do you agree?

A: The Company makes a valid point. The Company seeks to be consistent with its CBP, which proposes purchasing a specific percentage of its 2010 POLR load over a period of time to avoid the risk of price spikes. Arguably, seeking to procure all of its AEPS Act obligations in 2007 may preclude some cost effective opportunities in later years. However, I continue to believe that it is in the public interest that the Company firmly commits to procurement of a substantial and fixed percentage of its AEPS Act resources in its initial year RFPs, just as it has done with its overall 2010 load in its CBP.

Further, the initial year procurement should be a significant percentage of its 2010 compliance requirement. Unlike energy that may be procured regardless of its source, in order to make a good faith effort at AEPS Act compliance, the Company must recognize that clean power is not readily available on the open market. Consequently, it is imperative that the Company send a demand signal to the market early in its procurement process to facilitate the construction of clean energy projects, while maintaining some flexibility to capture 2008 and 2009 cost opportunities, if it seeks to comply with its 2010 obligations.

The Company's Tier I compliance requirement for 2010 is 3% of energy served. Based on my knowledge of the renewable energy market, I believe it is reasonable to assume that a large portion of this demand will be satisfied by wind power. If that is the case, the Company's compliance would require 385 MW of new wind farm construction. We recommend that 40% of that amount, or 150 MW, of any Tier I resource other than solar be procured through the 2007 RFPs. Procurement should be via contracts of at least 10 years term. This would parallel similar procurements by NYSERDA and PECO.

Q: Are your recommendations incompatible with the special one year nature of the CBP petition?

A: I do not believe so. The Company is petitioning for approval to procure resources that allow it to combat the threat of price escalation, which it refers to as "rate shock". Where the Company has suggested that our conservation proposals are too difficult to include in one year procurements, we can accept that position in return for meaningful beginnings to programs that go to the core of controlling costs by avoiding costly new generation with "negawatts," empowering the consumer to make wise energy savings decisions, and taking advantage of early compliance with the fuel-less generation sources of Tier I.

With respect to my recommendations for the timing of the Tier I purchase, the Company's proposal may be "one year" for purposes of power supply, but its power purchase for that one year is in fact occurring over a three year period. With that in

mind, along with understanding that the clean power market is only now emerging in Pennsylvania, it only makes reasonable sense that the Company seek to purchase a significant portion of its Tier I resources in its initial year RFPs in order to make it reasonably likely that compliance can be attained at a reasonable cost.

Q: Do you think these recommendations will be difficult for the Company to implement?

A. I do not. The Company already has experience with procuring AEPS Tier I resources from the Bear Creek and Locust Ridge wind farms. Also, the Company has built and is ready to deploy one of the best advanced metering, communication, and information management systems for both DSR and energy efficiency and conservation programs.

The Company is fully capable of implementing our recommendations, which will benefit both the public and the Company.

Q. Is that the end of your rebuttal testimony?

A. Thank you, it is.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Petition of PPL Electric Utilities :
Corporation for Approval of a Competitive : Docket No. P-00062227
Bridge Plan :

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**DOCUMENT
FOLDER** STIPULATION

PPL Electric Utilities Corporation ("PPL") and the Office of Trial Staff ("OTS") file this Stipulation to resolve all issues between them regarding PPL's proposed Competitive Bridge Plan ("CBP") for provider of last resort ("POLR") service in 2010. This Stipulation is binding on PPL and OTS only for the purpose of settling the issues herein.

1. PPL and OTS agree that PPL's proposed CBP is intended to be non-precedential and to apply to PPL's POLR service only during 2010 as a one-year bridge plan. Nothing in this Stipulation should be considered precedential in any other proceeding, and neither PPL nor OTS is under any obligation to take the same position as set forth in this Stipulation in any other proceeding.

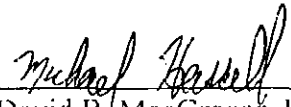
2. OTS does not object to PPL's CBP proposal for POLR service as modified by PPL's witnesses' Rebuttal testimony, as a one-year bridge plan. In particular, OTS does not object to PPL's proposal for an 85% load cap upon supplier bids and PPL's proposal for reconciliation, for the one-year bridge plan. PPL respectfully submits that this agreement is in the public interest and request that the Presiding Officer and the Pennsylvania Public Utility Commission approve PPL's CBP proposal for POLR service consistent with this Stipulation.

3. PPL and OTS will support this Stipulation as a one-year bridge plan in any briefs that are filed in this proceeding and at all stages of this proceeding going forward from the date hereof.

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4. This Stipulation may only be amended by a written document duly agreed to and executed by PPL and OTS.

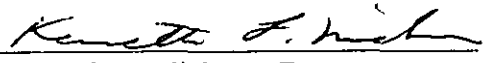
AGREED TO BY:



David B. MacGregor, Esq.
For PPL Electric Utilities Corporation

Date: 12/20/06

AGREED TO BY:



Kenneth L. Mickens, Esq.
Prosecutor
Office of Trial Staff

Date: 12-20-06

PPL Cross-Exam Exh 4
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Re: Petition of PPL Electric Utilities Corporation for Approval of a Competitive Bridge Plan :
: Docket No. P-00062227
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STIPULATION

PPL Electric Utilities Corporation ("PPL") and the Office of Consumer Advocate ("OCA") file this Stipulation to resolve all issues between them regarding PPL's proposed Competitive Bridge Plan ("CBP") for provider of last resort ("POLR") service in 2010. This Stipulation is binding on PPL and OCA only for the purpose of settling the issues herein.

1. PPL and OCA agree that PPL's proposed CBP is intended to be non-precedential and to apply to PPL's POLR service only during 2010 as a one-year bridge plan. Nothing in this Stipulation should be considered precedential in any other proceeding, and neither PPL nor OCA is under any obligation to take the same position as set forth in this Stipulation in any other proceeding.

2. OCA supports PPL's CBP proposal for POLR service as modified by PPL's witnesses' Rebuttal testimony, as a one-year bridge plan, contingent upon the agreements in Paragraphs 3 and 4. PPL and OCA respectfully submit that this commitment is in the public interest and request that the Presiding Officer and the Pennsylvania Public Utility Commission approve PPL's CBP proposal for POLR service consistent with this Stipulation.

3. After the final solicitation for POLR supply is complete, if the average increase in rates for all residential customers served under Rate Schedule RS exceeds 30% (calculated on a total bill basis), PPL agrees to meet with the OCA to discuss alternative rate designs for implementing the increase for Rate Schedule RS to mitigate the impact on high use Rate RS customers. These alternatives could include retaining a modified version of the current declining

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block rate design for Rate Schedule RS for the year 2010. This Stipulation does not require PPL to propose or implement any specific rate or rate design for customers served under Rate Schedule RS and it does not preclude the OCA from proposing alternative rate designs in a future proceeding. If PPL does propose an alternative rate design for Rate Schedule RS, all costs of obtaining POLR supply for customers in the Residential Customer Class will be recovered only from customers in the Residential Customer Class.


4. PPL agrees to meet with the OCA and other interested stakeholders each year to discuss whether PPL should include Demand Side Response (“DSR”) programs as a separate product in each of the upcoming solicitations for POLR supply. This Stipulation does not require PPL to propose or implement any specific solicitation for DSR programs as part of its CBP.

5. PPL and OCA will support this Stipulation, the terms hereof, and, in particular, PPL’s CBP proposal as a one-year bridge plan in their briefs and at all stages of this proceeding going forward from the date hereof.

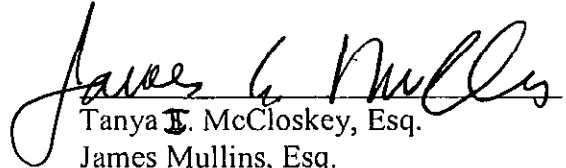
6. This Stipulation may only be amended by a written document duly agreed to and executed by PPL and OCA.

AGREED TO BY:

AGREED TO BY:



David B. MacGregor, Esq.
For PPL Electric Utilities Corporation



Tanya D. McCloskey, Esq.
James Mullins, Esq.
For Office of Consumer Advocate

Date: 12/20/06

Date: 12/20/06

PPL Cross-Exam Epts
12/20/06
11/5 Jan

Before the
Pennsylvania Public Utility Commission

Petition of PPL Electric Utilities Corporation
For Approval of a Competitive Bridge Plan
Docket No. P - 00062227

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PA PUC
SECRETARY'S BUREAU

STIPULATION

DOCKETED
DEC 28 2006

PPL Electric Utilities Corporation ("PPL") and Constellation New Energy, Inc. and Constellation Energy Commodities Group, Inc. (collectively "Constellation") file this Stipulation to resolve all issues between them regarding the proposed PPL Competitive Bridge Plan ("CBP"). This Stipulation is binding on PPL and Constellation for purposes of settlement in this proceeding only and does not bind either party for purposes of future proceedings.

1. PPL and Constellation agree that the Provider of Last Resort Supply Master Agreement including all attachments and exhibits to such document ("SMA") as proposed by PPL in its original petition filed with the Commission on or about August 2, 2006 ("petition") should be changed to reflect the edits presented in the attached Appendix 1.
2. PPL and Constellation recognize that the Provider of Last Resort Request for Proposals ("RFP") and SMA must be amended to reflect transmission service changes proposed by PPL rebuttal witness Kleha. PPL will meet with interested parties to address the RFP and SMA changes which are required as a result of the changes made to transmission services in Mr. Kleha's rebuttal testimony and will adopt any consensus changes and, if they are approved by the Commission, include them in its compliance filing. To the extent that these changes cannot be agreed to and the Commission approves PPL's proposed transmission service modifications, PPL will include such changes as it reasonably believes are required in its compliance filing and parties will be provided an opportunity to file comments, in accordance with Commission regulations, before the compliance filing is approved by the Commission.
3. PPL agrees that Section 8.1.1 of the RFP Process and Rules as proposed by PPL in their petition should be amended to read:

"Prior to the submission of any bids and with PUC approval, PPL Electric has the right to withdraw and terminate this RFP without any liability or responsibility to any

potential 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.”

4. Constellation shall withdraw Statement 2-SR representing the surrebuttal testimony of Scott Miller and shall submit redacted surrebuttal testimony of Marjorie R. Philips to address only the changes proposed by PPL rebuttal witness Kleha regarding transmission and transmission-related charges and Constellation’s proposed language revisions to Article 12 concerning two-way settlement and closeout setoffs.
5. PPL Electric will be permitted to present rejoinder testimony addressing the issues in Ms. Philips redacted surrebuttal testimony.
6. Constellation will not oppose PPL’s Competitive Bridge Plan as amended by the rebuttal testimony of PPL witnesses Krall and Kleha.
7. To the extent testimony presented by PPL is inconsistent with this Stipulation, PPL agrees that this Stipulation shall supersede any such testimony.
8. This Stipulation may only be amended by a written document duly agreed to and executed.

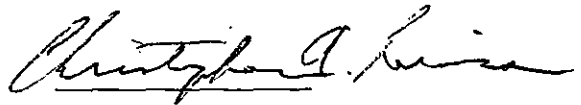
AGREED TO BY:



David B. MacGregor, Esq.
For PPL Electric Utilities Corporation

Date: 12/19/06

AGREED TO BY:



Christopher A. Lewis, Esq.
For Constellation NewEnergy, Inc.
And Constellation Energy
Commodities Group, Inc.

Date: 12/19/06

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Re: Petition of PPL Electric Utilities :
Corporation for Approval of a : **Docket No. P-00062227**
Competitive Bridge Plan :

APPENDIX 1
To STIPULATION

- (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.

7.6 Netting of Payments. ~~Buyer and Seller shall discharge mutual debts and payment obligations due and owing to each other under this Agreement, as of the Monthly Settlement Date, such that all amounts owed by each Party to the other Party shall be reflected in a single amount due to be paid by the Party who owes it and received by the other Party, provided that the calculation of the net amount shall not include any disputed amounts being withheld pursuant to Section 7.4 (Billing Disputes and Adjustment of Invoices).~~

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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.

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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. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY

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PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

ARTICLE 11 FORCE MAJEURE

- 11.1 Force Majeure means an event or circumstance as defined in Article 1. Notwithstanding anything in this Agreement to the contrary, the Parties shall be excused from performing their respective obligations under this Agreement (other than the obligation to make payments with respect to performance prior to the event of Force Majeure) and shall not be liable for damages or otherwise due to their failure to perform, during any period that one Party is unable to perform due to an event of Force Majeure, provided that the Party declaring an event of Force Majeure shall: (i) act expeditiously to resume performance; (ii) exercise all commercially reasonable efforts to mitigate or limit damages to the other Party; and (iii) fulfill 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.

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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,

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- (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.

14.7 Accelerated Payments. If at any time and from time to time during the term of this Agreement, a Buyer Downgrade Event occurs, notwithstanding the provisions of Article 7 (Billing and Settlement), Seller shall have the right to require Buyer to divide the Monthly Settlement Amount into weekly amounts and pay such amounts on a weekly basis for so long as the Buyer Downgrade Event continues. A "weekly basis" as referred to in the preceding sentence means that for a given Monday through Sunday period in a Delivery Period, Seller shall notify Buyer who shall be required to make payment for such period no later than the first Wednesday following such period (or if such day is not a Business Day, on the next Business Day). Buyer's failure to make such accelerated payments shall be deemed an Event of Default under Section 12.1 (Events of Default) of the Agreement.

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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

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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.

- (a) Each Party shall hold in confidence and not release or disclose any document or information furnished by the other Party in connection with this Agreement, unless: (i) compelled to disclose such document or information by judicial, regulatory or administrative process or other provisions of law; (ii) such document or information is generally available to the public; (iii) such document or information was available to the receiving Party on a non-confidential basis; or (iv) such document or information was available to the receiving Party on a non-confidential basis from a third-party, provided that the receiving Party does not know, and, by reasonable effort, could not know that such third-party is prohibited from transmitting the document or information to the receiving Party by a contractual, legal or fiduciary obligation.
- (b) Notwithstanding any other provision of this Section 16.5, a Party may disclose to its employees, representatives and agents all documents and information furnished by the other Party in connection with this Agreement, provided that such employees, representatives and agents have been advised of the confidentiality provisions of this Section 16.5, and further provided that in no event shall a document or information be disclosed in violation of the standard of conduct requirements established by FERC.
- (c) A Party receiving notice or otherwise concluding that any confidential document or information furnished by the other Party in connection with this Agreement is being sought under any provision of law, to the extent it is permitted to do so under any applicable law, shall: (i) promptly notify the other Party; and (ii) use reasonable efforts in cooperation with the other Party to seek confidential treatment of such confidential information.
- (d) Any independent auditor performing an audit on behalf of a Party pursuant to Section 16.4 shall be required to execute a confidentiality agreement with the Party being audited. Such audit information shall be treated as confidential pursuant to this Section 16.5.
- (e) The Parties agree that monetary damages may be inadequate to compensate a Party for the other Party's breach of its obligations under this Section 16.5. Each Party accordingly agrees that the other Party shall be entitled to equitable relief, by way of injunction or otherwise, if the Party breaches or threatens to breach its obligations under this Section 16.5, which equitable relief shall be granted without bond or proof of damages, and the receiving Party shall not plead in defense that there would be an adequate remedy at law

Deleted: 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.

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PPL Cross-Exam EPL 6

12/20/06

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Petition of PPL Electric Utilities Corporation for Approval of a Competitive Bridge Plan : : Docket No. P-00062227

DOCUMENT FOLDER

DOCKETED DEC 28 2006 STIPULATION

RECEIVED 2006 DEC 27 PM 1:46 PA PUC SECRETARY'S BUREAU

PPL Electric Utilities Corporation ("PPL") and Citizens for Pennsylvania's Future ("PennFuture") file this Stipulation to resolve all issues between them regarding PPL's proposed Competitive Bridge Plan ("CBP") for provider of last resort ("POLR") service in 2010. This Stipulation is binding on PPL and PennFuture only for the purpose of settling the issues herein.

1. PPL and PennFuture agree that PPL's proposed CBP is intended to be non-precedential and to apply to PPL's POLR service only during 2010 as a one-year bridge plan. Nothing in this Stipulation should be considered precedential in any other proceeding, and neither PPL nor PennFuture is under any obligation to take the same position as set forth in this Stipulation in any other proceeding.

2. PennFuture supports PPL's CBP proposal for POLR service as modified by PPL's witnesses' Rebuttal testimony, as a one-year bridge plan. PPL and PennFuture respectfully submit that this commitment is in the public interest and request that the Presiding Officer and the Pennsylvania Public Utility Commission approve PPL's CBP proposal for POLR service consistent with this Stipulation.

3. Among other things, PPL's CBP proposal, as modified by PPL's witnesses' Rebuttal testimony, provides that each of its six solicitations will require that qualifying bidders provide the proportional amount of renewable energy credits necessary to comply with the AEPS Act, and that PPL will purchase its solar set-aside credits for its 2010 POLR load for its

Residential and Small Commercial and Industrial Classes in its 2007 solicitations for those Classes.

4. Within six months following the approval of PPL's Competitive Bridge Plan, PPL Electric agrees to conduct a series of three (3) meetings with PennFuture to explore the nature of conservation and energy efficiency programs that PPL Electric may offer to its customers in 2010. The findings and results of these meetings will be documented in a report prepared jointly by PPL Electric and PennFuture and submitted to the Commission at this or other appropriate docket. Notwithstanding the findings and results of that report, PPL Electric agrees to establish and seek approval of at least one new program, to be effective no later than January 1, 2010, to promote conservation and energy efficiency among its residential customers.


5. Within six months following the approval of PPL's Competitive Bridge Plan, PPL Electric agrees to conduct a series of three (3) meetings with PennFuture and interested Electric Generation Suppliers ("EGSs") to explore how PPL Electric's Advanced Metering Infrastructure can be used to facilitate EGSs in providing DSR programs to PPL Electric's customers who may elect to participate in such programs. These meetings will specifically address the compatibility of such programs with programs conducted by PJM Interconnection, LLC. The findings and results of these meetings will be documented in a report prepared jointly by PPL Electric and PennFuture and submitted to the Commission at this or other appropriate docket.

6. PennFuture agrees that this Stipulation adequately addresses all of the concerns raised in the direct testimony and rebuttal testimony submitted by PennFuture in this proceeding and satisfies the recommendations set forth in that testimony. PennFuture will not pursue in this proceeding any of the further proposals in its testimony that are not otherwise included in this Stipulation or the revised CPB.

7. PPL and PennFuture will support this Stipulation, the terms hereof, and, in particular, PPL's CBP proposal as a one-year bridge plan in their briefs and at all stages of this proceeding going forward from the date hereof.

8. This Stipulation may only be amended by a written document duly agreed to and executed by PPL and PennFuture.

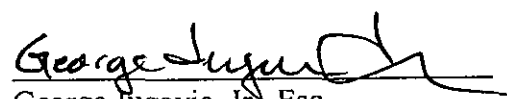
AGREED TO BY:



David B. MacGregor, Esq.
For PPL Electric Utilities Corporation

Date: 12/20/06

AGREED TO BY:



George Jugovic, Jr., Esq.
For Citizens for Pennsylvania's
Future

Date: 12/20/06

PUC LATE-FILED EXHIBITS

Docket No. P-00062227
Hearing Date 12-20-06
Judge Chestnut
Hearing held in Hby
Exhibit No. PBL Cross Exam Ex #17
Reporter Judy Valencik

PA PUC
SECRETARY'S BUREAU

2007 JAN 25 PM 1:17

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1. Above exhibit to be supplied to reporter by:

2. Above exhibit to be filed directly with PUC by:

Additional Comments:

Please add to exhibit folder.



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2007 JAN 25 PM 1:18

PA PUC
SECRETARY'S BUREAU

17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Fax
www.postschell.com

Michael W. Hassell

mhassell@postschell.com
717-612-6029 Direct
2507-127042

January 18, 2007

VIA E-MAIL AND FEDERAL EXPRESS

Honorable Marlane R. Chestnut
Administrative Law Judge
Pennsylvania Public Utility Commission
1302 Philadelphia State Office Building
1400 West Spring Garden Street
Philadelphia, PA 19130

**RE: Petition of PPL Electric Utilities Corporation, Docket No. P-00062227; Late -
Filed Exhibit - Stipulation between PPL Electric Utilities Corporation and
Sustainable Energy Fund of Central Eastern Pennsylvania**

Dear Judge Chestnut:

Enclosed please find the original of a fully-executed Stipulation between PPL Electric Utilities Corporation ("PPL Electric") and Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF"). This Stipulation resolves all issues in this proceeding between PPL Electric and SEF. By this stipulation, SEF becomes another party in support of the Revised CBP.

Pursuant to your instructions on the final day of hearings, we request that this Stipulation be identified and admitted into the record as PPL Electric Cross Examination Exhibit No. 7.

By copy of this letter, the Stipulation is being provided to all parties of record, and to the Court Reporter.

Thank you for your continued accommodation of the parties in this matter. If you have any questions regarding the Stipulation, please do not hesitate to contact me or Mr. MacGregor.

Respectfully submitted,

Michael W. Hassell

MWH/jl

Enclosures

cc: Commonwealth Reporting Company, Inc. (2 copies)
Certificate of Service

ALLENTOWN HARRISBURG LANCASTER PHILADELPHIA PITTSBURGH PRINCETON WASHINGTON, D.C.

A PENNSYLVANIA PROFESSIONAL CORPORATION

CPH 381486v1

PPL Cross Ex #7
P-00062227
12-20-06
Hb7
JAV

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Petition of PPL Electric Utilities :
Corporation for Approval of a Competitive : Docket No. P-00062227
Bridge Plan :

STIPULATION

PPL Electric Utilities Corporation ("PPL") and the Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF") file this Stipulation to resolve all issues between them regarding PPL's proposed Competitive Bridge Plan ("CBP") for provider of last resort ("POLR") service in 2010. This Stipulation is binding on PPL and SEF only for the purpose of settling the issues herein.

1. PPL and SEF agree that PPL's proposed CBP is intended to be non-precedential and to apply to PPL's POLR service only during 2010 as a one-year bridge plan. Nothing in this Stipulation should be considered precedential in any other proceeding, and neither PPL nor SEF is under any obligation to take the same position as set forth in this Stipulation in any other proceeding.

2. SEF supports PPL's CBP proposal for POLR service as modified by PPL's witnesses' Rebuttal testimony, as a one-year bridge plan, contingent upon the agreements in Paragraphs 3 and 4. PPL and SEF respectfully submit that this commitment is in the public interest and request that the Presiding Officer and the Pennsylvania Public Utility Commission approve PPL's CBP proposal for POLR service consistent with this Stipulation.

3. PPL concurs that some aspects of its consumer education program lack definition and that the timing of its consumer education expenditures could be altered. PPL will establish a collaborative with interested parties, including SEF, and Commission staff to develop a more

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JAN 25 2007

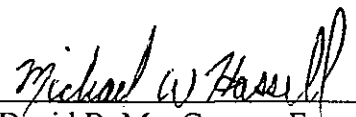
detailed design of the consumer education program within PPL's \$875,000 budget. The collaborative will also address the timing of consumer education expenditures.

4. Within six months following the approval of PPL's Competitive Bridge Plan, PPL will conduct a series of three (3) meetings with SEF to explore the nature of conservation and energy efficiency programs that PPL and SEF may develop collaboratively to offer to PPL's residential customers in 2010. During these meetings, PPL and SEF will, in addition to other programs that may be considered, specifically explore the joint development of a low-interest loan program for residential customers and a joint home energy audit program to supplement PPL's home energy initiatives for residential customers. The findings and results of these meetings will be documented in a report prepared jointly by PPL and SEF and submitted to the Commission at this or other appropriate docket and also to the Commission's demand response working group.

4. PPL and SEF will support this Stipulation and the terms hereof, at all stages of this proceeding going forward from the date hereof.

5. This Stipulation may only be amended by a written document duly agreed to and executed by PPL and SEF.


AGREED TO BY:



David B. MacGregor, Esq.
For PPL Electric Utilities Corporation

Date: 1/18/07

AGREED TO BY:



Thomas T. Niesen, Esq.
For Sustainable Energy Fund of
Central Eastern Pennsylvania

Date: 1/18/07

Direct Energy

St. No. 1

12/20/06

Hog 

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation for Approval of : **Docket No. P-00062227**
Competitive Bridge Plan :
:

**DOCUMENT
FOLDER**

DIRECT TESTIMONY

OF

FRANK LACEY

DOCKETED
DEC 28 2006

On Behalf of

Direct Energy Services, LLC

**Issues Addressed:
POLR Plan for Large C&I Customers
POLR Plan for Residential and Small
Commercial Customers**

November 15, 2006

SECRETARY'S BUREAU
PA PUC

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1 **Q. COULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
2 **ADDRESS?**

3 A. My name is Frank Lacey. I am the Director of Government and Regulatory
4 Affairs for Direct Energy Services, LLC ("Direct Energy"). My business address
5 is 263 Tresser Boulevard, 8th Floor, Stamford, Connecticut 06901. I live in
6 McMurray, Pennsylvania. Within Direct Energy, I am responsible for the
7 development of the competitive retail energy markets in the Commonwealth of
8 Pennsylvania and other areas of the country.

9 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A. My Curriculum Vitae is attached as Appendix A.

12 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?**

13 A. Yes, I have testified as an expert in two prior cases before this Commission. I
14 have also testified in two separate roundtable proceedings before the entire
15 Commission. Additionally, I have testified as an expert in proceedings before the
16 PUC of Ohio, and the California PUC. I have also testified before the Maryland,
17 New York and Michigan state legislatures.

18 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

19 A. I am testifying on behalf of Direct Energy Services, LLC.

20 **Q. WHO IS DIRECT ENERGY SERVICES, LLC?**

21 A. Direct Energy is Direct Energy is an EGS licensed to provide electricity and
22 related services to retail customers throughout Pennsylvania, including
23 Duquesne's service territory. Direct Energy is a subsidiary of Centrica, a leading
24 provider of energy and other energy-related services to over 20 million
25 households worldwide, with annual revenues of \$33 billion and \$17 billion in

1 market capitalization, and over 38,000 employees. Direct Energy has over 5
2 million gas and electricity customer relationships in North America. Direct
3 Energy has extensive experience serving customers of all classes, including
4 residential customers.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. My testimony is filed in support of Reliant witness James A. Ajello, but my focus
7 will be the small customer market. I will explain why the Pennsylvania Public
8 Utility Commission ("Commission") should reject the PPL Electric Utilities
9 Corporation's ("PPL") proposed Competitive Bridge Plan ("CBP") for
10 Residential and Small Commercial customers and delay implementation of any
11 POLR design for small commercial and residential customers at this time. If the
12 Commission wishes to establish an interim default service pricing model in this
13 proceeding it should adopt one that is more market responsive, such as a monthly
14 market pricing model. Such a pricing approach protects customers from seeing
15 huge, "flash cut" rate hikes, as have been experienced in other jurisdictions such
16 as Maryland, and simultaneously promotes competitive entry, which will
17 ultimately benefit customers.

18 **Q. WHAT DEFAULT SERVICE PRICING PLAN IS PPL PROPOSING FOR**
19 **RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS, AS YOU**
20 **UNDERSTAND IT?**

21 A. PPL proposes to secure supply for residential and small commercial customers
22 and to establish a fixed rate for those customers based upon the results of
23 procurements in March and September of 2007, 2008 and 2009.

24 **Q. WHAT IS YOUR POSITION WITH RESPECT TO THIS PROPOSAL?**

1 A. Mr. Ajello explains why, generally a fixed price default service pricing approach
2 is very risky for customers and impedes the development of a robust competitive
3 market, something that customers clearly are in favor of, in addition to being
4 inconsistent with the mandates of the Pennsylvania Electric Choice Act. These
5 concerns are even more important for residential and small customers.

6 **Q. WHY IS PPL'S APPROACH RISKY FOR CUSTOMERS?**

7 A. Fixed price default service sets the default service price based upon an auction or
8 RFP at a single or a handful of points in time (as PPL has proposed). As a
9 consequence, the price that will be imposed upon default service customers may
10 be far above the prevailing market price, subjecting customers to much higher
11 rates than would be necessary if the prices more closely tracked the wholesale
12 market. While it is possible that the opposite could occur (i.e., that the prices will
13 ultimately be below the wholesale market price), this is irrelevant when serving
14 small customers, because as long as the risk of the default pricing deviating
15 significantly from the market price exists, EGSs are less likely to enter the
16 market.

17 **Q. HAVE SMALL CUSTOMERS SEEN LARGE PRICE HIKES WHEN**
18 **POINT-IN-TIME DEFAULT PRICING HAS BEEN USED?**

19 A. Yes. At this point, the Commission is well aware that a point-in-time
20 procurement in Maryland caused a 70% increase in the overall rate paid by
21 customers of BG&E. The big jump was due in large part because BG&E' rates
22 had been frozen for many years as a result of restructuring. Nonetheless, the
23 point-in-time pricing also added to the increased price, and locked that price in
24 place for along period of time. The BG&E auction was held at one of the most

1 high priced times in the wholesale market, while the effects of Hurricane Katrina
2 were still present. While those affects on the wholesale market have dissipated to
3 some degree generally, the original BG&E rate will continue to reflect those
4 effects.

5 Another example, with which both Direct and the Commission are very familiar is
6 Pike County, where a fixed price auction at the height of the post-Katrina effects
7 resulted in increases in generation prices (from previously capped levels) of over
8 100%. While Direct Energy was the successful bidder to offer an alternative
9 aggregation product to customers which provided a small amount (around 13%)
10 of savings to customers, the high POLR rate remains in effect for two years.

11 While Direct intends to carefully consider offering new contracts at reduced rates
12 if the wholesale market mitigates sufficiently, if Pike customers had been subject
13 to more market responsive default service pricing, they would see those
14 reductions automatically.

15 Market responsive pricing also eliminates the need to include in the POLR price
16 risk premiums including market risk and migration risk, thereby modulating the
17 initial increase that customers can see when generation rates that have been frozen
18 for many years become eligible for repricing.

19 **Q. WON'T RESIDENTIAL CUSTOMERS SEE LESS PRICE VOLATILITY**
20 **IN THEIR MONTHLY BILLS WITH POINT IN TIME PRICING?**

21 A. Actually no. The PPL tariff is structured in such a way that customers will see a
22 different price per kwh used unless they use the exact same amount of electricity
23 every month, or unless they use under 200 kwh in each month. It makes no
24 difference that they are procuring power at a specific point in time, or are

1 laddering contracts over a series of points in time. PPL customer will see price
2 volatility from month to month. Additionally, under the current tariff structure,
3 neighbors see price differences on a monthly basis unless they use the exact same
4 amount of electricity. The fundamental difference between market following
5 volatility and tariff driven volatility is that the tariff driven volatility keeps
6 competitive suppliers out of the market, while market following pricing invites
7 suppliers into the market.

8 **Q. HOW DOES POINT-IN-TIME DEFAULT PRICING AFFECT THE**
9 **DEVELOPMENT OF COMPETITIVE MARKETS?**

10 A. It is completely antithetical to the development of robust competitive markets.
11 Until the default product becomes more responsive to current market conditions,
12 competitors will find it difficult to build a sustainable market presence and will
13 not invest capital to enter and offer customers competitive products. In short, the
14 ability to provide competitive electric service for only very limited periods does
15 little to inspire companies to invest in the establishment of a robust, liquid and
16 sustainable retail electric market or consumer confidence in that market. An
17 analogy would be if PJM set a price at a point in time and told generators that
18 they could only sell their output if they could beat the price set by PJM. Of
19 course, that rule would be met with so much opposition, it would never be
20 implemented. If it was implemented, very few (if any) entities would invest in
21 generation. This market model is exactly what PPL is proposing for its retail
22 market.

23 **Q. IS THERE EVIDENCE THAT YOU CAN POINT TO THAT SUPPORTS**
24 **THIS OBSERVATION?**

1 A. Yes. According to the NJ Board of Public Utilities (NJ BPU) web site, the
2 utilities in that state serve approximately 3.3 million residential customers. None
3 are served by competitive suppliers.¹ Duquesne Light Company, in
4 Pennsylvania, is frequently cited as having a robust competitive market. In its
5 hourly priced customer segment (customers above 300 kW), as Mr. Ajello reports,
6 over 90% of the load in that territory is now being served by competitive
7 suppliers. In the residential market, however, only 17.61% of the customers and
8 16.46% of load is served by a competitive supplier.² While some may argue that
9 this is a good amount of switching, the reality is that Duquesne's switching
10 numbers for residential service have declined in every quarter since the market
11 activity peaked in January 2001. This steady decline is due largely to the fact that
12 Duquesne has entered into a long-term POLR price to serve non-shopping
13 customers, freezing their rates through December 31, 2007. These rates are at
14 levels that do not reflect current market conditions. Under this situation, unless
15 other pro-competitive steps are taken, market activity will decline as competitive
16 retailers move their efforts to more sustainable markets.

17 **Q. WHAT SHOULD THE COMMISSION DO WITH RESPECT TO**
18 **DEFAULT SERVICE PRICING FOR PPL'S RESIDENTIAL AND SMALL**
19 **COMMERCIAL CUSTOMERS IN 2010?**

20 A. As Mr. Ajello suggests, the Commission should reject PPL's Plan and direct that
21 PPL should submit a plan for 2010 Residential and Small Commercial customer
22 default service pricing in 2008. By that time the Commission should have issued

¹ See New Jersey switching statistics at: <http://www.state.nj.us/bpu/energy/elccSwitchData.shtml>.
Web site accessed 11-15-06.

² See PA Office of Consumer Advocate switching statistics at:
<http://www.oca.state.pa.us/Industry/Electric/elecstats/stats1006.pdf>.

1 its final rules on default service pricing, a rule which, we are hopeful, will reject
2 point-in-time pricing in favor of market responsive pricing. If the Commission
3 declines to defer its decision on a pricing scheme for small customers, it should
4 order, as an interim measure, and unless modified by its final rule, that a monthly
5 default pricing plan be adopted.

6 **Q. HOW WOULD A MONTHLY PRICING PLAN WORK, IN SUMMARY?**

7 A. There are several ways in which a monthly procurement plan could work. I
8 believe the most straightforward is a plan in which PPL would hold a monthly
9 competitive wholesale auction (or RFP) 60 days in advance of the delivery month
10 for each month of default service. The POLR provider would contract for full
11 requirements service for the delivery month 45 days before delivery would begin.
12 Under this methodology, Customers would be given a transparent, market based
13 monthly price as the competitive wholesale auction would be held very close to
14 the timing of delivery. This also allows customers a 45 day window to evaluate
15 the price before it becomes effective. This time frame provides adequate time for
16 a customer to compare the new default price to current competitive offers and
17 make the economic decisions that are best for them. Furthermore, keeping this
18 “auction to delivery” timeframe short would of course minimize many of the risks
19 associated with supplying default service that cause prices to increase.

20 **Q. ARE THERE ANY OTHER BENEFITS TO THIS PROPOSAL?**

21 A. While a monthly priced default will vary more frequently than the current default
22 structure, that increased variability offers important benefits. First, monthly priced
23 default will not contain the same wholesale risk premiums that are included in
24 long-term fixed price default rates. Second, while prices will vary, they will vary

1 upward and downward. So while prices may increase faster in a rising energy
2 market, they will also decrease faster in a falling energy price market. This
3 pricing mechanism would be tremendously valuable in many regions of the
4 country today, including in Pike County, throughout in Maryland and in the
5 Delmarva service territory which covers most of the residential customers in
6 Delaware. In addition, when default service is based on long-term fixed prices,
7 the price paid by retail customers can and will become disconnected from
8 wholesale market prices over time. This is the current situation in Maryland, New
9 Jersey and in the Duquesne service territory. Finally, as has been demonstrated in
10 other markets, when default pricing is based on long-term contracting, a retail
11 electricity market will not develop. Customers will have no choice in rising price
12 markets, nor will they have choices in a falling price market. This is the worst of
13 all retail situations for customers.

14 **Q. DO RESIDENTIAL CUSTOMERS BENEFIT FROM COMPETITIVE**
15 **GENERATION MARKETS?**

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for

16 A. Most definitively, ~~as Mr. Ajello points out~~, several studies have shown that all
17 customers, including residential customers have realized impressive savings in
18 areas in which competitive retail electric markets have been allowed to develop.

19 **Q. ARE THERE OTHER BENEFITS BEYOND DEVELOPING A**
20 **SUSTAINABLY COMPETITIVE MARKET?**

21 A. Yes. First, as stated above, monthly priced default service would remove the risk
22 premiums wholesalers include in their long-term default prices and which are
23 passed on to default customers. Second, monthly pricing assures that customers
24 who stay on default service will receive a competitive, market-responsive price.
25 Third, Direct's proposal empowers customers who choose to remain on default

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1 service with an ex ante price signal which allows them to manage electricity
2 buying decisions for their respective businesses in the most economic manner.

3 Designing default service as a backstop service, with customer appropriate, timely
4 price adjustments will promote the development of competitive retail markets and
5 is consistent with the goals of the Electric Choice Act. Finally, even for customers
6 that switch from the default price, having the transparency of a monthly price
7 signal in the "market" will provide important benefits by informing customers
8 about underlying changes in the electricity market over time.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A. Yes.**

Frank Lacey
Director, Government and Regulatory Affairs
Direct Energy Services, LLC
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Frank.lacey@directenergy.com

Professional Experience:

Mr. Lacey is the Director of Government and Regulatory Affairs for Direct Energy, responsible for achieving desirable regulatory and legislative results in the Mid-Atlantic Region of the US. In this his primary responsibility is to advocate for competitive market design structures in emerging electricity markets. Additionally, he provides market development strategy and market entry planning and guidance to corporate officers. He also works with counsel to develop legal analysis and strategies re: market issues.

Prior to Direct Energy, Mr. Lacey held a similar position with Strategic Energy, LLC, a competitive energy supplier. Mr. Lacey has been involved in restructuring and restructured electricity markets since 1993. He gained experience in restructuring the transmission segment of the industry while at Arthur Andersen, where he was principally engaged in forming RTOs, ISOs, Transcos and other transmission entities. His experience in the generation segment of comes predominantly from his tenure at Putnam, Hayes and Bartlett, Inc., where he was involved in several generation asset valuation and transaction projects.

Education:

Mr. Lacey earned his MBA from Carnegie Mellon University, with concentrations in finance, entrepreneurship and environmental management. His coursework included classes from the Heinz School of Public Policy and the engineering department. His undergraduate degree is a Bachelor of Science in Transportation and Logistics from the University of Maryland.

Testimony:

Mr. Lacey has been qualified as an expert and has testified in many different jurisdictions. He has provided written and oral testimony to various regulatory commissions and state legislatures:

Prepared Direct Testimony of Frank Lacey On Behalf of Strategic Energy, LLC, before the Public Utilities Commission of the State of California in the matter of the Order Instituting Rulemaking Regarding the Implementation of the Suspension of Direct Access Pursuant to Assembly Bill 1X and Decision 01-09-060. Docket No. R. 02-01-011. June 6, 2002.

Prepared Rebuttal Testimony of Frank Lacey On Behalf of Strategic Energy, LLC before the Public Utilities Commission of the State of California in the matter of the Order Instituting Rulemaking Regarding the Implementation of the

Suspension of Direct Access Pursuant to Assembly Bill 1X and Decision 01-09-060. Docket No. R. 02-01-011. June 20, 2002

Cross Examination testimony of On Behalf of Strategic Energy, LLC before the Public Utilities Commission of the State of California in the matter of the Order Instituting Rulemaking Regarding the Implementation of the Suspension of Direct Access Pursuant to Assembly Bill 1X and Decision 01-09-060. Docket No. R. 02-01-011. July 2002.

Prepared Testimony of Frank Lacey on the subject of truing up the CERS Fee On Behalf of Strategic Energy, LLC before the Public Utilities Commission Of the State Of California in the matter of the Order Instituting Rulemaking Regarding the Implementation of the Suspension of Direct Access Pursuant to Assembly Bill 1X and Decision 01-09-060. Docket No. R. 02-01-011. March 19, 2003

Prepared Direct Testimony of Frank Lacey on behalf of Strategic Energy L.L.C. before the Pennsylvania Public Utility Commission in the matter Pennsylvania Public Utility Commission, et al. v. Duquesne Light Company, Docket Nos. R-00038092, R-00038092C0001 and R-00038092C0002. January 2003.

Prepared Rebuttal Testimony of Frank Lacey on behalf of Strategic Energy L.L.C. Before the Pennsylvania Public Utility Commission in the matter Pennsylvania Public Utility Commission, et al. v. Duquesne Light Company Docket Nos. R-00038092, R-00038092C0001 and R-00038092C0002. February 2003.

Prepared Supplemental Testimony of Frank Lacey on behalf of Strategic Energy L.L.C. before the Pennsylvania Public Utility Commission in the matter Pennsylvania Public Utility Commission, et al. v. Duquesne Light Company Docket Nos. R-00038092, R-00038092C0001, R-00038092C0002. November 2003

Cross Examination testimony of Frank Lacey on behalf of Strategic Energy L.L.C. before the Pennsylvania Public Utility Commission in the matter Pennsylvania Public Utility Commission, et al. v. Duquesne Light Company Docket Nos. R-00038092, R-00038092C0001, R-00038092C0002. July 1, 2003.

Prepared Direct Testimony of Frank Lacey submitted on behalf of Strategic Energy L.L.C. and Dominion Retail, Inc. before the Public Utilities Commission. of Ohio in the matters of the Continuation of the Rate Freeze and Extension of the Market Development Period for The Dayton Power and Light Company Case No. 02-2779-EL-ATA and the Application of The Dayton Power and Light Company for Certain Accounting Authority Pursuant to Section 4905.13, Ohio Revised Code Case No. 02-2879-EL-AAM. May 19, 2003.

Prepared Supplemental Testimony of Frank Lacey submitted on behalf of Strategic Energy L.L.C. and Dominion Retail, Inc. before the Public Utilities

Commission of Ohio in the matters of the Continuation of the Rate Freeze and Extension of the Market Development Period for The Dayton Power and Light Company Case No. 02-2779-EL-ATA and the Application of The Dayton Power and Light Company for Certain Accounting Authority Pursuant to Section 4905.13, Ohio Revised Code Case No. 02-2879-EL-AAM. June 12, 2003.

Deposition Testimony of Frank Lacey submitted on behalf of Strategic Energy L.L.C. and Dominion Retail, Inc. before the Public Utilities Commission of Ohio in the matters of the Continuation of the Rate Freeze and Extension of the Market Development Period for The Dayton Power and Light Company Case No. 02-2779-EL-ATA and the Application of The Dayton Power and Light Company for Certain Accounting Authority Pursuant to Section 4905.13, Ohio Revised Code Case No. 02-2879-EL-AAM. May 2003 and June 2003.

Cross Examination testimony of Frank Lacey on behalf of Strategic Energy L.L.C. and Dominion Retail, Inc. before the Public Utilities Commission of Ohio in the matters of the Continuation of the Rate Freeze and Extension of the Market Development Period for The Dayton Power and Light Company Case No. 02-2779-EL-ATA and the Application of The Dayton Power and Light Company for Certain Accounting Authority Pursuant to Section 4905.13, Ohio Revised Code Case No. 02-2879-EL-AAM. June 2003.

Oral Testimony of Frank Lacey before the Standing Committee on Energy of the New York State Assembly on the issue of Ensuring a Reliable Supply of Electricity to the People of New York, Chairman Paul D Tonko, presiding. March 6, 2003

Prepared Direct Testimony of Frank Lacey on behalf of Strategic Energy, L.L.C. before the Pennsylvania Public Utility Commission in the matter of the Petition of Duquesne Light Company for Approval of Plan for Post-Transition Period Provider of Last Resort Service. Docket No. P-00032071. February 2004.

Prepared Rebuttal Testimony of Frank Lacey on behalf of Strategic Energy, L.L.C. before the Pennsylvania Public Utility Commission in the matter of the Petition of Duquesne Light Company for Approval of Plan for Post-Transition Period Provider of Last Resort Service. Docket No. P-00032071. February 2004.

Cross Examination testimony of Frank Lacey on behalf of Strategic Energy, L.L.C. before the Pennsylvania Public Utility Commission in the matter of the Petition of Duquesne Light Company for Approval of Plan for Post-Transition Period Provider of Last Resort Service. Docket No. P-00032071. April 1, 2004.

Oral Testimony of Frank Lacey at the POLR Roundtable before the Pennsylvania Public Utility Commission re: Optimal Future POLR Design models. May 3, 2004.

Prepared Direct Testimony of Frank Lacey on behalf of Strategic Energy, L.L.C. and Mid-American Energy Company before the Public Utilities Commission of Ohio in the matters of The Application of the Cincinnati Gas & Electric Company to Modify its Non-Residential Generation Rates to Provide for Market-Based Standard Service Offer Pricing and to Establish a Pilot Alternative Competitively-Bid Service Rate Option Subsequent to Market Development Period, Case No. 03-93-EL-ATA, The Application of the Cincinnati Gas & Electric Company for Authority to Modify Current Accounting Procedures for Certain Costs Associated with the Midwest ISO, Case No. 03-2079-EL-AAM, and The Application of the Cincinnati Gas & Electric Company for Authority to Modify Current Accounting Procedures for Capital investment in its Electric Transmission and Distribution System and to Establish a Capital Investment Reliability Rider to be Effective After the Market Development Period, Case Nos. 03-2080-EL-AAM and 03-2080-EL-ATA. May 6, 2003.

Deposition of Frank Lacey in the matters of The Application of the Cincinnati Gas & Electric Company to Modify its Non-Residential Generation Rates to Provide for Market-Based Standard Service Offer Pricing and to Establish a Pilot Alternative Competitively-Bid Service Rate Option Subsequent to Market Development Period, Case No. 03-93-EL-ATA, The Application of the Cincinnati Gas & Electric Company for Authority to Modify Current Accounting Procedures for Certain Costs Associated with the Midwest ISO, Case No. 03-2079-EL-AAM, and The Application of the Cincinnati Gas & Electric Company for Authority to Modify Current Accounting Procedures for Capital investment in its Electric Transmission and Distribution System and to Establish a Capital Investment Reliability Rider to be Effective After the Market Development Period, Case Nos. 03-2080-EL-AAM and 03-2080-EL-ATA. May 2003.

Cross Examination Testimony of Frank Lacey on behalf of Strategic Energy, L.L.C. and Mid-American Energy Company before the Public Utilities Commission of Ohio in the matters of The Application of the Cincinnati Gas & Electric Company to Modify its Non-Residential Generation Rates to Provide for Market-Based Standard Service Offer Pricing and to Establish a Pilot Alternative Competitively-Bid Service Rate Option Subsequent to Market Development Period, Case No. 03-93-EL-ATA, The Application of the Cincinnati Gas & Electric Company for Authority to Modify Current Accounting Procedures for Certain Costs Associated with the Midwest ISO, Case No. 03-2079-EL-AAM, and The Application of the Cincinnati Gas & Electric Company for Authority to Modify Current Accounting Procedures for Capital investment in its Electric Transmission and Distribution System and to Establish a Capital Investment Reliability Rider to be Effective After the Market Development Period, Case Nos. 03-2080-EL-AAM and 03-2080-EL-ATA. May 18, 2003.

Oral Testimony of Frank Lacey before the Michigan Senate Committee on Technology and Energy on the subject of revision to Public Act 141, the

Michigan Electricity Choice and Restructuring Act, Chairman Bruce Patterson, Presiding. May 19, 2004.

Oral Testimony of Frank Lacey on behalf of Direct Energy Services, LLC before the Maryland Senate Finance Committee on Senate Bill 561 on the subject of communications between electric companies and suppliers to enhance the development of competitive electric markets, Chairman Thomas Middleton, Presiding. March 7, 2006.

Oral Testimony of Frank Lacey on behalf of Direct Energy Services, LLC before the Maryland Senate Finance Committee on Senate Bills 814, 1048, 1051 and 1078 on the subject of retail electricity market design, Chairman Thomas Middleton, Presiding. March 14, 2006.

Oral Testimony of Frank Lacey on behalf of Direct Energy Services, LLC before the Maryland House of Delegates Economic Matters Committee on House Bills 1334, 1654 and 1712 on the subject of retail electricity market design, Chairman Dereck Davis, Presiding. March 14, 2006.

Oral Testimony of Frank Lacey on behalf of Direct Energy Services, LLC before the Pennsylvania Public Utility Commission in the Matter of Petition of Direct Energy Services, LLC for Emergency Order, Docket No. P-00062205, April 11, 2006.

Oral Testimony of Frank Lacey on behalf of Direct Energy Services, LLC before the Pennsylvania Public Utility Commission in the Matter of Policies to Mitigate Potential Electricity Price Increases, Docket No. M-00061957, June 22, 2006.

Prepared Direct Testimony of Frank Lacey on behalf of Direct Energy Services, L.L.C. before the Pennsylvania Public Utility Commission in the matter of the Duquesne Light Company Base Rate Case. Docket No. R-00061346. July 2006.

Prepared Rebuttal Testimony of Frank Lacey on behalf of Direct Energy Services, L.L.C. before the Pennsylvania Public Utility Commission in the matter of the Duquesne Light Company Base Rate Case. Docket No. R-00061346. August 2006.

Direct Energy

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation for Approval of : **Docket No. P-00062227**
Competitive Bridge Plan :
:

**DOCUMENT
FOLDER**

REBUTTAL TESTIMONY

OF

FRANK LACEY

DOCKETED
DEC 28 2006

On Behalf of

Direct Energy Services, LLC

**Issues Addressed:
Definition of "Prevailing Market Prices"
POLR Plan for Residential Customers**

December 6, 2006

SECRETARY'S BUREAU
PA PUC

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Frank Lacey. My business address is 263 Tresser Boulevard, 8th Floor, Stamford, CT
3 06901.

4 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY ON BEHALF OF**
5 **DIRECT ENERGY IN THIS PROCEEDING?**

6 A. Yes.

7 **Q. WHAT IS THE SUBJECT OF YOUR REBUTTAL TESTIMONY?**

8 A. I am responding to the direct testimony of the Office of Consumer Advocate ("OCA")
9 witness Steven Estomin, FirstEnergy Solutions Corp. witness Irene Prezel, and Dominion
10 Retail witness Thomas Butler.

11 **Q. OCA WITNESS ESTOMIN DEFINES "PREVAILING MARKET PRICES" AS**
12 **PRICES REFLECTING THE TERM OVER WHICH THE PRODUCT IS**
13 **PROVIDED AND THE TIME WHEN THE POWER IS PROCURED. DO YOU**
14 **AGREE ?**

15 No. This definition means that the price of power acquired through a competitive process
16 at any particular point in time for any term reflects prevailing market prices for the entire
17 term. This definition is essentially boundless, and would read the word "prevailing" out
18 of the definition. Webster's dictionary defines "prevailing" as "most frequent" and
19 "generally current." The OCA's definition encompasses the OCA's preference for the
20 multi-year, or "laddered," long-term wholesale procurement approach for residential
21 customers, but does not provide meaningful parameters for determining whether POLR
22 supply procurement and pricing in the post-transition period complies with the Electricity
23 Generation Customer Choice and Competition Act ("Electric Choice Act").

24 In view of the purpose of the Electric Choice Act to create direct access by retail
25 customers to the competitive market for electricity generation, the General Assembly's
26 policy declaration that markets are superior to economic regulation in determining the

1 costs of generating electricity, and the ordinary definition of "prevailing," the phrase
2 "prevailing market prices" must be defined with reference to market prices commensurate
3 with the delivery and use of the power. The OCA's definition, combined with "blending"
4 the prices for portions of POLR load acquired under long-term wholesale procurements
5 far in advance of when the power will be consumed by residential customers, is certain to
6 produce retail POLR prices that are divorced from the prevailing market prices of the
7 power commensurate with its consumption.

8 This approach will thus distort prevailing market price signals and insulate
9 residential customers from (or expose them to) the true cost of the power they use, which
10 in turn will not enable these customers to make informed decisions concerning efficient
11 energy use, energy conservation and demand response programs. It also creates a very
12 real likelihood the customers could be faced with a default service price that is
13 inconsistent with market trends – trends that consumers will hear about in the popular
14 press or observe in the changes in prices for other energy products. Just as important, by
15 ensuring that POLR prices for residential customers will deviate (either up or down) from
16 prevailing market prices when they consume the power, this approach also ensures that
17 competitive suppliers will not make the investments to enter the market to provide these
18 customers with competitive options in the first place because this market design creates
19 significant hurdles to sustained retail competition.

20 **Q. THE OCA ASSERTS THAT PRICE STABILITY IS AN IMPORTANT AND**
21 **NECESSARY FACTOR IN DETERMINING RETAIL POLR PRICES FOR**
22 **RESIDENTIAL CUSTOMERS IN THE POST-TRANSITION PERIOD. DOES**
23 **THE PPL PROPOSAL OFFER PRICE STABILITY?**

24 **A.** No. In fact, the PPL proposal could result in extreme levels of price volatility for the end
25 use customer. The PPL proposal will result in ultimate prices to consumers that are either

1 higher or lower than the prices they pay today. No expert can determine with any degree
2 of certainty how much prices will change in 2010 as a result of the process outlined by
3 PPL. Six auctions over three years do not guarantee a lower price or a lesser change than
4 would four auctions or two auctions or one auction, or 12 auctions over the course of
5 calendar year 2010.

6 **Q. IS THE OCA'S ASSERTION THAT PRICE STABILITY IS AN IMPORTANT**
7 **AND NECESSARY FACTOR IN DETERMINING RETAIL POLR PRICES FOR**
8 **RESIDENTIAL CUSTOMERS IN THE POST-TRANSITION PERIOD**
9 **CORRECT?**

10 A. No. The Electric Choice Act does not state that POLR customers are to be bound to
11 long-term fixed POLR rates in the post-transition period. The Act states that POLR
12 customers are entitled to electric service on reasonable terms and conditions. In the post-
13 transition period, this policy declaration must be implemented consistent with the
14 ordinary meaning of the phrase "prevailing market prices" which requires price changes
15 more frequently than annually to reflect generally current market conditions and prices.
16 More important, nothing in the PPL proposal will guarantee price stability.

17 **Q. THE OCA ACKNOWLEDGES A TRADE-OFF BETWEEN POLR PRICE**
18 **STABILITY AND ITS LADDERED WHOLESALE PROCUREMENT**
19 **APPROACH. DO YOU HAVE A RESPONSE?**

20 A. Yes. The OCA admits that "market timing risk" and long-term procurement risk
21 premiums are exacerbated by procuring in advance at a single point in time POLR
22 supplies to satisfy the full POLR requirement, but the OCA argues that the six laddered
23 procurements of partial POLR requirements for residential customers over a three-year
24 period as proposed by PPL sufficiently mitigates these risks and results in only a
25 "tempered" impact on retail POLR prices because the prices are blended. When
26 procuring power in advance of the delivery date, it cannot be known whether blended

1 prices will be “tempered” vis-à-vis the true “prevailing market prices” in 2010.

2 Monthly solicitations as proposed by Direct eliminate market timing risks and long-term
3 procurement risk premiums, and provide the POLR market design to enable long-term,
4 sustained retail competition which will provide, as the Electric Choice Act envisions,
5 competitive options for residential customers to address changes in prevailing market
6 prices.

7 **Q. THE OCA ASSERTS THAT THE NUMBER OF RESIDENTIAL CUSTOMERS**
8 **RECEIVING SERVICE FROM COMPETITIVE SUPPLIERS IN**
9 **PENNSYLVANIA AND OTHER RESTRUCTURED RETAIL ELECTRIC**
10 **MARKETS HAS BEEN NEGLIGIBLE BECAUSE RESIDENTIAL CUSTOMERS**
11 **HAVE NOT HAD OPPORTUNITIES FOR SIGNIFICANT COST SAVINGS**
12 **FROM COMPETITIVE SUPPLIERS. DO YOU AGREE?**

13 A. I agree that there has been negligible residential customer shopping in most restructured
14 retail electric markets. However, this is because the opportunities for competitive
15 suppliers to provide products have been essentially nonexistent. The primary reason for
16 this is a transition period POLR market design that has been completely divorced from
17 prevailing market prices. A good market analogy can be seen in the gasoline markets. Is
18 it feasible for a gasoline station to be built today that would need to compete against the
19 gas station on the opposite corner that has had its prices fixed since the mid 1990s? The
20 POLR market design in place in the majority of the Commonwealth has provided little
21 opportunity to develop competitive retail energy markets. Cost savings versus the rate
22 caps are not feasible, nor are competitive terms and conditions. In addition, because
23 there is a great deal of regulatory uncertainty, the prudence of investment of resources to
24 serve the residential market is suspect. The laddered POLR procurement approach
25 proposed by PPL and supported by the OCA would continue this flawed market design
26 into the post-transition period and thus continue PPL's hold on residential customers,

1 depriving customers of the benefits of retail competition intended by the Electric Choice
2 Act.

3 **Q. THE OCA ALSO ASSERTS THAT THE NEGLIGIBLE SHOPPING BY**
4 **RESIDENTIAL CUSTOMERS IS DUE TO FACTORS SUCH AS RELATIVELY**
5 **HIGH ADMINISTRATIVE COSTS TO SERVE RESIDENTIAL CUSTOMERS.**
6 **DO YOU AGREE?**

7 A. No. The administrative costs are not an issue at all. As I state above, the negligible
8 shopping by residential customers is due to POLR market design.

9 **Q. THE OCA AND FIRSTENERGY SOLUTIONS ASSERT THAT LONG-TERM**
10 **FIXED POLR PRICES ARE APPROPRIATE BECAUSE THE WHOLESALE**
11 **MARKET HAS RECENTLY EXPERIENCED "CONSIDERABLE" PRICE**
12 **VOLATILITY AND PRICE "UNCERTAINTY"? HOW DO YOU RESPOND?**

13 A. Volatility is not necessarily "bad," nor is it necessarily "good" – it just is. Whether the
14 wholesale power market has recently experienced "more" or "less" volatility (compared
15 to some unknown benchmark) does not support a long-term fixed POLR price. In fact,
16 long-term fixed prices could lead to "extreme" levels of volatility when those prices
17 change. These "extreme" levels of volatility have been highly visible and not very
18 welcome in the Pike County, BG&E and Delmarva service territories. Indeed, the
19 Maryland Commission recently rejected the position that longer term fixed prices
20 contribute to the goal of default service rate stability, and concluded that frequent,
21 smaller rate changes are a better way of ensuring relative rate stability as well as a more

1 gradual reflection of changes in current market prices.¹ Alternatively, I have heard of
2 very little outcry in New York, where default pricing adjusts monthly, and customers
3 have multiple options to hedge that volatility to the level of their choosing. The only
4 thing certain about attempts to predict or "time" the market, even through multi-year
5 laddered energy solicitations, is that these attempts are certain to produce POLR prices
6 that are inconsistent with the prevailing market prices of electricity.

7 **Q. DO YOU HAVE A RESPONSE TO DOMINION RETAIL'S**
8 **RECOMMENDATION THAT PPL PROVIDE POLR SUPPLY FOR**
9 **RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS AT A FIXED**
10 **PRICE FOR 3-5 YEARS?**

11 A. Yes. Dominion Retail offers this recommendation as a concession and a one-time only
12 alternative to its preferred approach of either monthly or quarterly non-reconciled pricing,
13 which is consistent with Direct's recommendations. Dominion Retail also asserts that
14 year by year POLR plans such as proposed by PPL will never provide the level of
15 certainty required by competitive suppliers to invest in entering a market. I view
16 Dominion Retail's alternative recommendation as a response to emphasize through
17 exaggeration that, if PPL's goal is price stability for residential and small commercial
18 customers, then PPL's plan should be revised to require wholesale suppliers to bear more

¹ *In the Matter of the Commission's Investigation into Default Service for Type II Standard Offer Service Customers*, Maryland Public Service Commission Case No. 9056, Order No. 81019 (8/28/06) at 16.

1 of the risk of long-term procurements, which will be substantial for the three-five year
2 time frame proposed by Dominion Retail.

3 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?**

4 A. Yes.

Direct Energy

St. No. 1SR

12/20/06

1009 [signature]

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Petition of PPL Electric Utilities
Corporation for Approval of
Competitive Bridge Plan**

:
:
:
:

Docket No. P-00062227

SURREBUTTAL TESTIMONY

**DOCUMENT
FOLDER**

OF

FRANK LACEY

**DOCKETED
DEC 28 2006**

On Behalf of

Direct Energy Services, LLC

**Issues Addressed:
PPL Modifications to POLR Plan
Long-Term Fixed POLR Price v. Monthly Pricing
Retail Market Development
Definition of "Prevailing Market Prices"**

December 15, 2006

**PA PUC
SECRETARY'S BUREAU**

2006 DEC 27 PM 1:47

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. Frank Lacey. My business address is 263 Tresser Boulevard, 8th Floor, Stamford, CT
3 06901.

4 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY ON BEHALF OF
5 DIRECT ENERGY IN THIS PROCEEDING?

6 A. Yes. I submitted direct and rebuttal testimony.

7 Q. WHAT IS THE SUBJECT OF YOUR SURREBUTTAL TESTIMONY?

8 A. I am responding to PPL witnesses Douglas Krall and Joseph Cavicchi, Office of Small
9 Business Advocate ("OSBA") witness Brian Kalcic, and Office of Consumer Advocate
10 ("OCA") witnesses Steven Estomin and Barbara Alexander.

11 **PPL Witness Krall**

12 Q. PPL WITNESS KRALL SUMMARIZES THE CHANGES PPL HAS MADE TO
13 ITS PROPOSAL IN RESPONSE TO POSITIONS REFLECTED IN OTHER
14 PARTIES' DIRECT TESTIMONY, AND ASKS THE PARTIES TO ACCEPT
15 THESE CHANGES IN SURREBUTTAL TESTIMONY TO THE EXTENT
16 POSSIBLE. ARE PPL'S CHANGES TO ITS PLAN ACCEPTABLE TO DIRECT
17 ENERGY?

18 A. No. PPL's changes do not address the problems with PPL's plan identified Direct Energy. *104* *12/20/04*
19 We agree with Mr. Krall's statement that three fundamental issues remain unresolved by *you*
20 PPL's changes: (1) the use of a multiple year procurement process to obtain POLR supply
21 for 2010 for residential and small commercial and industrial customers; (2) the
22 appropriate structure for POLR rates for large C&I customers; and (3) reconciliation of
23 PPL's POLR rates. I also agree with Reliant witness James Ajello that the Generation
24 Rate Adjustment ("GRA") should be eliminated for large commercial and industrial
25 ("C&I") customers. As PPL's changes to its GRA proposal do not do so, that part of its
26 revised plan is also not acceptable to Direct Energy.

1 **Q. MR. KRALL SUGGESTS THAT YOU MAY HAVE MISUNDERSTOOD THAT**
2 **THE PPL PROPOSAL ALSO INCLUDES A FLAT RATE POLR PRICE. HOW**
3 **DO YOU RESPOND?**

4 A. The Q&A that Mr. Krall references is not as clear as I would have like it to be and could
5 easily be interpreted as he did. The point of the answer is still relevant. The PPL tariff
6 has had volatility embedded in it for many years. Customers have been exposed to rate
7 volatility imposed upon them by the utility and that volatility is not in any way connected
8 to market prices. Mr. Krall appropriately notes that even with a flat POLR price,
9 however, customers will still be subjected to declining block rates for distribution. So
10 while the magnitude will be much less significant, even under PPL's plan, customers will
11 experience monthly price volatility in their electric bill that is not in any way connected
12 to market prices.

13 **Q. MR. KRALL SUBMITTED EXHIBIT DAK-3 THAT IS A DETAILED**
14 **SUMMARY OF THE PJM AVERAGE MONTHLY LMPs AT THE PPL ZONE.**
15 **DO YOU HAVE A REACTION TO THIS LIST OF PRICES?**

16 A. Yes. I trust that it is valid. I have not performed this type of analysis for the PPL zone,
17 so I have no opinion as to the accuracy of the data. One thing, however, stands out in this
18 data that is absolutely striking. This chart should be compared to PPL Exhibit DAK-4.
19 DAK-4 shows the composite non-wires charges that an RS customer will pay in 2009 is
20 6.45 cents per kWh. In Exhibit FPL-2 (attached), I used the same math as Mr. Krall and
21 determined that the same customer will pay 6.27 cents per kWh for non-wires charges in
22 2006. With the exception of five months during and immediately surrounding the events
23 of Hurricanes Katrina and Rita, each of the monthly clearing LMP prices at the PPL zone
24 (as presented in DAK-3) was lower than the 2006 PPL tariff price. Said another way,
25 Mr. Krall analyzed data for 49 months, and in 44 of them the monthly LMP clearing price
26 in the PPL zone was lower than the PPL tariff price.

1 One could argue that PPL customers had and continue to have price stability
2 today. The primary question though is “what is the price that they are paying to receive
3 this stability?” It appears to me that premium embedded in the tariffs for that stability is
4 quite significant. While I have not done any detailed analysis of the numbers, it appears
5 that in nearly 90% of the months analyzed by Mr. Krall, the PPL customers would have
6 been financially better off had they been served on the monthly LMP market prices that
7 Mr. Krall produced. In a tiny minority of months, the customers would have paid more
8 than the tariff.

9 I admit that Mr. Krall’s discussion of the LMP prices is valid. Prices will
10 fluctuate under a monthly pricing plan. However, as I have stated numerous times, prices
11 for the typical customer in PPL have historically fluctuated on a monthly basis due to
12 PPL’s rate design. The long-term prices have premiums built into them that result in
13 prices that are above the monthly prices. I would surmise that if customers were given
14 the choice of paying the prices shown on Mr. Krall’s chart or the prices that have been in
15 the tariff, most would opt for the lower of the two.

16 **Q. MR. KRALL IDENTIFIES MECHANICAL PROBLEMS ASSOCIATED WITH**
17 **THE ALLOCATION OF BILLING CHANGES ACROSS MONTHS, AND**
18 **BUDGET BILLING, UNDER DIRECT’S MONTHLY PRICING PROPOSAL. DO**
19 **YOU AGREE THAT THESE ARE MECHANICAL PROBLEMS THAT**
20 **SUPPORT REJECTION OF DIRECT’S PROPOSAL?**

21 A. No. PPL performs mechanical billing changes that occur on the first of January quite
22 often. In the five year period outlined in PPL’s current tariff, they will change three
23 different component prices on the first of January in five successive years, meaning that
24 they will have done inter-month billing allocations 15 different times. Customers do not
25 complain, and I am not aware of an instance where PPL was not able to get the bills out
26 to its customers in a timely manner. Moreover, PPL’s gas division has changed its rates

1 in most quarters for years. (Indeed, most natural gas distribution utilities in Pennsylvania
2 do so.) Attached as Exh. FPL-3 is data which is compiled by the PUC showing the
3 Purchased Gas Cost ("PGC") rates for all natural gas distribution utilities, including PPL,
4 for the last several years. As can be seen, PPL's gas division changed its PGC rate in 8
5 of the last 9 quarters. If PPL's billing system cannot presently accommodate monthly rate
6 changes, the modifications necessary would be simple programming changes that already
7 are reflected in the billing system of its Gas Division. The actions identified by PPL
8 should not be a problem for implementing Direct's monthly pricing proposal.

9 As for budget billing, PPL's Gas Division faces that same problem and apparently
10 has been able to handle it. Moreover, PPL's Electric Division faces this same problem
11 beginning in 2009. Unless all budget billing is estimated and reconciled on a calendar
12 year basis, prices will move during the budget billing period. If PPL's CBP is approved,
13 we know that prices will change on January 1, 2010 and again on January 1, 2011 (even
14 if PPL's reconciliation proposal is not adopted). PPL also assumes that only it can offer
15 budget billing. In fact, the EGS community can offer all sorts of products to customers,
16 including budget billing. Customers desiring a budget-based bill would likely be able to
17 procure one competitively if the POLR service market is designed properly.

18 In summary, my exhibit highlights that both PPL-Gas and the other natural gas
19 distribution utilities – and their customers – are fully capable of handling frequent rate
20 changes. I would also note that the natural gas experience – here in Pennsylvania at least
21 – certainly calls into question, at the very least, any suggestion that market responsive
22 pricing is too volatile or confusing, or imposes unreasonably high prices. As far as I can
23 determine, there is no movement afoot to force natural gas distribution utilities to provide

1 fixed prices for months or years, even given the historically high natural gas prices that
2 have been experienced in recent years.

3 **PPL Witness Cavicchi**

4 **Q. HOW DO YOU RESPOND TO MR. CAVICCHI'S DISCUSSION ABOUT**
5 **RETAIL MARKET DEVELOPMENT?**

6 A. It is interesting to me that Mr. Cavicchi implies that the witnesses from the retail
7 community are wrong about our respective "expert opinions" on what is required for
8 retail market development. Additionally, his statement that the retail community desires
9 POLR products that are "as volatile as possible" is simply wrong, but in any event, is
10 merely his unsupported opinion. "Market reflective" (or "market responsive") pricing is
11 not necessarily "as volatile as possible." As I stated in my testimony, the PPL tariffs
12 have had monthly price volatility embedded in them for several years. As indicated
13 previously, I am also advised that the PPL proposal simply is not consistent with the legal
14 requirements of the Electric Choice Act.

15 **Q. MR. CAVICCHI SUGGESTS THAT YOUR PJM ANALOGY IS INCORRECT**
16 **BECAUSE PPL IS PROPOSING TO USE MARKET COMPETITIVE FORCES**
17 **TO SET PRICES, JUST AS PJM DOES. HOW DO YOU RESPOND?**

18 A. Mr. Cavicchi is correct, in that market forces set prices in PJM every hour of the day. He
19 is incorrect in saying that my analogy is flawed. PJM market forces don't set the
20 "prevailing market price" in PJM three years in advance of the market day. As stated in
21 my direct testimony, if PJM set a market price for purchasing generation three years in
22 advance, and it was in place for an entire year, generation development would be scarce.
23 The same is true for retail electric markets. If the POLR price (set on a series of arbitrary
24 dates) is fixed for a long period of time, the risks to a small customer supplier of entering

1 the market are too great. The competitive retail market will not develop as envisioned by
2 the legislature under this pricing regime.

3 **OSBA Witness Kalcic**

4 **Q. MR. KALCIC STATES THAT "DIRECT ENERGY HAS A VESTED INTEREST**
5 **IN PROMOTING MONTHLY PRICING FOR PPL'S RESIDENTIAL AND**
6 **SMALL BUSINESS CUSTOMERS". WHAT IS YOUR REACTION TO THAT**
7 **STATEMENT?**

8 A. All parties that are active in this proceeding have a "vested interest" in their positions, or
9 they would not be making the "investment" to voice their opinions. It is my expert
10 opinion that market responsive pricing is necessary in order to create robust, and
11 permanent retail competition, and that such competition will provide enormous benefits
12 to all customers, including small business customers. Thus, Direct's interests are
13 completely consistent with the public interest.

14 **OCA Witness Estomin**

15 **Q. DR. ESTOMIN DISAGREES WITH YOUR POSITION THAT POLR PRICES**
16 **SHOULD BE ALIGNED WITH SHORT-TERM MARKET PRICES TO MEET**
17 **THE PREVAILING MARKET PRICES STANDARD IN THE ELECTRIC**
18 **CHOICE ACT. HOW DO YOU RESPOND?**

19 A. I interpret the language of the Electric Choice Act differently than Dr. Estomin. The
20 pertinent part of the Electric Choice Act states: "If a customer contracts for electric
21 energy and it is not delivered or if a customer does not choose an alternate electric
22 generation supplier, the electric distribution company or commission-approved
23 alternative supplier shall acquire electric energy at prevailing market prices to serve that

1 customer and shall recover fully all reasonable costs.”¹ Clearly, one could argue that no
2 residential customer has moved to an EGS at this point, so procuring a long term contract
3 for all residential customers meets the standard. That logic ignores the other part of the
4 sentence, which basically states that if EGS-contracted supply is not delivered, the POLR
5 provider must acquire the energy. It simply is not reasonable to argue that if an EGS
6 failed to deliver energy on July 1, 2010, that energy procured in 2007, 2008 and 2009
7 would meet the prevailing market price standard in 2010 for the returning customer. The
8 same logic would apply to a customer new to the system. It is simply not reasonable to
9 argue that someone who moves into the service territory in 2010 would be served with
10 power procured at prevailing market prices if that power was procured in 2007, 2008 and
11 2009.

12 **OCA Witness Alexander**

13 **Q. OCA WITNESS ALEXANDER MENTIONS THE BUDGET BILLING**
14 **COMPLICATIONS MENTIONED BY MR. KRALL AS A REASON TO REJECT**
15 **DIRECT'S MONTHLY PRICING PROPOSAL. DOES SHE RAISE ANY ISSUES**
16 **NOT ADDRESSED IN YOUR PRIOR RESPONSE TO MR. KRALL?**

17 **A. No.**

18 **Q. MS. ALEXANDER ALSO STATES THAT MONTHLY PROCUREMENT**
19 **METHODOLOGIES “THREATEN THE AFFORDABILITY OF BASIC**
20 **ELECTRICITY SERVICE FOR THOSE RESIDENTIAL CUSTOMERS ON**
21 **PAYMENT PLANS AND THOSE ENROLLED IN CUSTOMER ASSISTANCE**
22 **PROGRAMS WHERE THE UNDERLYING BILL MUST BE STABLE AND**

¹ 66 Pa. C.S. § 2807(e)(3).

1 **PREDICTABLE TO ASSURE REGULAR MONTHLY PAYMENT.” HOW DO**
2 **YOU RESPOND?**

3 A. First, as discussed above, given the monthly LMP prices presented by Mr. Krall, it is
4 obvious that customers would have been better off financially had PPL been procuring
5 power in the LMP market than they were by paying the PPL tariff price. Electricity
6 served under our proposed methodology would have actually been more affordable.
7 Additionally, as I stated above, EGSs are capable of offering payment plans and budget
8 billing. There are some roadblocks to CAP customers taking service from competitive
9 suppliers, but none that couldn't be overcome if the market participants desired a truly
10 competitive market outcome for all customers.

11 **Q. MS. ALEXANDER SUGGESTS THAT THE NEW YORK RESIDENTIAL**
12 **MARKET IS NOT WORKING, CITING A STATE-WIDE SWITCHING RATE**
13 **OF ABOUT 10%. DO YOU AGREE WITH HER CONCLUSION?**

14 A. No. Ms. Alexander dismisses the success of the New York market, saying that the
15 success “is only a reflection of the ‘incentives’ program in effect at Orange and Rockland
16 Utilities.” I look at it from the other perspective. Where POLR market design is
17 appropriately conducive to retail choice, the switching rates are material and growing on
18 a daily basis. In markets where the default service rate is a long-term fixed price, the
19 switching rates are low. Ms. Alexander neglected to say in her analysis how many
20 suppliers are serving in the New York market. More than a dozen companies are offering
21 competitive products to residential customers in New York. In a nutshell, if the POLR
22 market design is conducive to competition, suppliers will be there.

23 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?**

24 A. Yes.

Direct Energy Exh. FPL-2

Average Rate Schedule RS Energy, Capacity and Transition Charges -- 2009			
Energy and Capacity	kWh used	2009 Rate	2009 Costs
First 200 kWh	200	0.05949	11.90
Next 600 kWh	600	0.05231	31.39
Excess usage	200	0.04800	9.60
			52.88
CTC			
First 200 kWh	200	0.01293	2.59
Next 600 kWh	600	0.01147	6.88
Excess Usage	200	0.01059	2.12
			11.59
ITC			
First 200 kWh	200	0.00000	0
Next 600 kWh	600	0.00000	0
Excess Usage	200	0.00000	0
			0
Total			\$ 0.0645

Average Rate Schedule RS Energy, Capacity and Transition Charges -- 2006			
Energy and Capacity	kWh used	2006 Rate	2006 Costs
First 200 kWh	200	0.05663	11.33
Next 600 kWh	600	0.04975	29.85
Excess usage	200	0.04564	9.13
			50.30
CTC			
First 200 kWh	200	0.00237	0.47
Next 600 kWh	600	0.00210	1.26
Excess Usage	200	0.00194	0.39
			2.12
ITC			
First 200 kWh	200	0.01240	2.48
Next 600 kWh	600	0.00996	5.976
Excess Usage	200	0.00920	1.84
			10.296
Total			\$ 0.0627

**2006 - 2007 PURCHASED GAS COST RATES
PERCENTAGE INCREASES
CALCULATED PER THE OFFICE OF TRIAL STAFF**

	T.W. PHILLIPS (Mcf) Residential	NFG (Mcf)	PGW (Mcf) (1)	COLUMBIA (Mcf)	PEOPLES (Mcf)	EQUITABLE (Mcf)	PPL (Dth)	UGI (Mcf) PGC-1	PG ENERGY (Mcf)	PECO (Mcf)
PGC 2006 1307-f Rates										
PGC Rate In Effect Prior To Annual Review										
Approved rate	\$ 10.5729	\$ 13.0432	\$ 11.2558	\$ 7.3259	\$ 9.2155	\$ 11.22	\$ 12.4227	\$ 12.0480	\$ 9.7652	\$ 10.1198
Rates per Annual Review + 4th Quarterly PGC 2005										
Date rates effective	Aug 1, 2006	Aug 1, 2006	Sept 1, 2006	Oct 1, 2006	Oct 1, 2006	Oct 1, 2006	Dec 1, 2006	Dec 1, 2006	Dec 1, 2006	Dec 1, 2006
Approved rate	\$ 8.5845	\$ 10.2993	\$ 11.2558	\$ 8.6677	\$ 8.6715	\$ 9.98	\$ 10.5090	\$ 10.8931	\$ 9.0672	\$ 9.6632
Rate increase/(decrease)	\$ (1.9884)	\$ (2.7439)	\$ -	\$ 1.3418	\$ (0.5440)	\$ (1.24)	\$ (1.9137)	\$ (1.1549)	\$ (0.6980)	\$ (0.4566)
Percentage Increase/(decrease)	(18.8)	(21.0)	0.0	18.3	(5.9)	(11.1)	(15.4)	(9.6)	(7.1)	(4.5)
1st Quarterly										
Date rates effective	Nov 1, 2006	Nov 1, 2006	Dec 1, 2006	Jan 1, 2007	Jan 1, 2007	Jan 1, 2007	Mar 1, 2007	Mar 1, 2007	Mar 1, 2007	Mar 1, 2007
Approved rate	\$ 8.7435	\$ 9.6889	\$ 10.9119	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rate increase/(decrease)	\$ 0.1590	\$ (0.6104)	\$ (0.3439)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Percentage Increase/(decrease)	1.85	(5.93)	(3.06)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2nd Quarterly										
Date rates effective	Feb 1, 2007	Feb 1, 2007	Mar 1, 2007	Apr 1, 2007	Apr 1, 2007	Apr 1, 2007	June 1, 2007	June 1, 2007	June 1, 2007	June 1, 2007
Approved rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rate Increase/(decrease)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Percentage Increase/(decrease)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3rd Quarterly										
Date rates effective	May 1, 2007	May 1, 2007	June 1, 2007	July 1, 2007	July 1, 2007	July 1, 2007	Sept 1, 2007	Sept 1, 2007	Sept 1, 2007	Sept 1, 2007
Approved rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rate increase/(decrease)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Percentage Increase/(decrease)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quarterly										
Date rates effective										
Approved rate										
Rate increase/(decrease)										
Percentage Increase/(decrease)										

**2005 - 2006 PURCHASED GAS COST RATES
PERCENTAGE INCREASES
CALCULATED PER THE OFFICE OF TRIAL STAFF**

	T.W. PHILLIPS (Mcf) Residential	NFG (Mcf)	PGW (Mcf) (1)	COLUMBIA (Mcf)	PEOPLES (Mcf)	EQUITABLE (Mcf)	PPL (Dth)	UGI (Mcf) PGC-1	PG ENERGY (Mcf)	PECO (Mcf)
PGC 2005 1307-f Rates										
PGC Rate In Effect Prior To Annual Review										
Approved rate	\$ 8.6030	\$ 9.5724	\$ 8.9998	\$ 8.1652	\$ 9.8361	\$ 10.40	\$ 9.7491	\$ 11.3881	\$ 12.0749	\$ 10.2307
Rates per Annual Review + 4th Quarterly PGC 2004										
Date rates effective	Aug 1, 2005	Aug 1, 2005	Sept 1, 2005	Oct 1, 2005	Oct 1, 2005	Oct 1, 2005	Dec 1, 2005	Dec 1, 2005	Dec 1, 2005	Dec 1, 2005
Approved rate	\$ 8.2717	\$ 10.6296	\$ 9.7056	\$ 13.2449	\$ 12.8238	\$ 13.72	\$ 13.6988	\$ 13.6240	\$ 12.1297	\$ 13.7250
Rate increase/(decrease)	\$ (0.3313)	\$ 1.0572	\$ 0.7058	\$ 5.0797	\$ 2.9877	\$ 3.32	\$ 3.9497	\$ 2.2359	\$ 0.0548	\$ 3.4943
Percentage Increase/(decrease)	(3.9)	11.0	7.8	62.2	30.4	31.9	40.5	19.6	0.5	34.2
1st Quarterly										
Date rates effective	Nov 1, 2005	Nov 1, 2005	Interim Oct 7, 2005	Jan 1, 2006	Jan 1, 2006	Jan 1, 2006	Mar 1, 2006	Interim Feb 10, 2006	Interim Feb 10, 2006	Mar 1, 2006
Approved rate	\$ 11.4249	\$ 13.8113	\$ 12.5632	\$ 14.0275	\$ 15.1215	\$ 14.26	\$ 13.5792	\$ 13.0980	\$ 11.1897	\$ 12.8267
Rate increase/(decrease)	\$ 3.1532	\$ 3.1817	\$ 2.8576	\$ 0.7826	\$ 2.2977	\$ 0.54	\$ (0.1196)	\$ (0.5260)	\$ (0.94)	\$ (0.8983)
Percentage Increase/(decrease)	38.1	29.9	29.4	5.9	17.9	3.9	(0.9)	(3.9)	(7.7)	(6.5)
2nd Quarterly										
Date rates effective	Feb 1, 2006	Feb 1, 2006	Mar 1, 2006	Interim Feb 1, 2006	Apr 1, 2006	Apr 1, 2006	June 1, 2006	Interim April 7, 2006	1st Qtrly Mar 1, 2006	June 1, 2006
Approved rate	\$ 10.5729	\$ 13.0432	\$ 12.5632	\$ 12.8885	\$ 11.8730	\$ 11.73	\$ 13.2819	\$ 12.7180	\$ 10.9397	\$ 11.6892
Rate Increase/(decrease)	\$ (0.8520)	\$ (0.7681)	\$ -	\$ (1.1390)	\$ (3.2485)	\$ (2.53)	\$ (0.2973)	\$ (0.3800)	\$ (0.25)	\$ (1.14)
Percentage Increase/(decrease)	(7.5)	(5.6)	0.0	(8.1)	(21.5)	(17.7)	(2.2)	(2.9)	(2.2)	(8.9)
3rd Quarterly										
Date rates effective	May 1, 2006	May 1, 2006	June 1, 2006	2nd Qtrly Apr 1, 2006	July 1, 2006	July 1, 2006	Sept 1, 2006	2nd Qtrly June 1, 2006	2nd Qtrly June 1, 2006	Sept 1, 2006
Approved rate	\$ 10.5729	\$ 13.0432	\$ 11.2558	\$ 8.3742	\$ 9.2155	\$ 11.22		\$ 12.3980	\$ 10.1284	
Rate increase/(decrease)	\$ -	\$ -	\$ (1.3074)	\$ (4.5143)	\$ (2.6575)	\$ (0.51)		\$ (0.3200)	\$ (0.8113)	
Percentage Increase/(decrease)	0.0	0.0	(10.4)	(35.0)	(22.4)	(4.3)		(2.5)	(7.4)	
Quarterly										
Date rates effective				3rd Qtrly July 1, 2006						
Approved rate				\$ 7.3259						
Rate increase/(decrease)				\$ (1.0483)						
Percentage Increase/(decrease)				(12.5)						

**2002 - 2003 PURCHASED GAS COST RATES
PERCENTAGE INCREASES
CALCULATED PER THE OFFICE OF TRIAL STAFF**

	T.W. PHILLIPS (Mcf) Residential	NFG (Mcf)	PGW (Mcf) (1)	COLUMBIA (Mcf)	PEOPLES (Mcf)	EQUITABLE (Mcf)	Penn Fuels PFG (Dth)	UGI (Mcf) PGC-1	PG ENERGY (Mcf)	PECO (Mcf)
PGC 2002 1307-f Rates										
Rates per Annual Review + 4th Quarterly PGC 2001										
Date rates effective	Aug 1, 2002	Aug 1, 2002	Sept 1, 2002	Oct 1, 2002	Oct 1, 2002	Oct 1, 2002	Dec 1, 2002	Dec 1, 2002	Dec 1, 2002	Dec 1, 2002
Approved rate	\$ 4.5732	\$ 6.2118	\$ 6.2185	\$ 6.8189	\$ 5.1719	\$ 6.52	\$ 5.2228	\$ 6.4441	\$ 5.7793	\$ 5.3780
Rate increase/(decrease)	\$ 0.4702	\$ 0.4472	\$ 0.2453	\$ 2.1856	\$ 1.1167	0.0	\$ (0.7204)	\$ (0.1821)	\$ (0.1197)	\$ (0.3976)
Percentage Increase/(decrease)	11.5	7.8	4.1	47.2	27.5	0.0	(12.1)	(2.7)	(2.0)	(6.9)
1st Quarterly										
Date rates effective	Nov 1, 2002	Nov 1, 2002	Dec 1, 2002	Jan 1, 2003	Jan 1, 2003	Jan 1, 2003	Mar 1, 2003	Mar 1, 2003	Mar 1, 2003	Mar 1, 2003
Approved rate	\$ 4.9094	\$ 6.2118	\$ 6.7717	\$ 7.6074	\$ 6.0330	\$ 7.05	\$ 6.3737	\$ 8.5641	\$ 7.4139	\$ 6.8405
Rate increase/(decrease)	\$ 0.3362	0.0	\$ 0.5532	\$ 0.7885	\$ 0.8611	\$ 0.53	\$ 1.1509	\$ 2.1200	\$ 1.6346	\$ 1.4625
Percentage Increase/(decrease)	7.4	0.0	8.9	11.6	16.7	8.1	22.0	32.9	28.3	27.2
2nd Quarterly										
Date rates effective	Feb 1, 2003	Feb 1, 2003	Mar 1, 2003	Apr 1, 2003	Apr 1, 2003	Apr 1, 2003	June 1, 2003	June 1, 2003	Interim Apr 10, 2003	June 1, 2003
Approved rate	\$ 5.7581	\$ 6.9467	\$ 7.4150	\$ 8.8716	\$ 7.7215	\$ 8.56	\$ 6.3454	\$ 7.7441	\$ 6.8421	\$ 7.3237
Rate increase/(decrease)	\$ 0.8487	\$ 0.7349	\$ 0.6433	\$ 1.2642	\$ 1.6885	\$ 1.51	\$ (0.0283)	\$ (0.8200)	\$ (0.57)	\$ 0.4832
Percentage Increase/(decrease)	17.3	11.8	9.5	16.6	28.0	21.4	(0.4)	(9.6)	(7.7)	7.1
3rd Quarterly										
Date rates effective	April 1, 2003	May 1, 2003	Interim Apr 11, 2003	July 1, 2003	July 1, 2003	July 1, 2003	Sept 1, 2003	Interim Aug 1, 2003	2nd Qtrly June 1, 2003	Sept 1, 2003
Approved rate	\$ 6.4985	\$ 7.3527	\$ 8.2400	\$ 8.6504	\$ 7.7215	\$ 8.56	\$ 6.1765	\$ 5.7041	\$ 7.0302	\$ 7.3237
Rate increase/(decrease)	\$ 0.7404	\$ 0.4060	\$ 0.8250	\$ (0.2212)	0	0	\$ (0.1689)	\$ (2.0400)	\$ 0.1881	0
Percentage Increase/(decrease)	12.9	5.8	11.1	(2.5)	0.0	0.0	(2.7)	(26.3)	2.8	0.0
4th Quarterly										
Date rates effective			3rd Qtrly June 1, 2003					3rd Qtrly Sept 1, 2003	3rd Qtrly Sept 1, 2003	
Approved rate			\$ 8.9487					\$ 5.7041	\$ 7.2557	
Rate increase/(decrease)			\$ 0.7087					0	\$ 0.2255	
Percentage Increase/(decrease)			8.6					0.0	3.2	
(1) Numbers represent the total GCR rate including non-gas costs.										

2001 - 2002 PURCHASED GAS COST RATES

PERCENTAGE INCREASES

CALCULATED PER THE OFFICE OF TRIAL STAFF

	T.W. PHILLIPS (Mcf)	NFG (Mcf)	PGW (Mcf)	COLUMBIA (Mcf)	PEOPLES (Mcf)	EQUITABLE (Mcf)	Penn Fuels PFG (Dth)	UGI (Mcf)	PG ENERGY (Mcf)	PECO (Mcf)
	Residential		(1)					PGC-1		
PGC 2001 1307-f Rates										
Rates per Annual Review + 4th Quarterly PGC 2000										
Date rates effective	Aug 1, 2001	Aug 1, 2001	Sept 1, 2001	Oct 1, 2001	Oct 1, 2001	Oct 1, 2001	Dec 1, 2001	Dec 1, 2001	Dec 1, 2001	Dec 1, 2001
Approved rate	\$ 4.7155	\$ 6.5494	\$ 7.5524	\$ 3.3542	\$ 4.0023	\$ 5.84	\$ 6.5179	\$ 5.5462	\$ 5.7735	\$ 5.7756
Rate increase/(decrease)	\$ (1.3089)	\$ (2.9705)	\$ (2.3235)	\$ (4.2853)	\$ (4.7047)	\$ (2.53)	\$ 0.4405	\$ (2.9972)	\$ (2.1878)	\$ (2.3624)
Percentage Increase/(decrease)	(21.7)	(31.2)	(23.5)	(56.1)	(54.0)	(30.2)	(6.30)	(35.1)	(27.5)	(29.0)
1st Quarterly										
Date rates effective	Nov 1, 2001	Nov 1, 2001	Dec 1, 2001	Jan 1, 2002	Jan 1, 2002	Jan 1, 2002	Mar 1, 2002	Mar 1, 2002	Mar 1, 2002	Mar 1, 2002
Approved rate	\$ 4.3030	\$ 5.4604	\$ 6.3107	\$ 3.4866	\$ 3.9656	\$ 5.84	\$ 5.9425	\$ 5.5462	\$ 5.7106	\$ 5.7756
Rate increase/(decrease)	\$ (0.4125)	\$ (1.0890)	\$ (1.2417)	\$ 0.1324	\$ (0.0367)	0.00	\$ (0.5754)	0.00	\$ (0.0629)	0.00
Percentage Increase/(decrease)	(8.8)	(16.6)	(16.4)	4.0	(0.9)	0.00	(8.8)	0.00	(1.1)	0.00
2nd Quarterly										
Date rates effective	Feb 1, 2002	Feb 1, 2002	Mar 1, 2002	Apr 1, 2002	Apr 1, 2002	Apr 1, 2002	June 1, 2002	June 1, 2002	June 1, 2002	June 1, 2002
Approved rate	\$ 4.1030	\$ 5.2883	\$ 5.2003	\$ 4.2828	\$ 4.0552	\$ 6.27	\$ 5.9010	\$ 6.6262	\$ 6.4606	\$ 5.7756
Rate increase/(decrease)	\$ (0.2000)	\$ (0.1721)	\$ (1.1104)	\$ 0.7962	\$ 0.0896	\$ 0.43	\$ (0.0415)	\$ 1.0800	\$ 0.7500	0.00
Percentage Increase/(decrease)	(4.7)	(3.2)	(17.6)	22.8	2.3	7.4	(0.7)	19.5	13.1	0.00
3rd Quarterly										
Date rates effective	May 1, 2002	May 1, 2002	June 1, 2002	July 1, 2002	July 1, 2002	July 1, 2002	Sept 1, 2002	Sept 1, 2002	Sept 1, 2002	Sept 1, 2002
Approved rate	\$ 4.1030	\$ 5.7646	\$ 5.9732	\$ 4.6333	\$ 4.0552	\$ 6.52	\$ 5.9432	\$ 6.6262	\$ 5.8990	\$ 5.7756
Rate increase/(decrease)	0.00	\$ 0.4763	\$ 0.7729	\$ 0.3505	0.0	\$ 0.25	\$ 0.0422	0.0	\$ (0.5616)	0.0
Percentage Increase/(decrease)	0.00	9.0	14.9	8.2	0.0	4.0	0.7	0.0	(8.7)	0.0
4th Quarterly										
Date rates effective										
Approved rate										
Rate increase/(decrease)										
Percentage Increase/(decrease)										
(1) Numbers represent the total GCR rate including non-gas costs.										

2000 - 2001 PURCHASED GAS COST RATES

PERCENTAGE INCREASES

CALCULATED PER THE OFFICE OF TRIAL STAFF

	T.W. PHILLIPS (Mcf)	NFG (Mcf)	COLUMBIA (Mcf)	PEOPLES (Mcf)	Equitable (Mcf)	PECO (Mcf)	Penn Fuels PFG (Dth)	UGI (Mcf)	PG ENERGY (Mcf)	PGW (Mcf)
	TTL SYS									(1)
PGC 2000 1307-f Rates										
Rates per Annual Review + 4th Quarterly PGC 1999										
Date rates effective	Aug 1, 2000	Aug 1, 2000	Oct 1, 2000	Oct 1, 2000	Oct 1, 2000	Dec 1, 2000	Dec 1, 2000	Dec 1, 2000	Dec 1, 2000	Sept 1, 2000
Approved rate	\$ 4.2452	\$ 5.7984	\$ 6.9356	\$ 6.1999	\$ 7.25	\$ 6.2632	\$ 5.6753	\$ 6.8045	\$ 6.4844	\$ 4.2782
Rate increase/(decrease)	\$ 1.1316	\$ 1.3694	\$ 1.9653	\$ 1.0416	\$ 0.89	\$ 1.8173	\$ 1.6742	\$ 0.4155	\$ 2.3118	
Percentage Increase	36.34	30.92	39.54	20.19	13.99	40.88	41.84	6.50	55.40	
1st Quarterly										
Date rates effective	Oct 1, 2000 *	Nov 1, 2000	Jan 1, 2001	Jan 1, 2001	Jan 1, 2001	Mar 1, 2001	Mar 1, 2001	Mar 1, 2001	Mar 1, 2001	Interim Nov 22, 2000
Approved rate	\$ 4.6980	\$ 6.6108	\$ 8.9452	\$ 8.2433	\$ 9.47	\$ 8.6309	\$ 8.2789	\$ 9.2134	\$ 6.9226	\$ 6.2245
Rate increase/(decrease)	\$ 0.4528	\$ 0.8124	\$ 2.0096	\$ 2.0434	\$ 2.22	\$ 2.3677	\$ 2.6036	\$ 2.4089	\$ 0.4382	\$ 1.9463
Percentage Increase	10.67	14.01	28.98	32.96	30.62	37.80	45.88	35.40	6.76	45.49
2nd Quarterly										
Date rates effective	Jan 1, 2000 *	Feb 1, 2001	Apr 1, 2001	Apr 1, 2001	Apr 1, 2001	June 1, 2001	June 1, 2001	June 1, 2001	June 1, 2001	1st Quarterly Jan 1, 2001
Approved rate	\$ 6.6778	\$ 8.9373	\$ 8.6853	\$ 9.9991	\$ 9.47	\$ 8.6309	\$ 7.1708	\$ 9.2134	\$ 7.9892	\$ 9.3785
Rate increase/(decrease)	\$ 1.9798	\$ 2.3265	\$ (0.2599)	\$ 1.7558	0.00	0.00	\$ (1.1081)	0.00	\$ 1.0666	\$ 3.1540
Percentage Increase	42.14	35.19	(2.91)	21.30	0.00	0.00	(13.38)	0.00	15.41	50.67
3rd Quarterly										
Date rates effective	May 1, 2001	May 1, 2001	July 1, 2001	July 1, 2001	July 1, 2001	Sept 1, 2001	Sept 1, 2001	Sept 1, 2001	Sept 1, 2001	Interim Setlmt Mar 1, 2001
Approved rate	\$ 6.0601	\$ 9.5199	\$ 7.6395	\$ 8.7070	\$ 8.37	\$ 8.1380	\$ 6.9583	\$ 8.5434	\$ 7.9613	\$ 9.8759
Rate increase/(decrease)	\$ (0.6177)	\$ 0.5826	\$ (1.0458)	\$ (1.2921)	\$ (1.10)	\$ (0.4929)	\$ (0.2125)	\$ (0.6700)	\$ (0.0279)	\$ 0.4974
Percentage Increase	(9.25)	6.52	(12.04)	(12.92)	(11.62)	(5.71)	(2.96)	(7.27)	(0.35)	5.30
4th Quarterly										
Date rates effective	Interim June 5, 2001									2nd Quarterly Apr 1, 2001
Approved rate	\$ 5.5601									\$ 9.8759
Rate increase/(decrease)	\$ (0.5000)									0.00
Percentage Increase	(8.25)									0.00
* Quarterlies filed one month early.										
(1) Numbers represent the total GCR rate including non-gas costs.										

12/20/06

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	Cents/kWh DAK Adjustment	Cents/kWh Tariff Generation Price
Average Energy and Capacity Charge for 2006	5.03	6.27
Less Gross Receipts Tax 5.9%	<u>0.28</u>	<u>0.35</u>
	4.75	5.92
Less Capacity of 0.58 cents/kWh	<u>0.58</u>	<u>0.58</u>
	4.17	5.34
Less Losses @ 9%	<u>0.34</u>	<u>0.44</u>
	3.83	4.90
Less Load Following Factor of 1.13	<u>0.44</u>	<u>0.56</u>
Market Price for Energy (LMP Proxy)	3.39	4.34

Based on DAK-3, LMP purchasing would have resulted in savings in 65% (32 out of 49) of months

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Date	Tariff		LMP Savings or Losses	
	LMP Price	Generation Price		
Dec-01	1.97	4.34	savings	
Jan-02	2.05	4.34	savings	
Feb-02	2.02	4.34	savings	
Mar-02	2.44	4.34	savings	
Apr-02	2.73	4.34	savings	
May-02	2.22	4.34	savings	
Jun-02	2.72	4.34	savings	
Jul-02	3.64	4.34	savings	
Aug-02	3.68	4.34	savings	
Sep-02	2.56	4.34	savings	
Oct-02	2.75	4.34	savings	
Nov-02	2.29	4.34	savings	
Dec-02	3.21	4.34	savings	
Jan-03	4.75	4.34	loss	
Feb-03	4.75	4.34	loss	
Mar-03	5.27	4.34	loss	
Apr-03	3.60	4.34	savings	
May-03	3.06	4.34	savings	
Jun-03	2.88	4.34	savings	
Jul-03	4.03	4.34	savings	
Aug-03	3.88	4.34	savings	
Sep-03	3.07	4.34	savings	
Oct-03	2.89	4.34	savings	
Nov-03	2.96	4.34	savings	
Dec-03	3.64	4.34	savings	
Jan-04	5.54	4.34	loss	
Feb-04	4.19	4.34	savings	
Mar-04	3.95	4.34	savings	
Apr-04	4.31	4.34	savings	
May-04	4.85	4.34	loss	
Jun-04	3.80	4.34	savings	
Jul-04	4.27	4.34	savings	
Aug-04	3.88	4.34	savings	
Sep-04	4.19	4.34	savings	
Oct-04	3.95	4.34	savings	
Nov-04	3.74	4.34	savings	
Dec-04	4.65	4.34	loss	
Jan-05	5.39	4.34	loss	
Feb-05	4.49	4.34	loss	
Mar-05	5.25	4.34	loss	
Apr-05	4.45	4.34	loss	
May-05	4.29	4.34	savings	
Jun-05	5.64	4.34	loss	
Jul-05	6.90	4.34	loss	
Aug-05	8.70	4.34	loss	
Sep-05	8.04	4.34	loss	
Oct-05	8.02	4.34	loss	
Nov-05	6.03	4.34	loss	
Dec-05	8.23	4.34	loss	
Months of LMP savings vs. Tariff			32	65%
Months of LMP loss vs. Tariff			17	35%
Total Months			49	100%

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

12/20/06
HOS jar

Pennsylvania Public Utility Commission, *et al*

Docket No.: P-00062227

v.

PPL Electric Utilities Corporation

PREPARED DIRECT TESTIMONY
OF
THOMAS J. BUTLER
ON BEHALF OF DOMINION RETAIL, INC.

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DEC 28 2006

Issues Addressed:

Three-year Acquisition Proposal
Reconciliation

PA PUC
SECRETARY'S BUREAU

Dated: November 15, 2006

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1 **Q. Please state your name, and employer for the record?**

2 A. My name is Thomas J. Butler and I am employed by Dominion Retail, Inc., as the
3 *Director of Business Development.*

4
5 **Q. When did you join Dominion Retail and can you briefly describe your job
6 responsibilities as Director as Business Development?**

7 A. I joined Dominion Retail in 1996 when electricity choice was just beginning in
8 Pennsylvania. I was a principal participant in my company's start-up of its retail energy
9 business unit. My role is business development for Dominion Retail, which entails
10 identification and evaluation of new retail energy markets, managing regulatory policy
11 matters in states where Dominion Retail operates or plans to operate, overseeing the
12 implementation of short term business plans, pursuing potential business acquisitions
13 and/or partnerships and overseeing our commercial/industrial gas sales business.

14
15 **Q. What is the purpose of your testimony?**

16 A. The purpose of my testimony is to recommend several modifications to PPL Electric
17 Utilities, Inc.'s (PPL) filing for approval of its Competitive Bridge Plan ("CBP"). I
18 believe that my proposals will ensure that the program will comply with the mandate to
19 promote a robust competitive market for electric competition at retail in Pennsylvania.

1 Q. Can you please summarize your recommendations?

2 A. Yes. My two (2) recommendations concern the three-year plan for the acquisition of
3 energy for sale to residential small commercial customers, and the proposal that the cost
4 of that service be collected from customers on a reconciled basis. I understand that the
5 *Electricity Generation Customer Choice and Competition Act* ("Choice Act"), 66 Pa. C.
6 S. § 2807(e)(3), requires that the provider of last resort ("POLR") or default service
7 provider, in this case PPL, "acquire electric energy at prevailing market prices." and
8 "recover fully all reasonable costs." I believe that this straightforward condition requires
9 that PPL acquire energy at a point in time that is close to the time in which the service is
10 to be provided; a time in which the prices "prevail" in the market place. I submit that the
11 price of energy purchased in 2007 and 2008 is unlikely to prevail in 2010. I believe that
12 a maximum one year lead time is sufficient for PPL's needs to acquire electric energy for
13 sale in a single year.

14 With regard to the collection of the costs of default service from customers
15 through retail rates, I disagree with PPL's proposal to reconcile any portion of those
16 costs. I believe that Dominion Retail's position on this issue is consistent with that taken
17 by the Commission at Docket No. P-00052188 wherein the Commission adopted the
18 OTS's and Dominion Retail's position that reconciliation is "unwarranted, unwise and
19 illegal." I submit that PPL can pass along to its wholesale suppliers most of the risks
20 upon which it appears to base this reconciliation request, and that the detriments of
21 reconciliation far outweigh the need for PPL's approach.

22 PPL's plan creates much of the uncertainty from which it suffers, since it is
23 preliminary to the promulgation of final regulations. And since it addresses only a single

1 year, it is non-comprehensive. Rather, the plan fails adequately to address the role of
2 POLR service and fails to balance that role with the objective of developing competitive
3 markets. While it has not expressly been stated, PPL's main goal appears to be to set
4 precedent for its future plans through approval of this incomplete POLR plan. For the
5 reasons I discuss below, I do not believe that PPL's approach is appropriate.

6
7 **THREE YEAR ACQUISITION PLAN**

8 **Q. Can you explain your understanding of PPL's proposed three-year acquisition plan**
9 **for energy supply for residential and small commercial customers?**

10 A. PPL's CBP proposes to acquire supply over a three-year period in order to serve
11 primarily residential and small commercial customers for a single year. (Petition at 6).
12 PPL seeks the ability to make six solicitations for wholesale electric supply within that
13 three year period.¹ Moreover, in the event that the Commission promulgates final
14 regulations regarding default or POLR service during PPL's acquisition process, PPL has
15 asked that it be granted waivers to allow it to continue to acquire supply according to this
16 plan, even if the Commission were to come out with regulations prohibiting such activity.

17
18 **Q. Can you first explain Dominion Retail's view of how Default or POLR service**
19 **should be acquired and priced?**

20 A. Sure. We agree with the policy expressed in the *Choice Act* that customers pay
21 prevailing market prices. There are two approaches that we think, to a greater or lesser
22 degree, accomplish that goal, while at the same time allow for the development of

¹ I should note that while PPL's plan does include the months in which those solicitations will occur, any approved plan must also specify the exact dates of those solicitations.

1 competitive markets. The obvious means of ensuring that customers pay rates that
2 prevail in the market is to set a price based upon on a shorter-term market index, for a
3 period of no more than 3 months at a time.² PPL would acquire the supply in near-real
4 time and pass on the costs. Dominion Retail recognizes however, that certain parties
5 have strong disagreements with such pricing, because they believe that in addition to
6 being low, rates also must be stable. In fact, PPL appears to have been seeking to
7 appease those concerns with its approach, but for the reasons I discuss below, I think
8 what PPL has proposed is neither a stable price nor a market price and must be rejected.
9 Rather, if true price stability is the goal, Default service can be provided with a long-term
10 truly fixed price, for a period of no less than three years and no more than five. However,
11 such a price must be set before the rate is offered and cannot change during the period.
12 The wholesale market can price this longer term risk and customers will pay the premium
13 (if there is one) for longer term price stability.

14
15 **Q. Why does Dominion Retail believe that PPL's three year process is problematic?**

16 A. The Public Utility Code requires that the default supplier, in this case PPL, acquire
17 energy to serve the customers at "prevailing market prices." Dominion Retail simply
18 does not believe that a three year process in which energy is purchased in six solicitations
19 and in which the results of those six solicitations are "averaged" can comply with this
20 requirement. This is particularly true because the acquisition process in question will be
21 used to acquire energy only for a single year. Not only does Dominion believe that the
22 lag time between the acquisition of the energy and the actual time at which the energy
23 will be sold will potentially harm customers, it also believes that the scheme will almost

² It should be obvious based upon the discussion below, but such a rate would **not** be reconciled.

1 certainly harm competition by eliminating the ability of marketers to match, or even
2 explain the default price such a scheme would produce. It not simply that a price for
3 energy purchased in 2007 or 2008 will be irrelevant to the market price that prevails in
4 2010, it is that the prices of energy acquired in 2007 will be averaged with the price of
5 energy in 2008 and 2009. How can a marketer such as Dominion Retail explain to
6 potential retail customers how its price can be compared to PPL's price? The answer is
7 that it simply cannot. Dominion Retail believes that it is far better to wait and require the
8 energy be acquired during the year in which it will be provided, or within a single year
9 before-hand if a longer term rate is to be offered. Doing so will not prejudice PPL's
10 customers, will produce more market-based results and will eliminate the possibility of
11 having grandfathered a plan that is contrary to the expressed policy of the Commission.

12
13 **Q. What do you propose as an alternative to PPL's three year acquisition process?**

14 A. Dominion Retail believes that PPL can accomplish what appears to be its primary goal of
15 avoiding the possibility of "rate shock" by providing stability instead--even though that is
16 not one of the goals of the *Choice Act* and is contrary to the requirement that customers
17 pay "prevailing market prices." A certain level of rate shock is probably unavoidable and
18 PPL's approach may even exacerbate the problem if its plan produces rates that are
19 higher than prevailing market prices in 2010. While we believe that it is a concession on
20 our part, we could agree to permitting PPL to purchase its entire needs, in 2009, and
21 fixing the price for at least three years. I would agree that PPL could have a number of
22 solicitations (2-3), but all solicitations must be held prior to 2010. We clearly would
23 prefer that PPL choose to go the more market-based approach, however, so that

1 customers would see a closer-to-market price and have an ability to respond to market
2 signals and modify consumption accordingly, and so we could only agree to this type of
3 bridge to a competitive market for one period; there could be no repeats. A monthly or
4 quarterly non-reconciled price is optimal, whether as a first step or as a mandated follow-
5 on to our concession above. Either of these proposals would eliminate the primary
6 problem with PPL's proposal; that being the miss-match in price signals to customers
7 caused by an averaged price, and the resulting inability of marketers to accurately price
8 products to customers on a competitive basis. Year by year POLR plans will never
9 provide suppliers with the degree of certainty that will allow them to invest in entering a
10 market. Like Dominion Retail, many suppliers entered the pilot electricity market in
11 1997, believing that future market design would enable competition to work --- it has not
12 worked yet. So we suggest that PPL's POLR plan should be fundamentally designed
13 using short term prevailing market prices based on market indices, or solicitations that
14 will produce a stable long term prices for many years. Accordingly, I recommend that
15 the presiding ALJ and Commission modify PPL's approach and require PPL to re-design
16 its plan to include the elements discussed above.

17
18 **RECONCILIATION**

19 **Q. Has PPL proposed a reconciliation mechanism in this case?**

20 A. Yes. PPL has proposed to collect the costs of providing energy supply to customers
21 through a reconcilable generation service charge ("GSC"). On the positive side, PPL also
22 has proposed to move to a flat rate structure and away from its declining block rates,
23 which present a host of problems for suppliers in their own right. However, the inclusion

1 of a reconciliation mechanism causes tremendous concern for Dominion Retail.
2 Dominion Retail believes that the Commission's position on reconciliation is correct,
3 namely that reconciliation, and the resulting miss-match between consumption and price,
4 harms customers because they never know the true price of the product they are using,
5 and because reconciliation creates a disincentive for customers to conserve.
6 Reconciliation harms electric generation suppliers such as Dominion Retail by
7 eliminating their ability to make offers in the market place that are comparable, in real
8 time, to the utility's reconciled rate. Reconciliation means that the utility is never
9 presently collecting the full cost of providing the service: it is collecting either too much,
10 or, as occurs far too often, too little. When the rate is reconciled and the excess is finally
11 collected, the rates in a later period are distorted as well. In short, a reconciled rate
12 virtually ensures that a utility's rates are never in synch with its costs which should be the
13 prevailing market price.

14
15 **Q. What costs has PPL proposed to reconcile in this case?**

16 **A.** It is unclear exactly what comprises the full bundle of costs that PPL believes must be
17 reconciled. However, it appears that there are at least two (2) categories: 1) costs
18 associated with transferring certain heating customers to flat rate service; and, 2)
19 increased supply costs that may result from a wholesale supplier default. With regard to
20 the first category of costs, Dominion Retail believes that such risks can be borne by
21 wholesale suppliers by requiring that the bid the suppliers make include collection risks
22 on the difference between PPL's rates and the actual flat rate. With regard to the risk of
23 wholesale supplier default, while Dominion Retail believes that if PPL's security

1 requirements prove to be inadequate, it is important to allow PPL immediately to collect
2 the additional costs that may be involved in supplier default, Dominion Retail does not
3 believe that such costs are required to be reconciled. Rather, such costs would be passed
4 through on a dollar for dollar basis to customers based upon whatever supply
5 arrangements PPL would make to replace the lost supply.

6
7 **Q. How does reconciliation harm Dominion Retail?**

8 A. If the rate that PPL charges to residential customers or small commercial customers is
9 reconciled, it will never reflect the prevailing market price, while Dominion Retail's
10 offers to customers necessarily must reflect a market price. Reconciliation makes an
11 apples to apples comparison impossible because the customer is always susceptible of
12 paying more for PPL's service through the reconciliation mechanism at a later date.
13 Depending on the frequency of the reconciliation, the resulting periodic rate changes can
14 themselves cause customers to migrate from competitive service because of the belief
15 that what they perceive to be a fixed rate for electricity is going down, when indeed the
16 very next quarter the rates might increase. Moreover, reconciled rates create a dis-
17 incentive for conservation because customers never have an accurate price signal upon
18 which to base consumption decisions which can cause increased demand in a marketplace
19 that is short in supply.

1 **Q. How would you recommend to change PPL's plan in order to address your concerns**
2 **regarding reconciliation?**

3 A. I believe that PPL could address the risks that it would cover through the reconciliation
4 mechanism in other ways that are far less detrimental to customers and the market. In
5 particular, the miss-match between revenues and rates that may be associated with
6 eliminating the subsidies in the rates of residential and commercial heating customers by
7 moving them to flat rates, easily can be borne by the wholesale suppliers in their bids, if
8 they know that they are bidding on that differential. Moreover, the risk of wholesale
9 supplier default to the extent not addressed in the security requirements, can be managed
10 through an automatic rate increase mechanism or the ability to pass through those
11 increased costs subject to after-the-fact review. However, because the costs faced by
12 PPL in that situation will be what they will be--presumably PPL would immediately
13 venture into the marketplace to replace the full amount of the supply that would be
14 diminished by a supplier default--no reconciliation would be required. Another reason
15 that I believe reconciliation is inappropriate here is because it appears that the
16 reconciliation in question would not occur until after 2010. That is, PPL is seeking
17 approval in this case for a rate mechanism to reconcile costs of providing service in 2010,
18 through rates charged in 2011 and beyond. Dominion Retail believes that such a request
19 is completely inappropriate. This is one more example of why in Dominion Retail's
20 view, PPL's premature petition creates uncertainty that otherwise may not exist. Because
21 the *status quo* is that reconciliation is not permitted, it should be rejected here as well.

1 Q. **Do you have anything else you wish to add at this time?**

2 A. Just an observation, that whether calculated to do so or not, PPL's proposal will have the
3 undeniable affect of ensuring that competition does not develop in its market in 2010 and
4 probably beyond, since it is clear that PPL intends to use this single year proposal as a
5 springboard for the future. By the time any plan is implemented in the PPL territory,
6 competition will have been "on hold" for more than a decade. There simply is no reason
7 to delay it further. The Commission should toss out the mechanisms of administratively
8 set rates, reconciliation and averaged prices, and promote competition by letting
9 customers pay the true costs of the products they consume as they consume those
10 products.

11

12 Q. **Does this conclude your direct testimony?**

13 A. Yes.

12/20/06
HGS [signature]

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities Corporation:
for Competitive Bridge Plan

: Docket No. P-00062227

**SURREBUTTAL TESTIMONY OF
THOMAS J. BUTLER**

**DOCUMENT
FOLDER**

DOCKETED
DEC 28 2006

Dated: December 15, 2006

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1 Q. Please state your full name, position and employer.

2 A. My name is Thomas J. Butler and I am employed by Dominion Retail, Inc., as the
3 Director of Business Development.

4
5 Q. Have you provided testimony previously in this proceeding?

6 A. Yes, I submitted Dominion Retail Statement No. 1; my prepared direct testimony.

7
8 Q. What is the purpose of this surrebuttal testimony?

9 A. The purpose of my surrebuttal testimony is to address several contentions raised
10 by PPL witnesses Douglas A. Krall (PPL Statement No. 1-R); Joseph M. Kleha
11 (PPL Statement No. 3-R); and Joseph Cavicchi (PPL Statement No. 2-R). I also
12 will offer brief rebuttal to Office of Small Business Advocate's witness, Brian
13 Kalcic (OSBA Statement No. 2) and OCA witness Barbara Alexander (OCA
14 Statement No. 2-R).

15
16 Q. Can you summarize your responses to PPL's rebuttal testimony?

17 A. Certainly. In short, PPL contends that it does not intend to use the Competitive
18 Bridge Plan ("CBP") as a "springboard" for the future and rather that its plan is
19 intended only for a single year. Mr. Krall goes on at length on this topic. My
20 response is to simply point out that the facts that make it fairly obvious to any
21 neutral observer that PPL clearly intends to continue the CBP-type procurement
22 process into the future, albeit on a state-wide basis. I also address Mr. Kleha's
23 contention that PPL needs a reconciliation mechanism, and his contention that if

1 PPL were to attempt to pass-on the costs/risks addressed in the reconciliation
2 mechanism to wholesale providers, that it will dramatically increase the cost of
3 POLR service. I also address PPL's contention that its procurement process is not
4 anticompetitive. Clearly, this procurement process will produce anticompetitive
5 rates and will harm customers and most importantly will not comply with
6 provisions of the Electricity Generation Customer Choice and Competition Act,
7 66 Pa.C.S. § 2807(e)(3) which require PPL to acquire energy at prevailing market
8 prices. Finally, I will address some related issues raised by other witnesses.

9
10 Q. Beginning on Page 7, Mr. Krall contends, contrary to your assertions that the
11 company is not proposing to utilize the CBP as its long-term POLR plan. Do you
12 have a response?

13 A. While I understand that Mr. Krall is saying that PPL has no intention of
14 continuing the exact CBP beyond 2010, there are a number of factors which lead
15 me to believe that PPL will seek to implement a plan that contains most of the
16 same features as the CBP for period beginning in 2011. These factors are: 1) PPL
17 has proposed a three year procurement process for a single year's product; 2) PPL
18 has made statements to the financial markets that it intends to begin, in 2008, its
19 procurement process for periods beyond 2010; 3) PPL has made statements both
20 in its testimony and Petition in this proceeding and in other proceedings before
21 the Commission that its preferred procurement methodology is a statewide
22 laddered rate mechanism very similar to that in New Jersey, which ironically is
23 very similar to the three year acquisition process proposed by PPL in its CBP for

1 2010; and finally, 4) PPL continues to assert that it requires a reconciliation
2 mechanism in this case, and it has proposed that the reconciliation factor be
3 applied in 2011. In short, while Mr. Krall may be precisely correct that PPL has
4 no intention that the CBP set precedent for future POLR procurement, I believe
5 his testimony belies PPL's true intentions. Accordingly, I wish to suggest that the
6 Commission consider the implications of approving such process now, before the
7 final rules are in place.

8
9 Q. Beginning on Page 17, of his rebuttal testimony, Mr. Krall takes issue with your
10 criticism of the CBP on the basis that it is an elaborate means of acquiring energy
11 for a single year in light of the fact that the Commission has yet to issue final
12 regulations on the subject. Do you agree with Mr. Krall?

13 A. No. For the reasons I stated earlier, it is clear that a three year procurement
14 process for a single year ensures that the price customers pay will have no
15 reflection of actual market prices at the time the energy is delivered. The
16 averaged three year price will simply dissolve any relationship to a prevailing
17 market price. I simply do not agree that such prices will prevail in the market
18 place or can be construed to prevail in the market place. Not only will the energy
19 be purchased far in advance, but when the rates are blended together with other
20 purchases made at different points in time, this disconnection from the market
21 becomes completely unacceptable, in my view, in light of the statutory standard.

22

1 Q. Do you agree with Mr. Krall's criticism that a single solicitation will expose
2 PPL's customers to situations such as Pike County where the company purchased
3 power for the POLR obligation during an upsurge in the market?

4 A. While I do agree that a single solicitation might, depending on the timing, expose
5 customers to the risks similar to Pike County, it also could just as likely be the
6 opposite and result in a big win for customers. However, even if such a
7 solicitation went the other way and resulted in a big win for consumers, it may not
8 be the optimal solution. In any event, I did not propose a single solicitation. I
9 proposed that the solicitation be made in a single year--no earlier than one year in
10 advance of the start of delivery. This would give PPL the flexibility to engage in
11 several solicitations and also give PPL the flexibility to skip a solicitation if the
12 market appeared to be spiking at the time the solicitation was intended to be
13 completed. Under current circumstances, I think it is hasty to allow PPL to
14 engage in an elaborate plan before the Commission made the final policy call
15 based upon a single data point - Pike County.

16

17 Q. Do you agree with Mr. Krall's criticism on Page 19 of his rebuttal testimony that
18 you misunderstood the waivers requested by PPL?

19 A. I disagree with his conclusion--I did not misunderstand Mr. Krall's testimony. I
20 believe that one possible reason why PPL has proposed this three year solicitation
21 program is its hope or expectation that the Commission will not issue regulations
22 for some time to come, and that it may in fact have several years' worth of
23 solicitations already grandfathered before regulations are final. Simply put, these

1 waivers may allow PPL to enshrine the vast majority of its program prior to the
2 effectiveness of regulations. I believe that this is a strategy to ensure that the
3 Commission will be more likely to grandfather the entirety of PPL's CBP
4 program.

5

6 Q. Have you reviewed Mr. Krall's criticisms of your suggestion that PPL implement
7 a three to five year fixed price alternative if it actually desired to insulate
8 customers from price volatility?

9 A. On Page 24 of his rebuttal testimony, Mr. Krall states that a three to five year
10 fixed price is contrary to PPL's election of a one year "bridge" to full statewide
11 competition. It is important to note that PPL's vision of full statewide
12 competition is the statewide descending clock option (similar to New Jersey) that
13 has proved time and again to be devastating to competition. For the most part, if
14 today's prices prevail, PPL's proposal will not mitigate the rate shock that will
15 result from customers having been served under capped rates for such a long
16 period of time. I believe that the goal of the bridge program is to provide an
17 average price and dampen the impact of year-to-year volatility on customers. It
18 may be that my proposal results in a higher or lower price than PPL's CBP-- it all
19 depends on the price levels in 2009 compared to 2008 and 2007. From a strictly
20 market price level perspective, no single plan is better than any other; it all
21 depends on the timing of the purchase in light of a host of external factors.
22 However, my proposal will ensure that those rates would not continue to increase
23 during that three (or five) year period, so that customers will have known and

1 stable prices. In my view, stable prices for a period of time may actually improve
2 the possibility that retail competition develops. Moreover, I propose this as an
3 “alternative” to my first choice that would be a more variable rate program. Mr.
4 Krall speculates that a longer term fixed rate program may cause the rates to
5 increase because of the risks associated with long-term procurement but provides
6 no evidence to support that contention.

7

8 Q. Beginning on Page 6 of his rebuttal testimony, Mr. Kleha describes PPL’s
9 proposed reconciliation mechanism. Have you reviewed that testimony and do
10 you have any comment?

11 A. Yes. The reconciliation proposed by PPL, on its face, appears to present minimal
12 rate impact for customers in PPL’s service territory. If the Commission was to
13 accept Dominion Retail’s suggestion that the costs of a wholesale supplier default,
14 beyond the security that PPL might require, should be collected immediately by
15 the POLR provider, then PPL’s need for reconciliation is greatly diminished.
16 Moreover, with the categories of expenses undefined and with no actual numbers
17 to support the reconciliation mechanism, it is unclear how the mechanism will
18 work and whether it can be used in an anticompetitive manner—to keep rates
19 artificially low in 2010 and then increase them in 2011 through collection of the
20 adjustment factor. In any event, Dominion Retail believes that any reconciliation
21 is anticompetitive because it allows the company the ability to provide services at
22 a lower cost with the ability to recover costs at a later date. Reconciliation of any
23 amount causes an automatic price distortion between an offer by the POLR

1 provider and an offer by an EGS such as Dominion Retail. Even differences of a
2 fraction of a cent can make a difference. PPL has not stated any plausible reason
3 in support of reconciliation, other than its conjecture that a wholesale supplier
4 may be unwilling to “price” these risks into a wholesale bid. With regard to the
5 customer, the net effect would be close to a wash. That is, having the wholesale
6 bidders include the risks in their wholesale bids versus collecting similar costs
7 later in a reconciliation mechanism probably would produce the same net rate
8 effect. Requiring a wholesale bidder to assume that risk, however, would pass
9 those costs onto customers in real time, as opposed to a reconciliation mechanism
10 which would not. Competitive suppliers serving mass market customers cannot
11 reconcile their prices. In order for the playing field to be level, POLR service
12 must be treated in the same fashion.

13
14 Q. Do you agree with Mr. Kleha, on Pages 8 and 9 of his rebuttal testimony, where
15 he suggests that because PPL is allowed to reconcile AEPS compliance costs that
16 it must be then allowed to reconcile all energy costs?

17 A. No. This is a clear example of the tail wagging the dog. Since PPL has proposed
18 to include AEPS compliance as part of the wholesale bid process and to push
19 compliance onto the wholesale suppliers, there is no need for a reconciliation
20 mechanism for AEPS costs. If PPL were to separately acquire AEPS credits and
21 sell the credits separately to customers apart from the energy supplied by
22 wholesale suppliers, then PPL may be justified in seeking to reconcile the cost of
23 that program alone. However, PPL is not justified in seeking to reconcile the

1 entirety of its wholesale energy costs based upon its mere ability to reconcile
2 AEPS costs.

3

4 Q. Do you have any other comments with regard to Mr. Kleha's testimony?

5 A. Yes, on Page 12, Mr. Kleha describes how wholesale suppliers could be assigned
6 the risk that PPL proposed to reconcile in its CBP. I agree that this is one
7 possible methodology by which the risk could be assigned, but I disagree with the
8 contention that assigning the risk in that manner ultimately would result in
9 increased costs to customers over what they would pay in some future
10 reconciliation. Moreover, PPL's proposal to eliminate blocked rates will go a
11 long way toward eliminating a good portion of any possible risk premium
12 associated with not reconciling the rates.

13

14 Q. Do you agree with Mr. Cavicchi's contention on Page 3 of his rebuttal testimony
15 that PPL's advanced metering system alone will allow PPL's market to be open to
16 competition for residential and small commercial customers?

17 A. No. While the data that such a system produces may allow suppliers to offer
18 innovative products to customers, it is not on our list of important criteria that we
19 consider when evaluating whether to enter a particular retail market.

20

21 Q. Do you agree with Mr. Cavicchi's contention on Page 4 of his Rebuttal that PPL's
22 CBP proposal is a reasonable middle ground between the positions of the OCA
23 and the marketers?

1 A. No. While it may be true that some suppliers prefer “volatile” prices, it is more
2 accurate and relevant to state, that above all, EGS’s prefer prevailing market
3 prices for POLR service. Our primary concern with the CBP proposal is how far
4 in advance the power is purchased before the power will be consumed. From our
5 vantage point, the CBP is the worst plan possible, not a middle ground solution,
6 since it is the least reflective of prevailing market prices, given the extended
7 purchasing period. We are less concerned about the term for which the power is
8 purchased. It may be true that consumer representatives prefer less-volatile
9 POLR prices, and it was the intention of the three to five year alternative proposal
10 that I made in my direct testimony to address that concern, while at the same time
11 keeping the purchase of the power closer to the prevailing definition. PPL claims
12 that it intends to bridge the volatility gap, but the analysis does not bear out that
13 contention. To the contrary, PPL’s CBP would create pricing that will change
14 yearly but never reflect prevailing market prices since it will be an averaged price.
15 Moreover, PPL’s plan will not provide customers with any price certainty as
16 would my three to five year plan. I submit that the Commission must make a
17 policy decision whether the customer should have actual market prices or long-
18 term fixed prices. An annually changed average price as PPL has proposed for
19 2010, provides neither market pricing to customers nor long-term stability
20 because the power will be purchased so far in advance of its use that it cannot be
21 prevailing. It is the worst of all possibilities from our perspective.

22

1 Q. Do you agree with Mr. Cavicchi's description of prevailing market price on Page
2 7 of his rebuttal testimony?

3 A. No. In short, the pricing mechanism proposed by PPL is not transparent and does
4 not reflect prevailing market prices. I do agree that a prevailing market price, in
5 the truest sense, would be an hourly priced product. However, Dominion Retail
6 has not proposed an hourly or even daily priced product in this proceeding. What
7 PPL proposes here is of a different quality than an hourly, daily, or even monthly
8 pricing mechanism, because under an hourly, daily, or monthly price, customers
9 would see the prevailing market price. PPL's proposal does not give the
10 customers prevailing market price, since the power is acquired so far in advance
11 and in small portions. Rather, it gives them an average of three year's worth of
12 prices which can never reflect the prevailing market price. Accordingly, it is clear
13 that the disagreement is not simply one of a difference between the time periods,
14 but rather, about what goes into the pricing setting mechanism as well. I simply
15 do not agree with Mr. Cavicchi's contention on Page 8, line 17, of his rebuttal
16 testimony that PPL's proposal is at all market based. While the acquisition costs
17 may reflect the price at the time of the acquisition, the resulting rates to customers
18 will not reflect prevailing market prices. Accordingly, customers are provided
19 with less of an incentive to conserve and are less likely to be able to make
20 accurate comparisons to marketer's prices.

21

22 Q. Do you have any comments with regard to Mr. Kalcic's Rebuttal Testimony?

1 A. Yes. On Page 3, Mr. Kalcic speculates that three solicitations in 2009 may be
2 insufficient to avoid the price-spike situation that occurred with Pike County.
3 Certainly I agree that the average prices that would be produced by the CBP are
4 less likely to be affected by a price spike. However, the Commission must
5 consider that we cannot predict market prices and, in my view, no plan is better
6 than another from a price level perspective--prices in 2009 could be lower than in
7 2007 and 2008. The point is that no one knows what prices are going to prevail
8 next year and the following year, and so on—otherwise we could buy at the right
9 time and get the lowest price for customers. In short, I think the primary criterion
10 by which any plan should be judged is how closely it tracks the only real standard
11 that we have—prevailing market prices.

12
13 Q. Does any other party address your testimony?

14 A. Yes, on behalf of the Office of Consumer Advocate, Barbara Alexander suggests
15 that the EGS have proposed in this case that PPL be required to provide all the
16 energy based upon “volatile short-term wholesale market prices . . . that is
17 purchased monthly.” (OCA Statement No. 2-R, 4:5-8.) While that is not what I
18 proposed in this case, I do agree that requiring the electric utility to pass on hourly
19 market prices to customers would be the most reflective of prevailing market
20 prices. I have proposed a less frequent market price mechanism and I have not
21 argued that I cannot compete against a stable POLR price as Ms. Alexander
22 suggests. I cannot compete, however, against a price that is neither market based
23 nor transparent such as had been proposed by PPL in this case. The full effects of

1 annual price changes are not, contrary to Ms. Alexander's suggestion, passed on
2 to customers in a laddered contract arrangement. There is always a lag of the
3 annual changes so the customers never see a price, either on the high side or the
4 low side, which reflects the prevailing market. This discourages conservation and
5 lessens a customer's appetite to make actual comparisons to marketer's offers,
6 which are by definition, based upon prevailing market prices.

7

8 Q. Does this conclude your surrebuttal testimony?

9 A: Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Petition of PPL Electric Utilities
Corporation for Approval of a
Competitive Bridge Plan

:
: **Docket No. P-00062227**
:

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DEC 28 2006

Constellation Energy Commodities Group, Inc.

Surrebuttal Testimony of
Marjorie R. Philips

December 15, 2006

~~Constellation Statement No. 1-SR~~

12/20/06
HJ
JMS

Issues Addressed:

Changes to the SMA represented in
PPL Rebuttal Testimony

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Marjorie R. Philips, and my business address is Constellation Energy
3 Commodities Group, Inc. ("CCG"), 111 Market Place, Suite 500, Baltimore, Maryland
4 21202.

5 **Q. PLEASE DESCRIBE YOUR POSITION WITH CCG.**

6 **A.** I am Vice President of Regulatory Affairs for CCG. I have oversight for regulatory
7 activity for CCG in the PJM Interconnection, LLC ("PJM") and Midwest Independent
8 Transmission System Operator ("MISO") control areas. That includes directly
9 representing CCG at PJM on all matters related to wholesale electric activities in
10 Pennsylvania and the other states that comprise PJM, including but not limited to
11 wholesale procurement processes.

12 **Q. PLEASE DESCRIBE CCG'S BUSINESS.**

13 **A.** CCG is responsible for selling the output of Constellation's generation assets and
14 managing the associated market-hedgeable risk. CCG focuses primarily on serving
15 wholesale customers (distribution utilities, co-operatives, municipalities, power
16 marketers, large companies and other large, load serving entities) that operate in both
17 regulated and deregulated energy markets. CCG also provides fuel-related products and
18 services. CCG provides provider of last resort ("POLR") supply (or standard offer
19 service supply) in Pennsylvania, Maryland, New Jersey and several New England states.

20 **Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATION.**

21 **A.** I have been extensively involved with the wholesale electric market since 1988. Prior to
22 joining CCG, I was a Director of Regulatory Affairs at PSEG Energy Resources and
23 Trade, LLC ("PSEG"), from 2002 to 2005, with responsibilities for managing wholesale

1 activities in PJM and advocating policy issues at the Federal Energy Regulatory
2 Commission ("FERC"). I was also a stakeholder representative at the North American
3 Electric Reliability Council ("NERC"). Prior to PSEG, I worked for a few months as
4 Director, Government Affairs Northeast Region at Williams Power Company, Inc.
5 ("Williams"), representing Williams in all matters involving northeast energy markets,
6 including advocacy work in connection with the establishment of the New Jersey Basic
7 Generation Service procurement model.

8 From 1995 to 2002, I provided legal and regulatory advice to PECO-Power Team (which
9 became Exelon) on all aspects regarding wholesale trading, including transactional
10 advice on long and short term power purchase agreements, regulatory compliance
11 requirements, and regulatory advocacy through the United States, both at the state and
12 regional levels. I participated in a variety of industry groups such as NERC, WSCC,
13 EBN, NARUC, EPSA, EEI, etc. I was actively involved with the formation of ISO New
14 England, the New York ISO and MISO, as well as in ongoing activities in PJM. I also
15 represented the company extensively in FERC matters pertaining to the development of
16 competitive wholesale markets. I was Counsel to LG&E Power Inc. ("LG&E") in Irvine,
17 California, from 1994 to 1995. At LG&E I provided legal advice on wholesale
18 transactions, non-recourse project financing, construction and operation and maintenance
19 commercial agreements, FERC matters and general corporate law. From 1989 to 1994, I
20 was an associate at Skadden, Arps, Slate, Meagher & Flom ("Skadden"), where I
21 provided legal advice on project financing, including equity and debt investment relating
22 to both power plants and pipelines, real estate, tax and commercial contract terms, rate
23 making issues, regulatory compliance with FERC (especially in regards to "Qualifying

1 Facility” and “EWG” requirements), and on California, New York, Pennsylvania and
2 Washington state matters pertaining to clients’ generation located in those states. Prior to
3 Skadden, I was an associate for one year at Morgan, Lewis & Bockius, working on
4 general corporate matters. I was admitted to the Bars in California and Pennsylvania.
5 I received a B.A., honors, from McGill University, a Masters in International Affairs
6 from Columbia University and a J.D. from the Fordham University School of Law.

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 **A.** The purpose of my rebuttal testimony is to address issues raised in the rebuttal
9 testimonies of PPL witnesses Joseph M. Khela and Douglas A. Krall.

10 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR SURREBUTTAL**
11 **TESTIMONY.**

12 **A.** CCG is concerned that the Request for Proposals (“RFP”) and the Supplier Master
13 Agreement (“SMA”) as represented by Mr. Krall in his rebuttal testimony and as
14 proposed to be altered by Mr. Khela in his rebuttal testimony would not produce the most
15 fair and effective supply competition for PPL’s default consumers.

16
17
18
19 **Q. ON PAGE 4, LINES 5-6 OF HIS REBUTTAL TESTIMONY, MR KRALL**
20 **STATES THAT THE PROPOSED RFP AND SMA ARE BASED UPON**
21 **DOCUMENTS PREVIOUSLY APPROVED IN MARYLAND. DO YOU AGREE**
22 **WITH THIS CONTENTION?**

1 A. I do not. While I would agree that there are many similarities between the
2 Maryland RFP and SMA and the ones proposed by PPL, several important
3 provisions have been changed or omitted to render these documents materially
4 different than those previously approved in Maryland.

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11 While the provisions contained in the exhibit have some information that is
12 unique to BGE, there are other aspects that differ significantly and materially from the
13 proposed PPL SMA

14 **Q. COULD YOU PROVIDE EXAMPLES OF WHERE THE PROPOSED PPL SMA**
15 **DIFFERS FROM THAT WHICH WAS “PREVIOUSLY APPROVED IN**
16 **MARYLAND”?**

17 A. Yes, the following are brief summaries of examples of where the proposed PPL SMA
18 differs from the one “previously approved in Maryland”:

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- in Article 12, the proposed PPL SMA does not include a section titled “Closeout Setoffs.” In the Maryland Agreement, this section permits, among other things, a non-defaulting party to setoff any amount it owes to the defaulting party.

- Finally, there appears to be significant differences in how the PPL SMA and the Maryland equivalent agreement handle issues related to transmission and PJM charges; however, I will address those possible discrepancies below.

For the convenience of the other parties, I have attached as Exhibit MRP-3 a marked-up version of the PPL SMA that incorporates those previously approved Maryland provisions discussed above into PPL’s proposed SMA.

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**Q. IF PPL MADE THE CHANGES TO THEIR SMA THAT ARE REFLECTED IN
MRP-3 TO BRING THOSE
DOCUMENTS IN LINE WITH DOCUMENTS THAT HAVE BEEN
PREVIOUSLY APPROVED IN MARYLAND, WOULD THAT CREATE A
MORE EFFECTIVE ENVIRONMENT FOR COMPETITION THAT WOULD
BENEFIT PPL'S CUSTOMERS?**

1 A. Yes. Such changes will provide suppliers more certainty when formulating their bids,
2 which will lead to more competitive offers. Ultimately, consumers will benefit from this
3 added certainty.

4 Q. **MOVING ON TO MR. KHELA'S REBUTTAL TESTIMONY, HE STATES ON**
5 **PAGE 3, LINES 6-10 THAT PPL WILL BE REQUIRED TO MAKE CHANGES**
6 **TO THE SMA AND RFP. DO YOU AGREE THAT CHANGES ARE NEEDED?**

7 A. I do. Mr. Khela is correct that changes will need to be made to the RFP and SMA to
8 reflect his revised position on transmission costs as presented in his rebuttal testimony.

9 Q. **DO YOU AGREE WITH THE CHANGES PROPOSED BY MR. KHELA?**

10 A. I don't know. Since Mr. Khela has not provided any of the parties with the proposed
11 changes to the SMA and RFP, it is very difficult for me to say if I would agree with them.

12

13

14

The transmission component of any POLR scheme is critically important
15 to the ultimate ability of any supplier to deliver the most competitively priced power to
16 consumers. There are nearly 50 possible transmission related services the cost of which
17 could be borne by either the seller or the buyer (POLR SMA – Exhibit D). According to
18 Mr. Khela, PPL is proposing to change who pays for what transmission service, but he is
19 not providing the critically important specifics.

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17. **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

18. **A.** Yes, it does.

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APPENDIX 1

2006

PPL ELECTRIC UTILITIES CORPORATION

PROVIDER OF LAST RESORT

SUPPLY MASTER AGREEMENT

BETWEEN

[BUYER NAME]

AND

[SELLER NAME]

**DOCUMENT
FOLDER**

DATED [DATE]

DOCKETED
DEC 28 2006

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SECRETARY'S BUREAU

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- 2.3 Network Integration Transmission Service and Distribution Service. With respect to a Transaction, Buyer shall be responsible, at its sole cost and expense, for the provision of Network Integration Transmission Service and distribution service necessary to serve the Specified Percentage. Buyer is responsible, at its sole cost and expense, for future PJM charges assessed to network transmission customers for PJM-required transmission system enhancements pursuant to the PJM Regional Transmission Expansion Plan and for future PJM charges assessed to network transmission customers for transition costs related to the elimination of through-and-out transmission rates.
- 2.4 Other Changes in PJM Charges. Except as provided in Section 2.3 (Network Integration Transmission Service and Distribution Service), Seller bears the risk of any other changes in PJM products and pricing during the term of this Agreement. However if there are any other new FERC-approved PJM transmission charges other than those referred to in Section 2.3 or other new PJM charges and costs, charged to network transmission customers, that Seller believes the Buyer should recover through retail rates because they are directly related to the Buyer's obligations, then Buyer will file with the PUC, and provide notice to all intervening parties in PUC Docket No. P-00062227, a request for approval to recover such new costs. Seller is required to intervene in any such proceeding before the PUC. Such new costs can only be charged by Seller to Buyer to the extent that the PUC approves Buyer's recovery of those costs. Seller agrees to be bound by the decision of the PUC (subject to the normal rules for appeal of the decision of the PUC) and waives all claims concerning this issue before FERC. Notwithstanding the foregoing, nothing in this Agreement shall preclude Seller from taking any position before FERC regarding the creation and allocation of any such PJM charges.
- 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

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/Accelerated Payments), 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 ~~or due from the Non-Defaulting Party as appropriate.~~

Deleted: the Non-Defaulting Party. In no event will a termination payment result in payment.

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- (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.
- 12.7 **Closeout Setoffs.** After calculation of a Termination Payment in accordance with Section 12.3. (Calculation and Net Out of Settlement Amounts) if the Defaulting Party would be owed the Termination Payment, the Non-Defaulting Party shall be entitled, at its option and in its discretion, to: (i) set off against such Termination Payment any amounts payable by the Defaulting Party to the Non-Defaulting Party under any other agreements, instruments or undertakings between the Defaulting Party and the Non-Defaulting Party; and/or (ii) to the extent the Transactions are not yet liquidated in accordance with Section 12.2 (a), withhold payment of the Termination Payment to the Defaulting Party. The remedy provided for in this Article shall be without prejudice and in addition to any right of setoff, combination of accounts, lien or other right to which any Party is at any time otherwise entitled (whether by operation of law, contract or otherwise). If any obligation is unascertained, the Non-Defaulting Party may in good faith estimate that obligation and set-off in respect of the estimate, subject to the Non-Defaulting Party accounting to the Defaulting Party when the obligation is ascertained.

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- 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; provided that no such changes shall alter the economic benefits of this Agreement between the Parties.
- 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.

~~Deleted:~~ 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.

EXHIBIT D

SAMPLE PJM INVOICE

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

	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
<u>Hourly</u>			<u>Seller</u>
<u>Planning Period Excess</u>			<u>Buyer</u>
Transmission Losses (Point-to-Point)			<u>Buyer</u>
Regulation			Seller
Spinning Reserve			Seller
Operating Reserves	Seller	Seller	Seller
Synchronous Condensing			Seller
Capacity Credit Market			Seller
<u>Reconciliation for Transmission Losses</u>			<u>Buyer</u>
Emergency Energy			Seller
FTR Auction			Seller

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EXHIBIT D (Continued)
SAMPLE PJM INVOICE

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

TOTAL PAGE SUBTOTALS TO DATE	
	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	Buyer
<u>Network Transmission Service Offset Charges</u>	Buyer
Firm Point-to-Point Transmission Service	Seller
Non-Firm Point-to-Point Transmission Service	Seller
Transitional Market Expansion Charges (Transmission Customer Charge Only)	Buyer
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	Buyer
PJM/MISO Seams Elimination Cost Assignment Charges	Buyer
Credits:	
Non-Firm Point-to-Point Transmission Service	Buyer
Other Supporting Facilities	Buyer
Reliability Assurance Agreement Among Load Serving Entities in the PJM Control Areas:	
	Total
Charges:	
Capacity Deficiency	Seller
Credits:	
Capacity Excess	Seller

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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 A and remain the sole and primary responsibility of PARTY A.

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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.

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PARTY A

PARTY B

NAME:

NAME:

TITLE:

TITLE:

PPL Stmt 2-5
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Docket No. P-00062227

PPL Electric Utilities Corporation

DOCKETED
DEC 28 2006

Reply to Surrebuttal Testimony of Majorie R. Philips

Joseph Cavicchi

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1 Q. Are you the same Joseph Cavicchi that has submitted testimony previously in
2 this proceeding?

3 A. Yes, I am.
4

5 Q. Please describe the purpose of your testimony.

6 A. I am responding to certain portions of the surrebuttal testimony of Ms. Marjorie R.
7 Philips of Constellation Energy Commodities Group, Inc. ("Constellation"). In
8 particular, Ms. Philips has recommended in her surrebuttal testimony that the
9 proposed PPL POLR SMA which was provided as part of Exhibit JC-1, should be
10 modified so that, in the event of a supplier default, the non-defaulting party, under
11 certain circumstances, may be required to make a termination payment
12 (calculated pursuant to the impact caused by the default) to the defaulting party.
13 As I explain herein, I believe that this suggested contract language is
14 inappropriate, and will provide a supplier an economic incentive to breach a
15 supply agreement.
16

17 Q. What is the intention of the default provisions that were provided in the PPL
18 POLR SMA as filed in this proceeding?

19 A. The intention of the default language is to ensure that PPL Electric has a means
20 available to recover damages incurred in the event of a supplier default under the
21 POLR SMA. That is, these types of full requirements electricity supply
22 agreements are developed recognizing that the buyers are creditworthy counter-
23 parties operating in a regulatory environment that, for all practical purposes,

1 guarantees that expenditures incurred to supply POLR customers will be
2 recovered from POLR customers through a pre-approved regulatory process.
3 For example, these agreements include provisions that specifically identify
4 supplier credit requirements and require that day-to-day suppliers maintain
5 collateral as a function of the contract pricing compared to the electricity forward
6 markets. Thus, when the contract pricing is less than prices implied by the
7 current forward markets, the supplier is obligated to post collateral. The same is
8 not true for the buyer who is assumed, under the contract structure, to be credit-
9 worthy and legally permitted to recover expenditures incurred to provide the
10 service. As such, buyers in these types of agreements are not obligated to post
11 collateral in the event that forward market prices are below the contract price,
12 because buyers are not expected to be defaulting parties under the contract.
13 Thus, the default provisions of the POLR SMA realistically protect the buyer from
14 supplier default.

15
16 Q. What has Constellation requested in its recommended revisions?

17 A. Constellation has requested that the POLR SMA be revised in order to create a
18 situation wherein, if there is a default under the contract and market conditions
19 are such that the non-defaulting party (presumed to be the buyer) may incur less
20 costs when replacing the supplies previously provided by the defaulting party
21 (presumed to be a supplier), the non-defaulting party potentially makes a
22 payment to the defaulting party. This type of clause can be referred to as a two-
23 way default provision.

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Q. Why is this proposed revision problematic?

A. In this instance, the addition of the two-way default provision to the POLR SMA, which was developed assuming a non-defaulting party would never make a payment to a defaulting party, alters the balance of the agreement. The primary concern is that the addition of the two-way default provision could create an economic incentive for a supplier to default. For example, assume a successful bidder executes a POLR SMA to supply power to PPL Electric in 2010 in any solicitations prior to 2010, pursuant to PPL Electric's solicitation schedule. Then, assume that in the time which elapses between the execution of the contract, and the commencement or beginning of the delivery term, market prices for electricity decline. Under Constellation's proposed language, a supplier may in certain circumstances be incentivized to default on the contract if the structure of the default language provides a potential payment to the defaulting supplier. Contracts that create these types of incentives are antithetical to the underlying reasons why two parties would enter into a contract, that is, to establish and preserve the benefits of a bargain struck at a particular point in time. It would be poor contract design to include such a provision in a contract recognizing the potential for it to distort the behavior of the parties.

Q. Are there instances where two-way default provisions are common?

A. Yes. In particular, two-way default provisions are common as part of wholesale power agreements where both buyers and sellers are considered as potentially

1 risky counterparties. Thus, in these particular contracts the contracts provide
2 that both buyers and sellers be obligated to post collateral in the event contract
3 prices diverge from day-to-day forward market prices. This type of protection is
4 referred to as "marking a contract to market" which is the common approach
5 used in futures markets to ensure that parties to contracts are able to cover their
6 obligations as forward/future market prices change. This type of collateral
7 requirement is part of wholesale contracts, and the default provisions of these
8 contracts will provide that a termination payment can go two ways.

9
10 Q. Are two-way default provisions common full requirements supply agreements?

11 A. Not necessarily. I have examined several different full requirements supply
12 agreements used in recent years and the default clauses vary considerably. For
13 example, in New Hampshire and Connecticut there are contracts in which the
14 default provision clearly does not create a payment obligation from the non-
15 defaulting party to the defaulting party. On the other hand, agreements recently
16 used in New Jersey and Maryland do include two-way default provisions,
17 although the language itself is considerably different from that proposed in the
18 POLR SMA as suggested by Constellation.

19
20 Q. Please explain.

21 A. Constellation's suggested revisions are minor edits to the proposed PPL POLR
22 SMA which was developed without a two-way default provision. In those
23 agreements where two-way default provisions do exist, there generally is

1 considerably greater detail surrounding the rights of the non-defaulting party.
2 This detail is non-existent in Constellation's proposal. For example, in New
3 Jersey, although there is a two-way default provision, the supplier's failure to
4 meet the contractual requirements generates a lengthy list of damages to which
5 the company (buyer) is entitled. In fact, this contract does not contemplate
6 liquidated damages (i.e., a termination payment under default conditions) and
7 entitles a buyer, acting in a commercially reasonable manner, to recover *all* costs
8 (including administrative, legal, hedging etc) incurred to obtain replacement
9 services or supply. In addition, there are additional provisions allowing for
10 offsetting obligations against other agreements and the retention of an amount
11 equal to the entire amount of the termination payment to offset amounts
12 potentially due and owing to the defaulting party. Similarly, to the best of my
13 knowledge, the supply agreement used recently in the Penn Power solicitations,
14 which has a two-way default provision, contains considerably more language
15 surrounding the event of default and protections provided to the non-defaulting
16 party in the event of supplier default.

17
18 Q. What do you conclude?

19 A. I conclude that it would be inappropriate to adopt Constellation's recommended
20 piecemeal revisions to the POLR SMA. Moreover, I believe that it is
21 inappropriate to create an incentive for a supplier to default by providing a
22 potential simple means by which the defaulting party would be compensated by
23 the non-defaulting party.

1

2 Q. Does this conclude your testimony?

3 A. Yes, it does.

4