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2. Reference page 14, lines 8-22, and SEF Exhibit 1. If a home energy audit program were developed, what is SEF's estimate of the cost to provide such program? Would SEF support a competitive bidding process for selection of the entity or entities to develop, institute and operate the program?

Response:

Our estimate for the first phase of such a program is \$1,250,000. This estimate includes a home inspection subsidy of \$125 each to 7,000 customers; the homeowner will pick up the remaining portion of the audit/inspection cost. The estimate also includes such items as website, software, program administration, training and the like. The SEF does not believe that a competitive bid process is required to select the program administrator as we believe that we can best provide such a service. However, SEF would develop a competitive bid process in selecting partners to assist with program implementation.

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PA PUBLIC UTILITY COMMISSION
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PPL CE Ex 2
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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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STIPULATION

PA PUBLIC UTILITY COMMISSION

PPL Electric Utilities Corporation ("PPL") and Reliant Energy, Inc. ("Reliant") 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 Reliant only for the purpose of settling the issues herein.

1. PPL and Reliant agree that PPL's proposed CBP is intended to be non-precedential and to apply to PPL's POLR service only during 2010 as a one-year bridge plan.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 Reliant is under any obligation to take the same position as set forth in this Stipulation in any other proceeding.

2. Reliant supports PPL's CBP proposal for POLR service to large commercial and industrial ("C&I") customers,¹ as modified by PPL's witnesses' Rebuttal testimony, as a one-year bridge plan. Reliant's support is contingent on PPL's commitment to support its proposal to offer real-time hourly priced service ("HPS") as the default POLR service for these customers rather than fixed price service, which will only be offered as an optional service. PPL and Reliant 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 to large C&I customers consistent with this Stipulation.

¹ The term "large C&I" customer refers to customers taking service on Rate Schedules LP-4, LP-5, LP-6, IS-P and IS-T and customers taking Standby Service on these Rate Schedules.

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3. Reliant will not oppose PPL's CBP proposal for serving small commercial² and residential customers.³

4. PPL and Reliant will support this Stipulation, the terms hereof, and, in particular, PPL's CBP proposal to offer real-time HPS as the default POLR service for large C&I customers as a one-year bridge plan in their briefs and at all stages of this proceeding going forward from the date hereof.

5. As part of PPL's proposal to offer real-time HPS as the default POLR service for large C&I customers in 2010, PPL commits to provide its own real-time HPS as the default service for large C&I customers in 2010 if either (a) no wholesale supplier bids to provide such service for PPL as described on page 16 of Douglas A. Krall's Rebuttal testimony or (b) if the winning wholesale supplier defaults on its obligation to provide such service.

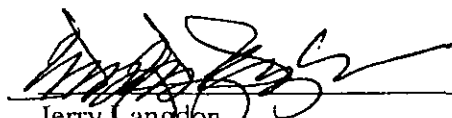
6. This Stipulation may only be amended by a written document duly agreed to and executed by PPL and Reliant.

AGREED TO BY:



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

AGREED TO BY:



Jerry Langdon
Executive Vice President
Chief Compliance Officer,
Public and Regulatory Affairs
Reliant Energy, Inc.

Date: 12/18/06

Date: 12/18/06

² The term "small commercial" customer refers to customers taking service on Rate Schedules GS-1, GS-3, GH-1, GH-2, IS-1, BL, SA, SM, SHS, SE, TS and SI-1 and customers taking Standby Service on these Rate Schedules.

³ The term "residential" customer refers to customers taking service on Rate Schedules RS, RTS and RTD.

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SEF Statement No. 1 4 SEF Exh 1
Docket No. R-00062227
Witness: Rex. A. D'Agostino

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SUSTAINABLE ENERGY FUND OF
CENTRAL EASTERN PENNSYLVANIA

Prepared Direct Testimony of
Dr. Rex A. D'Agostino
(Prepared November 2006)

Customer Education

1 **DIRECT TESTIMONY OF REX A. D'AGOSTINO**

2 **I. WITNESS BACKGROUND**

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Dr. Rex A. D'Agostino. My business address is 1667 Penns
5 Crossing, Allentown, Pennsylvania 18104.

6
7 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

8 A. I am employed by the Sustainable Energy Fund of Central Eastern
9 Pennsylvania, which I will refer to in my testimony as "the SEF." Currently, I am
10 acting as a Special Projects Advisor.

11
12 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK
13 EXPERIENCE.

14 A. I attended Shorter College, Rome, Georgia, where I was a BioScience Major and
15 from where I graduated in 1964 with a Bachelor of Science degree in Biology
16 and Chemistry. In 1974, I received my doctorate from Notre Dame University
17 in Microbiology. In 1974-6, I attended and completed a post-doctoral fellowship
18 at the University of Illinois Medical School in Chicago, Illinois.

19 From 2002 to 2004, I was Vice President, Marketing, Sales and Product
20 Development for Evergreen Solar in Marlboro, Massachusetts and most recently
21 from 2005-2006, I was President & Executive Director of the SEF, as well as
22 President & CEO of its wholly owned subsidiary, Green Connexions, Inc.

1 Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

2 A. Yes, I am. I am a member and Ex-Chairman of the Solar Energy Business
3 Association of New England, as well as a member of the Union of Concerned
4 Scientists and the American Association for the Advancement of Science
5 (AAAs).

6

7 **II. THE SUSTAINABLE ENERGY FUND OF**
8 **CENTRAL EASTERN PENNSYLVANIA**

9

10 Q. WHAT IS THE SEF?

11 A. The SEF is a Pennsylvania non-stock, non-profit corporation and an exempt
12 organization under Section 501(c)(3) of the Internal Revenue Code (26 U.S.C.
13 §501(c)(3)), formed at the conclusion of PPL's Restructuring Proceeding in
14 accordance with the terms of the Joint Settlement of that Proceeding approved
15 by the Order of the Pennsylvania Public Utility Commission ("Commission")
16 entered August 27, 1998, at Docket No. R-00973954.

17 The SEF's mission is to promote, research, and invest in clean and
18 renewable energy technologies, energy conservation, energy efficiency, and
19 sustainable energy enterprises that provide opportunities and benefits for PPL
20 ratepayers. Unlike a government agency as I will explain later in my testimony,
21 the SEF operates in an entrepreneurial, opportunistic fashion to provide loans,
22 equity and grants to clean energy and energy efficient projects and to educate
23 consumers on such issues within the PPL service territory.

1 **III. PURPOSE OF TESTIMONY**

2 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

3 A. On August 2, 2006, PPL Electric Utilities Corporation ("PPLEU") filed a Petition
4 with the Commission for approval of a Competitive Bridge Plan ("Bridge Plan")
5 to establish terms and conditions under which PPLEU will supply provider of last
6 resort service during 2010, as a transition to a fully competitive Statewide market
7 beginning January 1, 2011. In my direct testimony, I will address the position of
8 the SEF regarding the consumer education portion of PPLEU's proposed Bridge
9 Plan by reviewing the direct testimony of PPL witnesses Messrs. Krall and Dahl
10 and by proposing ways in which the SEF can assist PPLEU in achieving and
11 amplifying on its core consumer education objective as outlined in its Petition.
12

13 **IV. CUSTOMER EDUCATION**

14 Q. HAVE YOU REVIEWED THE TESTIMONY OF COMPANY WITNESS
15 DOUGLAS A. KRALL (PPLEU STATEMENT NO. 1)?

16 A. Yes, I have. The testimony of Witness Krall describes and supports, among
17 other things, the Company's proposal in its Bridge Plan for a three-year
18 consumer education program beginning in 2007. Specifically, on page 21 of his
19 *direct testimony*, Witness Krall states, in part, "In this filing PPL proposes to
20 implement a comprehensive consumer education program beginning in 2007
21 and continuing through 2009." Witness Krall then references Exhibit DAK-2
22 attached to his direct testimony which contains the details of PPLEU's proposed
23 consumer education program. PPLEU wants the approval to fund this consumer
24 education program with \$875,000 from its "Customer Choice Education
25 Account", and apportion these funds with the following schedule:

1 2007 @ \$200,000; 2008 @ \$300,000; and 2009 @ \$375,000.

2 (See PPLEU Stmt. 2 at 21; Exhibit DAK-2).

3
4 Q. HAVE YOU ALSO REVIEWED THE TESTIMONY OF COMPANY WITNESS
5 TIMOTHY R. DAHL (PPLEU STATEMENT NO. 4)?

6 A. Yes. In the testimony of Witness Dahl, who is responsible for the Company's
7 universal service, compliance, quality assurance and customer choice programs,
8 As described on page 6 of his testimony, Witness Dahl stated that the annual
9 funding for PPLEU's On Track program was in the vicinity of \$19 million, their
10 WRAP program at \$7.3 million, and the OPN Help program funded at \$1.125
11 million for a total outlay of \$27,425,000. Most if not all of these programs are
12 funded through the entire residential customer base of PPLEU, but are
13 specifically focused on the lower income segment of that residential customer
14 base.

15
16 Q. IS THE COMPANY'S FUNDING PROPOSAL FOR ITS CONSUMER
17 EDUCATION PROGRAM SUFFICIENT AS DESCRIBED IN PPLEU'S BRIDGE
18 PLAN?

19 A. No. The Company's Bridge Plan is not comprehensive at all. In fact, it is quite
20 the opposite. It is the SEF's position that the allocation of funds proposed by the
21 Company is insufficient to carry out a truly "comprehensive" consumer
22 education program to the consumer audience that will ultimately be impacted by
23 future rate changes.

1 Q. PLEASE EXPLAIN?

2 A. PPLEU has in the vicinity of 1.2 to 1.3 million residential customers. All of those
3 residential customers, minus those that elect to leave PPL for service elsewhere,
4 will be affected by this Bridge Plan. Yet, the educational funding mechanism
5 proposed in this filing and the amount of funding allocated for consumer
6 education are clearly not sufficient to accomplish PPLEU's intended objective to
7 focus on what the four (4) primary areas as described in Exhibit DAK-2 as
8 follows:

- 9 1. Existing Customer Choice Education
- 10 2. Demand Side Response Education
- 11 3. Wise Use of Energy Education
- 12 4. POLR Rate Education

13 For example, the Company's Consumer Education Plan for 2008 under Demand
14 Side Response Education proposes to "expand residential program to include
15 600 customers." If the Company truly intends to implement a "comprehensive"
16 consumer education program to help reduce the likelihood of "rate shock" when
17 its generation rate cap expires on January 1, 2010, it will need to impact more
18 than just an additional 600 of the 1.3 million residential customers.

19

20 Q. ARE THE ACTIVITIES DESCRIBED IN THE "PLAN" SPECIFIC ENOUGH TO
21 MEET ITS INTENDED PURPOSE?

22 A. No. The SEF feels that the action items described in Exhibit DAK-2 are too
23 generic to effectively provide a comprehensive education program. In addition,
24 the budget is underfunded and fails to explain the rationale for what appears to
25 be an arbitrary allocation. According to Witness Krall, the funds are based on

1 "the remains of its current customer choice education account." One wonders
2 if this "remainder" had been \$1.6 million or any other amount, whether that would
3 have been the amount proposed to be allocated instead. In other words, the
4 proposal seems only to rely on using up this current account balance, regardless
5 of the amount.

6
7 Q. COULD THE SEF ASSIST THE COMPANY IN MEETING ITS STATED
8 OBJECTIVE IN THE AREA OF CONSUMER EDUCATION?

9 A. Absolutely. While the SEF applauds the intent of PPLEU in its Bridge Plan to
10 increase the knowledge of retail customers relative to electricity choice in its
11 Pennsylvania service territory, as well as increasing the customers' awareness
12 of the benefits of using energy wisely, the SEF feels strongly that PPLEU has
13 not defined or dedicated the necessary resources or budget to satisfy an
14 adequate level of consumer education. The SEF's experience in this regard
15 would benefit the Company in meeting its objective.

16
17 Q. SO, IN YOUR OPINION, THE LEVEL AND SCOPE OF CONSUMER
18 EDUCATION PROPOSED BY PPLEU IS NOT SUFFICIENT?

19 A. That is correct. The SEF recommends that these programs be amplified both
20 financially as well as focus across the entire customer base of PPL and afford
21 the middle and upper income families as well. The opportunity for all consumers
22 to be educated on electrical energy savings technologies, programs, and tools
23 is critical for consumers to make intelligent decisions with respect to their energy
24 requirements; especially when they will be expected to pay more for these
25 services. In Mr. Dahl's testimony he stated, " PPL believes that it is important

1 to prepare for potential future increases in rates, including but not limited to
2 POLR rates. A prudent ramping up of funding in advance of those increases
3 reflects good planning. An incremental approach also allows time to modify, test
4 and re-adjust procedures and to train internal and external personnel in the
5 administration of programs like ON-TRACK, WRAP, and OPERATION HELP.”

6 The SEF recommends that this “ramping up of funding” apply to the entire
7 residential rate base and not just one segment of these customers.
8

9 Q. DOES THE SEF HAVE EXPERIENCE IN PROVIDING EDUCATIONAL
10 PROGRAMS AS WELL AS SUPPORT PROJECTS DEDICATED TO
11 INFORMING END USERS IN ENERGY CONSERVATION AND EFFICIENCY
12 RELATED ISSUES?

13 A. Yes. Since 1996, the SEF has supported investments of approximately \$3.5
14 million annually toward program-related investments and educational programs
15 to such entities as universities and colleges, middle and primary educational
16 institutions, faith based organizations as well as private sector businesses. The
17 SEF’s mission has been consistently supported by a Board of Directors who in
18 concert have mandated the educational component to all groups and
19 *organizations within the PPL rate base.*

1 Q. SHOULD CONSUMER EDUCATION BE A PARAMOUNT CONCERN?

2 A. Yes. The SEF's history of energy conservation and demand management
3 projects have had quantifiable benefits. For example, the reduction of customer
4 load, or the shifting of that load to lower-peak periods, reduces the loading and
5 stress on the distribution system, extending its life and ending or at least
6 delaying the need for expensive distribution system upgrades.

7 The benefits of energy conservation and demand management are widely
8 recognized. A good summary of these benefits is found in an October 2003
9 report prepared for the Regulatory Assistance Project by Synapse Energy
10 entitled *Portfolio Management: How to Procure Electricity Resources to Provide*
11 *Reliable, Low-Cost, and Efficient Electricity Services to All Retail Customers* at:

12 [http://www.raponline.org/showpdf.asp?PDF_URL=%22/
13 Pubs/PortfolioManagement/SynapsePMpaper.pdf%22](http://www.raponline.org/showpdf.asp?PDF_URL=%22/Pubs/PortfolioManagement/SynapsePMpaper.pdf%22)

14 That report notes on pages 29-30:

15 Many efficiency measures cost significantly less than generating,
16 transmitting and distributing electricity. Thus, energy efficiency
17 programs offer a huge potential for lowering system-wide
18 electricity costs and reducing customers' electricity bills ...

19
20 In addition to lowering electricity costs and customers' bills,
21 energy efficiency offers a variety of benefits to utilities, their
22 customers, and society in general.

23
24 • Energy efficiency can help reduce the risks
25 associated with fossil fuels and their inherently
26 unstable price and supply characteristics and avoid
27 the costs of unanticipated increases in future fuel
28 prices.

29
30 • Energy efficiency can reduce the risks associated
31 with environmental impacts. By reducing a utility's
32 environmental impacts, energy efficiency programs
33 can help utilities and their ratepayers avoid the
34 hard to predict costs of complying with potential
35 future environmental regulations, such as CO2
36 regulation.

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- Energy efficiency can improve the overall reliability of the electricity system. First, efficiency programs can have a substantial impact on peak demand, during those times when reliability is most at risk. Second, by slowing the rate of growth of electricity peak and energy demands, energy efficiency can provide utilities and generation companies more time and flexibility to respond to changing market conditions, while moderating the "boom-and-bust" effect of competitive market forces on generation supply.
- Since efficiency programs have a substantial impact on peak demand, they help reduce the stress on local transmission and distribution systems, potentially deferring expensive T&D upgrades or mitigating local transmission congestion problems.
- Energy efficiency can result in significant benefits to the environment. Every kWh saved through efficiency results in less electricity generation, and thus less pollution.
- Energy efficiency can also promote local economic development and job creation by increasing the disposable income of citizens and making businesses and industries more competitive, compared to importation of power plant equipment, fuel, or purchased power from outside the utility service territory.
- Energy efficiency can help a utility, state and region increase its energy independence, by reducing the amount of fuels (coal, gas, oil, nuclear) and electricity that are imported from other regions or even from other countries.

Some additional examples of SEF's energy conservation and demand management projects are:

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- PowerWeb, using a debt with payback through royalty payments on products sold, and warrants for stock purchase. PowerWeb “Omni Link” software is a Demand Side Management application that allows large, complex industrial users to manage their load demand during peak periods. During the 2003 SEF reporting period, in the Middle Atlantic Region, PowerWeb had 770 MW of load potential under contract. This is equivalent to a nuclear power plant of power that can be adjusted during critical peaking periods, clearly, a system benefit.
- The Twin Valley School Districts green, Leadership in Energy and Environmental Design (“LEED”) silver school will save 172,200 KWhs per year of base load.
- The advanced energy control system for Allentown Technology Center, an in town business incubator, is saving 1,325,050 Kwhs per year of energy, and creating much needed jobs in a critical urban renewal zone.
- Grant support for the Green Building Association of Central Pennsylvania is designed to build capacity of professionals and building owners to upgrade beyond current building code to the advanced energy standards of the US Building Association Leadership in Energy and Environmental Designer, typically a 30-40% improvement. It has been highly successful as evidenced by the growth in green buildings in PPL territory, including PPL headquarters as one of the few Gold LEED standard commercial buildings in the country.
- Solar Scholars Program - an educational program geared to university and college undergraduates toward understanding the concepts and deployment of renewable energy technologies while minimizing greenhouse gas production by obviating the use of fossil fuel for energy generation. A pilot program partnering with 6 universities, such as Bucknell, Villanova, Penn State, Messiah, Mercyhurst and Clarion Universities, showed what value an educational program could generate.

Second, the SEF’s distributed generation projects also provide direct benefit to the distribution system. Just like energy conservation, distributed generation projects reduce the loading and stress on the distribution system, extending its life and ending or delaying the need for expensive distribution system upgrades.

1 The benefits of distributed generation projects are widely recognized. An
2 A.D. Little whitepaper entitled *Reliability and Distributed Generation* (available
3 at www.encorp.com/dwnld/pdf/whitepaper/wp_ADL_4.pdf) notes:

4 DG can provide policymakers, regulators, wires companies, and
5 customers with multiple options to increase reliability. The
6 potential benefits of DG in addressing reliability concerns were
7 specifically recognized in the DOE POST study as a way to
8 "respond more rapidly to an increased demand for electricity in
9 areas where demand is already high. DG can be installed within
10 the distribution system or at a customer's site, as a separate
11 solution or in combination with market-driven incentives such as
12 interruptible programs, to improve reliability by:

- 14 • Adding generation capacity at the customer site for
15 continuous power and backup supply
- 17 • Adding system generation capacity
- 19 • Freeing up additional system generation,
20 transmission and distribution capacity
- 22 • Relieve a transmission and distribution bottlenecks
- 24 • Supporting power system maintenance or
25 restoration operations with generation of temporary
26 backup power. (*Reliability and Distributed*
27 *Generation* at 16).

28
29
30 Q. DOES SEF MAKE THE PUBLIC AWARE OF ITS EXISTENCE, MISSION AND
31 FUNDING OPPORTUNITIES?

32 A. Yes, let me explain. The SEF has utilized a website at
33 www.sustainableenergyfund.org for three years. In January 2004, the SEF
34 expanded its staff and undertook an expanded marketing effort. During the
35 second quarter of 2004 (the SEF's fourth fiscal quarter of 2003/2004), the SEF
36 began sending all of its press releases to some 300 entities. In this same
37 quarter, the SEF made presentations to the regional economic development
38 organizations in greater Harrisburg, Scranton, the Lehigh Valley and the 11

1 county region of SEDA Council of Governments in Lewisburg. Newspaper, radio
2 and television have covered not only dedications of completed fund projects, but
3 also provided consumers with insight as to what new "green" technologies were
4 available to them and how to implement them in their homes.

5
6 Q. HOW DOES THE SCOPE OF CUSTOMERS IMPACTED BY THE PROGRAMS
7 DESCRIBED BY MR. DAHL IN THIS PROCEEDING COMPARE TO THE
8 UNIVERSE OF CUSTOMERS THAT WILL BE AFFECTED BY THIS BRIDGE
9 PLAN?

10 A. Mr. Dahl's testimony included a four year-budget proposal for each of PPL's
11 traditional programs.

12 Budget Proposal

	2007	2008	2009	2010
13 ON TRACK	\$19.0MM	\$19.0MM	\$20.0MM	\$24.5MM
14 WRAP	\$6.3MM	\$6.3MM	\$6.7MM	\$7.0MM
15 OPN' Help	\$1.125MM	\$1.225MM	\$1.325MM	\$1.425MM
16 Totals	\$26.425MM	\$26.425MM	\$28.025MM	\$32.925MM

17
18 Mr. Dahl also stated: "The estimated number of customers assisted by these
19 programs would likely expand by **several thousand** by 2010." It is not logical
20 for a company to fund "several thousand" universal service customers with \$27
21 million while proposing to spend only \$875,000 to educate 1.3 million customers.

22
23 Q. PLEASE ELABORATE.

24 A. It is the SEF's contention that PPLEU's proposal is qualitatively and
25 quantitatively too limited. The scope of these efforts require significantly greater
26 investment in order to expand the "universe" of customers affected by this Bridge
27 Plan. With a residential customer base of approximately 1.3 million, the intent

1 of the educational program should be geared to a significantly greater number
2 of homeowners; and the breadth of technical, economic, and educational impact
3 should be magnified considerably considering the financial investments and
4 costs already being considered under this plan.

5
6 Q. ARE THERE IMPLICATIONS OF THIS CONSUMER EDUCATION PROGRAM
7 BEYOND ITS BENEFIT TO PPL CUSTOMERS?

8 A. Yes. Considering the more "global perspective" of PPL's Bridge Plan and the
9 implications of significant cost increases to electricity users in the
10 Commonwealth as a whole, the SEF subscribes to the strategy that the PPL
11 "model" with respect to education, should be implemented with the intent and
12 spirit of expanding this program through and to all electrical ratepayers
13 throughout the Commonwealth of Pennsylvania. The table below describes,
14 from 2002 data, the number of residential electricity users in the Commonwealth.

Utility	Residential Electric Customers
Allegheny Power	600,419
Duquesne Power	525,858
Met-Ed	459,171
Penelec	504,114
PECO	1,394,250
Penn Power	137,514
PPL	1,161,123
UGI-Electric	53,896
Total	4,836,345

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25 The SEF recommends that a model for the educational program,
26 previously described by PPL, be expanded and made available and applied to
27 all electricity providers within the Commonwealth.

1 Q. HOW DO YOU ENVISION THIS PROGRAM EVOLVING?

2 A. The SEF recommends that PPLEU support a collaborative effort with other
3 agencies, companies, experts, and organizations and assist in developing a
4 "state-wide" program to provide further education, as well as tools to residential
5 customers in order for them to be more astute, competent, and effective in
6 minimizing or reducing their electrical "footprint".

7

8 Q. DOES THE SEF HAVE ANY SPECIFIC PROPOSALS TO ASSIST PPLEU IN
9 ATTAINING ITS CONSUMER EDUCATION OBJECTIVES?

10 A. Yes. PPLEU could develop and institute a ubiquitous home energy audit
11 program which provides the ratepayer with details and options for minimizing
12 their electrical usage in the most economic fashion as possible. While we
13 appreciate the investment made by PPLEU in its Meter Data Management
14 System as referenced in Exhibit DAK-2, the SEF finds that, while this is a
15 valuable tool for base line data development, it doesn't provide a methodology
16 for "curing the problem" of excessive energy usage. A true "culture shift" in
17 energy usage is required by homeowners in the Commonwealth and the
18 formation of a program to educate these homeowners requires significant effort
19 and investment. I have attached a diagram to my testimony, identified as SEF
20 Exhibit No. 1, which sets forth the *interrelationship among all interested parties*,
21 including those who provide information, and also provides solutions to
22 excessive energy usage. Since the entire residential customer base has
23 traditionally provided the funding for the WRAP, ON TRACK and Operation
24 HELP programs that only assist a small segment of this customer base, the SEF
25 feels that it is necessary to give back to the whole of the residential customer

1 base and to educate all residential customers on the specific information
2 necessary for them to deal with the inevitable rate increases to come.

3

4 Q. WOULD THE SEF RECOMMEND AN OVERSIGHT FUNCTION TO THIS
5 CONSUMER EDUCATION PROCESS?

6 A. Yes. It is recommended that this Commission be made aware of the progress
7 of such a consumer education program on a quarterly or semi-annual basis in
8 order to ensure an intelligent and meaningful execution of this program with
9 metrics that provide succinct information as to its success and potentially, further
10 expansion throughout the Commonwealth.

11

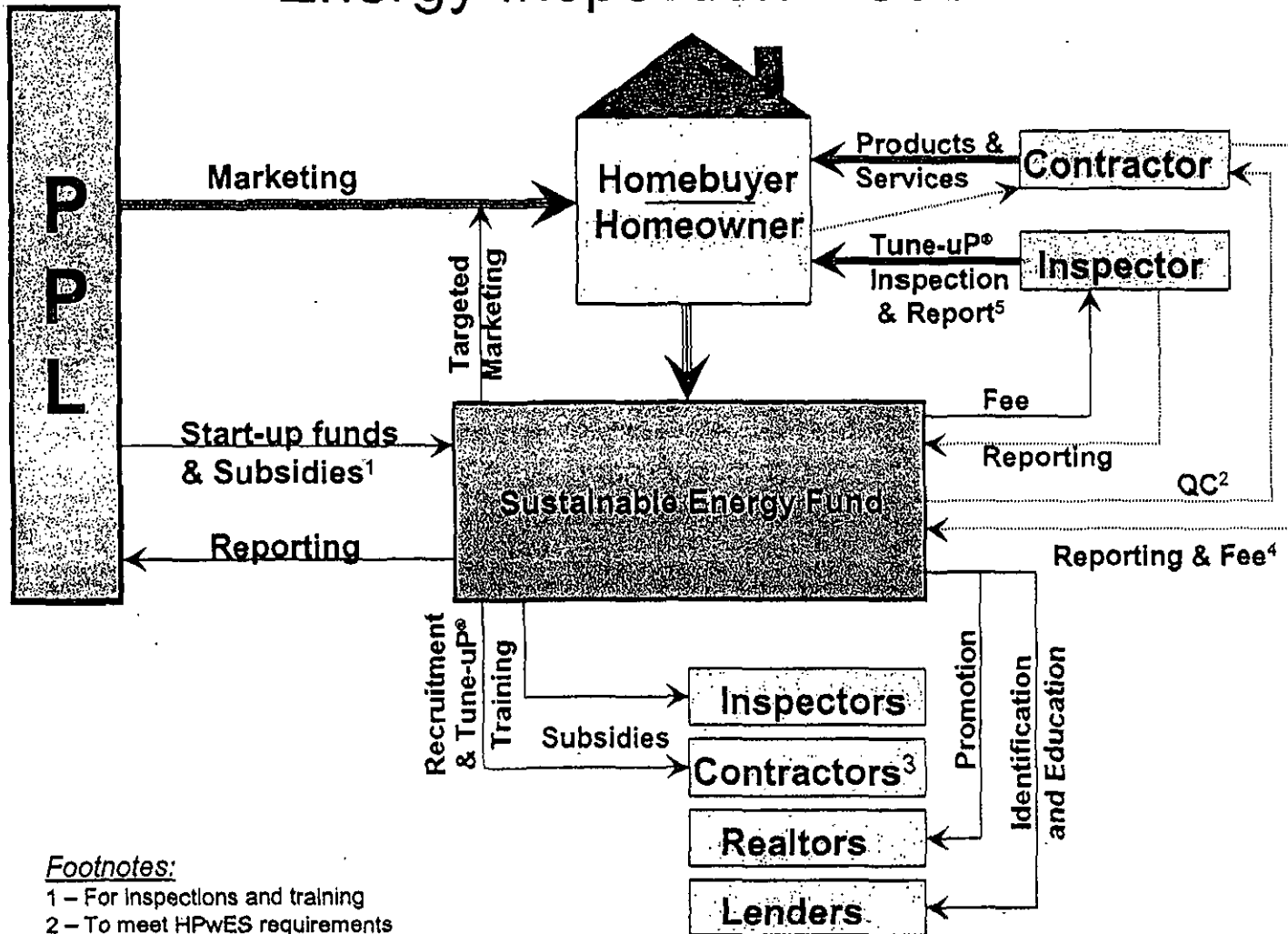
12 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

13 A. Yes, it does.

14

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Proposed PPL Tune-uP[®] Home Energy Inspection Model



Footnotes:

- 1 – For inspections and training
- 2 – To meet HPwES requirements
- 3 – Training on Tune-uP[®] for contractors
- 4 – Fee for marketing, inspections, program administration, quality control, customer service, and an arbitration fund
- 5 – Inspection reports would provide list of participating local contractors

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

SEF Statement No. 1-SR

Docket No. R-00062227

Witness: Rex. A. D'Agostino

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**SUSTAINABLE ENERGY FUND OF
CENTRAL EASTERN PENNSYLVANIA**

Prepared Surrebuttal Testimony of
Dr. Rex A. D'Agostino
(Prepared December 2006)

Customer Education

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SURREBUTTAL TESTIMONY OF REX A. D'AGOSTINO

I. WITNESS BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dr. Rex A. D'Agostino. My business address is 1667 Penns Crossing, Allentown, Pennsylvania 18104.

Q. ARE YOU THE SAME DR. D'AGOSTINO WHO PREPARED DIRECT TESTIMONY ON BEHALF OF THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PENNSYLVANIA ("SEF") IN THIS PROCEEDING?

A. Yes I am.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. On December 6, 2006, PPL Electric Utilities Corporation ("PPLU"), along with other parties to this proceeding, submitted rebuttal testimony. The purpose of my surrebuttal testimony is to address the rebuttal testimony of PPL witnesses Messrs. Krall and Dahl at PPLU Statement Nos. 1-R and 4-R, respectively, to the extent that their rebuttal testimony addresses the position of the SEF regarding the consumer education portion of PPLU's proposed Bridge Plan.

II. CUSTOMER EDUCATION

Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF COMPANY WITNESS DOUGLAS A. KRALL (PPLU STATEMENT NO. 1-R)?

A. Yes, I have. The rebuttal testimony of Witness Krall at pages 32 through 38 addresses the Company's proposal in its Bridge Plan for a three-year consumer

1 education program beginning in 2007, noting, in part, "PPL Electric agrees that
2 parts of its proposal need to be better defined." Witness Krall reiterates the four
3 areas that would be the focus of a consumer education program, including
4 "education on the wise use of energy", which he explains is intended by the
5 Company to be "built on a platform provided in the meter data management
6 system that the Company is in the process of installing." Statement No. 1-R at
7 34. Witness Krall then admits that "further definition of the program is required"
8 and indicates that it is the Company's intention to enlist "the participation of the
9 other parties...to help define program objectives and efforts." Statement No. 1-R
10 at 34.

11

12 Q. IS WITNESS KRALL'S STATEMENT THAT THE COMPANY WELCOMES THE
13 PARTICIPATION OF OTHER PARTIES TO HELP DEFINE THE OBJECTIVES
14 FOR EDUCATING CONSUMERS ON THE WISE USE OF ENERGY
15 CONSISTENT WITH THE SEF'S PROPOSAL FOR CONSUMER EDUCATION
16 AS SET FORTH IN YOUR DIRECT TESTIMONY?

17 A. It is certainly a step in the right direction. PPLEU proposes to implement a
18 comprehensive consumer education program beginning in 2007 and continuing
19 through 2009. PPLEU wants the approval to fund this consumer education
20 program with \$875,000 from its "Customer Choice Education Account", and
21 apportion these funds with the following schedule: 2007 @ \$200,000; 2008 @
22 \$300,000; and 2009 @ \$375,000. (See PPLEU Stmt. 2 at 21; Exhibit DAK-2).
23 However, our concern is that Witness Krall has not provided support or rationale
24 for PPLEU's position that \$875,000 is sufficient for the purpose of educating
25 consumers on the proposed Bridge Plan. Rather, Witness Krall simply states

1 that the Company “continues to believe” that the amount is sufficient. Statement
2 No. 1-R at 37.

3

4 Q. OTHER THAN THE FUNDING, ARE THERE ANY OTHER ASPECTS OF MR.
5 KRALL’S REBUTTAL TESTIMONY THAT YOU WANT TO ADDRESS?

6 A. Yes. According to Witness Krall, PPLEU’s consumer education efforts are going
7 to be driven by its own “meter data management system”, a system that, “is in the
8 process” of being installed. As such, it would seem premature for PPLEU to say
9 with certainty what the system will actually provide. In addition, once the system
10 is up and running, it is unclear how consumer-friendly this new system actually
11 will be. According to Witness Krall, PPLEU’s anticipated meter data
12 management system includes what he describes as “a rather sophisticated, web-
13 based, interactive home energy audit.” Statement No. 1-R at 38. While the web-
14 based approach may appeal to some customers, we are concerned that a
15 significant portion of customers may desire other options.

16

17 Q. COULD THE SEF ASSIST THE COMPANY IN MEETING ITS STATED
18 OBJECTIVE OF EDUCATING CONSUMERS?

19 A. Absolutely. As I said in my direct testimony, while the SEF applauds the intent of
20 PPLEU in its Bridge Plan to increase the knowledge of retail customers relative to
21 increasing the customers’ awareness of the benefits of using energy wisely the
22 SEF has experience in providing educational programs as well as support
23 projects dedicated to informing end users in energy conservation and efficiency
24 related issues and believes it can assist PPLEU in meeting its education
25 objective.

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Q. IN HIS REBUTTAL TESTIMONY, MR. KRALL OFFERS TO FACILITATE A COLLABORATIVE PROCESS TO DEVELOP A MORE DETAILED DESIGN OF THE CONSUMER EDUCATION PROGRAM WITHIN THE \$875,000 BUDGET IF THE COMMISSION APPROVES ITS BRIDGE PLAN. WOULD SEF PARTICIPATE IN A COLLABORATIVE?

A. The SEF would welcome the opportunity to participate in such a collaborative. Were such a process convened, the SEF would suggest that PPLEU explore the possibility of setting aside a portion of its consumer education budget – perhaps \$100,000 initially - which funds the SEF would match to create a fund pool to be used to implement a program of on-site home energy audits by certified contractors and would be underwritten by both PPLEU and the SEF for the benefit of the customers. This on-site audit process would be different from PPLEU's planned web-based audit that is part of PPLEU's data management system in that the SEF's approach would complement the Company's proposal by providing in-home inspections resulting in specific recommendations to respond to homeowners' needs on a case-by-case basis. This \$200,000 would be used to provide an initial phase of an on-site energy audit which would be carried out by the SEF following discussions with PPLEU. Additional phases and funding would be required to expand the on-site energy audit program and the SEF would suggest that PPLEU agree to work collaboratively with the SEF in funding the initial and future phases of such a program.

Q. HAVE YOU ALSO REVIEWED THE REBUTTAL TESTIMONY OF COMPANY WITNESS TIMOTHY R. DAHL (PPLEU STATEMENT NO. 4-R)?

1 A. Yes. In the rebuttal testimony of Witness Dahl, who is responsible for the
2 Company's universal service, compliance, quality assurance and customer
3 choice programs, Witness Dahl addresses my observation regarding the
4 PPLEU's funding of its universal service programs compared to its funding of its
5 consumer education programs. In my direct testimony, I addressed funding
6 "several thousand" universal service customers with \$27 million while proposing
7 to spend only \$875,000 to educate 1.3 million customers. In his rebuttal
8 testimony, Witness Dahl calls this "a classic 'apples-to-oranges' comparison"
9 stating that PPLEU's universal service programs target only specific segments of
10 low-income customers. Statement No. 4-R at 5. I do not disagree that these
11 programs have different purposes. The point I intended to make was simply that
12 the magnitude of funding for the small segment of low-income consumers
13 impacted by universal service is disproportionately large compared to the
14 magnitude of funding proposed by PPLEU in this proceeding for the purpose of
15 educating all residential customers on energy efficiency aspects of its Bridge
16 Plan.

17
18 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

19 A. Yes, it does.

OTS Statement No. 1
Witness: David Keim

DOCKETED
DEC 27 2006

DEC 19 2006

P-00062227
Hkg JK

PENNSYLVANIA PUBLIC UTILITY COMMISSION

vs.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. P-00062227

Direct Testimony

of

David Keim

Office of Trial Staff

DOCUMENT
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DEC 26 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

Universal Service Issues

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

2 A. My name is David F. Keim. My business address is P. O. Box 3265, Harrisburg,
3 Pennsylvania, 17105-3265.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Pennsylvania Public Utility Commission as a Fixed Utility
7 Financial Analyst in the Office of Trial Staff (OTS).

8
9 **Q. WOULD YOU PLEASE DESCRIBE THE ROLE OF OTS IN RATE
10 PROCEEDINGS?**

11 A. OTS was established by the legislature and is responsible for protecting the public
12 interest in rate proceedings. The OTS analysis in this proceeding is based on its
13 responsibility to represent the public interest. This responsibility requires the
14 balancing of the interests of ratepayers and the Company.

15
16 **Q. WHAT IS YOUR EDUCATIONAL, PROFESSIONAL AND
17 EMPLOYMENT EXPERIENCE?**

18 A. A summary of my educational, professional and employment experience is
19 attached as Appendix A.

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

3 A. The purpose of my testimony is to address the Petition of PPL Electric Utilities
4 Corporation (PPL or Company). The Petition requests approval of a Competitive
5 Bridge Plan (CBP) to establish the terms and conditions under which PPL will
6 supply Provider of Last Resort (POLR) service during 2010, as a transition to a
7 fully competitive statewide market beginning January 1, 2011. Specifically, I will
8 be addressing the Company's proposed changes to its Universal Service Programs
9 (USP) within the context of the CBP.

10
11 **Q. WOULD YOU PLEASE DEFINE UNIVERSAL SERVICE?**

12 A. According to the "Electricity Generation Customer Choice and Competition Act",
13 ("Act") 66 Pa. C.S.A. §§2801-2812, and specifically 66 Pa. C.S.A. §2803, the Act
14 defines Universal Service and Energy Conservation as:

15 "Policies, protection and services that help low-
16 income customers to maintain electric service. The
17 term includes customer assistance programs,
18 termination of service protection and policies and
19 services that help low-income customers to reduce or
20 manage energy consumption in a cost-effective
21 manner, such as the low-income usage reduction
22 programs, applications of renewable resources and
23 consumer education."

1 **Q. PLEASE DESCRIBE THE COMPANY'S USP.**

2 A. The Company's USP consists of: (1) OnTrack, which is the Company's customer
3 assistance program (CAP); (2) Winter Relief Assistance Program (WRAP) which
4 is the Company's Low Income Usage Reduction Program (LIURP); and, (3)
5 Operation HELP which provides funds to pay any type of home energy bill for
6 low-income customers. The Company also has a CARES program which provides
7 short-term protection against shut-offs.

8
9 **Q. WILL YOU PLEASE DESCRIBE THE ONTRACK PROGRAM?**

10 A. Yes. OnTrack is the Company's CAP program and is administered by local
11 agencies. In effect since 1993, the OnTrack program provides reduced payment
12 amounts based on low-income customers' ability to pay and includes pre-program
13 arrearage forgiveness and referrals to other energy assistance programs.

14
15 **Q. HOW DOES THE COMPANY RECOVER THE ONTRACK PROGRAM
16 COSTS?**

17 A. The costs of the OnTrack program are currently recovered in base rates from all of
18 the Company's residential customers.

1 **Q. WHAT IS THE AMOUNT OF ONTRACK PROGRAM EXPENSES**
2 **CURRENTLY BEING RECOVERED IN THE COMPANY'S BASE**
3 **RATES?**

4 A. In PPL's last base rate case at Docket No. R-00049255, the Commission approved
5 \$13.2 million in expenses for OnTrack.

6

7 **Q. WHAT IS THE CURRENT STATUS OF THE COMPANY'S ONTRACK**
8 **PROGRAM?**

9 A. The Company states at Attachment 2, page 5 of the Petition that it had 17,500
10 active OnTrack accounts as of June 30, 2006. This is an increase of 3,500
11 accounts as compared to the 2005 participation level.

12

13 **Q. HAS THE COMPANY ESTIMATED AN INCREASE IN EXPENSES FOR**
14 **THE ONTRACK PROGRAM AS A RESULT OF ITS POLR SERVICE?**

15 A. Yes. The Company estimates that annual expenses will increase to \$19 million for
16 2007-2008, and ramp-up funding to \$20 million for 2009 and to \$24.5 million for
17 2010. (PPL St. No. 4, p. 7)

1 **Q. WHAT IS THE BASIS FOR THE PROPOSED INCREASE?**

2 A. The Company anticipates that the transition to POLR service will result in a
3 significant expansion of payment-troubled customers by 2010. It maintains that a
4 slow ramp-up in funding in anticipation reflects good planning and will enable the
5 Company to better prepare for the start of POLR service. (PPL St. No. 4, p. 6)

6
7 **Q. WOULD YOU PLEASE DESCRIBE THE WRAP PROGRAM?**

8 A. Yes. The WRAP program offers free weatherization measures and energy
9 conservation education to qualified households, both homeowners and renters.
10 This program helps these customers reduce their electric usage and make their
11 homes more comfortable.

12
13 **Q. HOW DOES THE COMPANY RECOVER THE WRAP PROGRAM**

14 **COSTS?**

15 A. WRAP program costs are recovered through base rates from all of the Company's
16 residential customers.

17
18 **Q. WHAT IS THE AMOUNT OF WRAP PROGRAM EXPENSES**
19 **CURRENTLY BEING RECOVERED IN THE COMPANY'S BASE**
20 **RATES?**

21 A. In PPL's last base rate case at Docket No. R-00049255, the Commission approved
22 \$6.25 million for WRAP.

1 **Q. PLEASE DESCRIBE THE OPERATION HELP PROGRAM?**

2 A. Operation HELP provides funds to pay any type of home energy bill for qualified
3 low-income customers. It is administered by 14 community-based organizations
4 (CBOs), and provides a yearly grant up to a maximum of \$500.

5
6 **Q. HOW IS THE OPERATION HELP PROGRAM FUNDED?**

7 A. Operation HELP is funded through a combination of annual voluntary donations
8 from PPL Corporation, its employees and its customers.

9
10 **Q. WHAT IS THE COMPANY'S PROPOSAL REGARDING ITS
11 OPERATION HELP PROGRAM CONTRIBUTIONS?**

12 A. PPL is proposing to increase its Operation HELP annual contributions by
13 \$100,000 increments from \$700,000 in 2007 to \$1,000,000 in 2010. (PPL Ex.
14 TRD 1, p. 10)

15
16 **Q. WHAT IS THE COMPANY'S PROPOSED TOTAL FUNDING FOR THE
17 OPERATION HELP PROGRAM?**

18 A. The Company's proposed total contribution level assumes the corporate increases
19 from \$700,000 in 2007 to \$1,000,000 in 2010 and that employee and customer
20 contributions remain constant at \$425,000 per year and range from \$1,125,000 in
21 2007 to \$1,425,000 in 2010. (PPL St. No. 4, p. 7)

1 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSAL REGARDING**
2 **FUNDING LEVELS FOR THE THREE PROGRAMS OVER THE NEXT**
3 **SEVERAL YEARS.**

4 A. PPL is recommending the following:

<u>Program</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
OnTrack	\$19,000,000	\$19,000,000	\$20,000,000	\$24,500,000
WRAP	6,300,000	6,300,000	6,700,000	7,000,000
HELP	<u>1,125,000</u>	<u>1,225,000</u>	<u>1,325,000</u>	<u>1,425,000</u>
TOTAL	\$26,425,000	\$26,525,000	\$28,025,000	\$32,925,000

10

11 **Q. DO YOU AGREE THAT ALL THREE OF THESE PROGRAMS SHOULD**
12 **BE GIVEN RATE RECOGNITION?**

13 A. No. Operation HELP should not be included because the program funding comes
14 directly from voluntary corporate, employee and customer contributions.

15

16 **Q. HAS THE COMPANY INDICATED HOW IT INTENDS TO RECOVER**
17 **THE COSTS OF THE INCREASES IN THE ONTRACK AND WRAP**
18 **PROGRAMS?**

19 A. PPL Electric requests that, if the Commission approves any increased funding for
20 the Company's USPs, it also specifically authorize recovery of those additional
21 expenses through customer rates. If the Commission issues such an order, the
22 Company would include those expenses in a future distribution rate increase

1 request (PPL St. No. 4, p. 8). In other words, PPL is requesting deferred
2 accounting for these program costs.

3
4 **Q. WHAT IS YOUR RECOMMENDATION?**

5 A. I recommend that the Company's proposal for increased funding of its USP be
6 rejected.

7
8 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

9 A. PPL presented a similar proposal in its last base rate case at Docket No.
10 R-00049255. In that proceeding, PPL proposed to normalize the costs of its
11 OnTrack and WRAP programs based on its budgets for the period 2005 through
12 2011. The Commission approved a two-year normalization (2005-2006) for these
13 programs and stated:

14 PPL has stated that it will file its next base rate case in two
15 years, and has claimed a two-year normalization period for
16 rate case expense. The increased spending levels for Year
17 2007 and beyond can be addressed in the next base rate case.
18 Order p.41.

19
20 *A base rate proceeding, in my opinion, is the proper forum for the investigation*
21 *into the reasonableness and efficacy of USP recovery. Such a proceeding offers*
22 *the advantage of: (1) full investigation into the costs and relevant savings to be*
23 *considered; and, (2) full exploration of the mechanism to be employed and its*
24 *components such as sales, reconciliation period, interest and other relevant*

1 matters. This proceeding is for the establishment of rates to transition to POLR
2 electric service, not to establish a USP cost recovery mechanism. As a result,
3 parties with a vested interest in USP programs may not be aware of what is
4 transpiring in this proceeding and would miss the opportunity to have their
5 positions heard.

6

7 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

8 **A. Yes.**

Appendix A

Professional and Educational Experience of David F. Keim

Professional Certification

Certified Public Accountant, Pennsylvania, 1982.

Professional Experience

September 1984 to Present: Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania - Fixed Utility Financial Analyst - Responsible, primarily for the review of rate design and revenue and expenses as part of the evaluation and recommendation process for water, electric, gas and telephone utility rate filings.

June 1979 to September 1984: Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania - Public Utility Auditor - Participated in the coordination of the Management Audit program of the thirty largest utilities within Pennsylvania. Selected national consulting firms for management audits and monitored their progress to ensure an objective report. Performed, as in-charge auditor, financial audits of gas and electric utilities.

Education

Bachelor of Science, Accounting, Pennsylvania State University, 1978

Various AICPA and PICPA sponsored courses for continuing professional education.

Continuing education in utility regulation and accounting.

Testimony

Before the Pennsylvania Public Utility Commission:

R-842769 - Equitable Gas Company
R-860296 - National Fuel Gas Distribution Corp.
R-860314 - Columbia Gas of Pennsylvania, Inc.
R-850287 - National Fuel Gas Distribution Corp.
R-870665 - UGI Corp. - Gas Division
R-870719 - National Fuel Gas Distribution Corp.
R-870832 - Columbia Gas of Pennsylvania, Inc.
R-880961 - The Peoples Natural Gas Company
R-881089 - Philadelphia Electric Company
R-891218 - National Fuel Gas Distribution Corp.
R-891468 - Columbia Gas of Pennsylvania, Inc.
R-901670 - National Fuel Gas Distribution Corp.
R-901726 - Pennsylvania Gas and Water Company
R-901873 - Columbia Gas of Pennsylvania, Inc.
R-911886 - Columbia Gas of Pennsylvania, Inc.
R-911921 - Columbia Gas of Pennsylvania, Inc.
R-911912 - National Fuel Gas Distribution Corp.
R-910699C002 - Pennsylvania Gas & Water Co. - Gas Division
R-911963 - Roaring Creek Water Company
R-912064 - Bloomsburg Water Company
R-912060 - Shenango Valley Water Company
R-912117 - Fawn Lake Forest Water Company
R-922168 - The York Water Company
R-922314 - Metropolitan Edison Company
R-922428 - Pennsylvania American Water Company
R-922420 - Shenango Valley Water Company
R-922493 - LP Water & Sewer Company
R-00922375 - Colony Water System, Ltd.
R-00932676 - Pennsylvania Gas and Water Company
R-00932667 - Pennsylvania Gas and Water Company
R-00932665 - Roaring Creek Water Company
R-00932862 - UGI Utilities, Inc. - Electric Division
R-00942991 - National Fuel Gas Distribution Corporation
R-00943098 - Borough of Media Water Works
R-00943124 - City of Bethlehem Water Fund
R-00943152 - General Water Works of Pennsylvania, Inc.
R-00943177 - Roaring Creek Water Company
R-00943231 - Pennsylvania-American Water Company
R-00953343 - Philadelphia Suburban Water Company

R-00953300 - Citizen's Utilities Water Company of Pennsylvania
R-00963612 - PG Energy Inc.
R-00973931 - Columbia Gas of Pennsylvania, Inc.
R-00963858 - Equitable Gas Company
R-00974128 - Commonwealth Telephone Company
A-220005 - Township of Falls, Bucks County
R-00974149 - Pennsylvania Power Company
R-00984275 - Manufacturers Water Company
P-00981425 - Pennsylvania Telephone Association
P-00981449 - GTE Chapter 30
R-00994682 - PFG Gas Inc.
R-00994788 - PFG Gas, Inc./North Penn Gas Company
R-00994785 - National Fuel Gas Distribution Corporation
R-00994788 - PFG Gas Inc./North Penn Gas Company
R-00005110 - Columbia Gas of Pennsylvania, Inc.
A-310125 - Application of ATT/TCG
R-00005109 - City of Lancaster Sewer Fund
R-00006042 - Philadelphia Gas Works
R-00016179 - Columbia Gas of Pennsylvania
R-00016297 - City of Lancaster – Water Fund
R-00016339 - Pennsylvania - American Water Company
R-00016750 - Philadelphia Suburban Water Company
P-00021973 - Verizon
R-00027389 - PFG Gas Inc, and North Penn Gas Company
R-00037245 - Columbia Gas of PA, Inc.
R-00038304 - Pennsylvania - American Water Company
R-00038805 - Aqua Pennsylvania, Inc.
R-00049108 - NFG Gas Distribution
R-00049313 - Wellsboro Electric Co.
R-00049424 - PFG Gas, Inc.
R-00049557 - Falls Township - Sewer
R-00049884 - Pike County L&P - Gas Division
A-110550F0160 - Joint Application of PECO Energy
R-00061366 - Metropolitan Edison Company
R-00061367 - Pennsylvania Electric Company
R-00061398 - PPL Gas Utilities Corporation

**DOCUMENT
FOLDER**

OTS Statement No. 2
Witness: Michael J. Gruber

DEC 19 2006

P-00062227
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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. P-00062227

Direct Testimony

of

Michael J. Gruber

Office of Trial Staff

DOCKETED
DEC 27 2006

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DEC 26 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

85% Limitation on Power Supply
Transmission Service Charge
Large Customer Opt in Dates
Performance Assurance Penalties
Generation Service Charge
Reconciliation

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

3 A. My name is Michael J. Gruber. My business address is P. O. Box 3265,
4 Harrisburg, Pennsylvania 17105-3265.

5
6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Technical Division of the Office of Trial Staff (OTS) as a Fixed Utility
9 Valuation Engineer.

10

11 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN UTILITY PROCEEDINGS.**

12 A. OTS was established by the Pennsylvania Legislature in 1986 and is responsible
13 for representing the public interest in specified Commission proceedings. The
14 OTS analysis in this proceeding is based on that responsibility to represent the
15 public interest. This responsibility requires the balancing of the interests of
16 ratepayers and the Company.

17

18 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
19 **BACKGROUND?**

20 A. Attached to my testimony, as Appendix A, is a statement which describes my
21 educational background and my employment experience.

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

2 A. I will be presenting the position of the Office of Trial Staff concerning various
3 parts of the Company's proposed Competitive Bridge Plan (CBP).

4

5 **Q. WHAT IS THE COMPANY'S COMPETITIVE BRIDGE PLAN?**

6 A. The Company's Competitive Bridge Plan is the procedure by which the Company
7 is proposing to operate its generation acquisition and supply function in 2010. It
8 has four basic goals. The first is the procedure the Company is proposing to
9 acquire the generation needed to supply its provider of last resort (POLR) power
10 for 2010 and how to collect the cost of this generation from its ratepayers.

11 Second, the Company has presented plans to enhance demand-side response
12 (DSR) programs. Third, the Company is proposing the expansion of its consumer
13 education program. Fourth, the Company is requesting an increase in the level of
14 assistance for low-income customers.

15

16 **Q. WHY IS THE COMPANY PROPOSING A CBP?**

17 A. *The Company is proposing this CBP to allow for the acquisition of a POLR power*
18 *supply for the period between the end of its generation rate cap and January 1,*
19 *2011, the point at which the Company expects the Commission's POLR*
20 *regulations to become effective.*

1 **Q. WHAT IS THE GSC?**

2 A. The Company's proposed GSC is a fully reconcilable charge to POLR customers
3 by which the Company is proposing to provide for the recovery, on a full and
4 current basis, of all costs associated with the Company's acquisition of power to
5 provide for its provider of last resort (POLR) generation supply. Costs will
6 include all energy and capacity costs associated with supplying POLR energy to
7 PPL's customers, all transmission service related costs which are reflected in
8 supplier bids, and all costs associated with the implementation of the Company's
9 procurement plan.

10

11 **Q. WHAT ISSUES ARE YOU ADDRESSING?**

12 A. I will address the impact of the Company's proposed 85% limitation (for bidders)
13 on power supply upon retail and wholesale competition, changes in the
14 transmission service charge (TSC), the timing of the opt in dates for large
15 customers, the performance assurance penalties, and certain other aspects of the
16 Company's proposed GSC.

17

18 **Q. HOW WILL THE COMPANY'S PROPOSAL AFFECT COMPETITION?**

19 A. This question is difficult to answer. For example, the Company's proposal should
20 benefit competition at the wholesale level because the RFP process will provide a
21 platform by which any supplier has the option to compete for a portion of the
22 Company's POLR load. Theoretically, this should lead to lower prices at the

1 wholesale level which will then translate to lower rates charged to POLR
2 customers at the retail level.

3 However, I am concerned that the proposed 85% limitation on bidders may
4 lead to bids that do not accurately reflect market prices.

5
6 **Q. WHY ARE YOU CONCERNED THAT THE COMPANY'S PROPOSAL**
7 **TO LIMIT SUPPLIER BIDS TO A MAXIMUM OF 85% OF THE POLR**
8 **LOAD MAY NOT ACCURATELY REFLECT MARKET PRICES?**

9 A. The Company's plan to limit a supplier's market share of the POLR load to 85%
10 could cause the overall average price to be higher than it should be by allowing a
11 supplier of higher cost generation a larger share of the POLR load than it should
12 have. I believe that a supplier should not be limited in the level of power it can
13 supply if its generation is at a price below its competitors. Under normal
14 circumstances, if a higher cost supplier is allowed to supply power at an artificially
15 higher price, the average price will be raised above the level that it should be.

16
17 **Q. WHY IS THE COMPANY PROPOSING A LIMITATION OF 85% ON A**
18 **SUPPLIERS SHARE OF THE COMPANY'S POLR LOAD?**

19 A. In response to OTS-5 (Attached as Schedule 1 of OTS Exhibit 2), the Company
20 stated that the purpose of the 85% limitation is to prevent large suppliers from
21 exerting "entry deterrence" to keep smaller suppliers out of the bidding process.

1 **Q. WHAT IS ENTRY DETERRENCE?**

2 A. Entry deterrence is the term used by the Company to explain one possible outcome
3 which could occur when a small supplier hesitates to enter the bidding process
4 because a large supplier is capable of supplying the entire load that is being bid.

5

6 **Q. IS ENTRY DETERRENCE A POSSIBLE OUTCOME IF THERE IS NO**
7 **LIMITATION ON THE AMOUNT OF POLR LOAD A SUPPLIER MAY**
8 **SUPPLY?**

9 A. *Removing the 85% limitation could lead to entry deterrence, however, I believe*
10 *the act of limiting a supplier in this way could raise the average price of electricity*
11 *and give a false indication of what the market price of electricity really should be.*
12 *In my opinion, the latter result would have a greater impact upon retail*
13 *competition.*

14

15 **Q. HOW WOULD THIS LIMITATION GIVE A FALSE INDICATION OF**
16 **THE MARKET PRICE?**

17 A. *For example, if Supplier A is capable of supplying a larger piece of the POLR*
18 *load, more than 85%, at a cheaper price than anyone else but is limited to 85%, it*
19 *follows that the supplier of the load over 85% is supplying power at a rate higher*
20 *than Supplier A.*

1 This increase in the price of power above the rate from Supplier A will
2 result in an average price higher than the price that would be supplied by Supplier
3 A. This new average price would become the established market price and since it
4 is higher than the price which Supplier A could offer, it has artificially increased
5 the market rate for power.

6
7 **Q. SHOULD THE COMMISSION BE CONCERNED WITH ENTRY**
8 **DETERRENCE AS IT IS EXPRESSED BY THE COMPANY?**

9 A. Yes. However, I believe that the size of the POLR load increments in the bidding
10 process will encourage smaller suppliers to enter the bidding more effectively than
11 limiting the total amount of power to be supplied by one supplier.

12
13 **Q. WHAT SIZE LOAD INCREMENTS IS THE COMPANY PROPOSING**
14 **FOR ITS BIDDING PROCESS?**

15 A. The Company is proposing 50 MW increments for its RFP bidding (Petition, p.
16 18).

17
18 **Q. WILL A 50 MW INCREMENT BE A SMALL ENOUGH INCREMENT TO**
19 **ENCOURAGE SMALLER SUPPLIERS TO ENTER THE BIDDING**
20 **PROCESS?**

21 A. Yes. 50 MW should be a sufficiently small enough increment to encourage small
22 suppliers to enter the market. If a supplier with less than 50 MW wants to enter

1 the competitive market it could join with other small suppliers to compete at the
2 wholesale level or it could enter the market at the retail level.

3
4 **Q. WHAT IS THE COMPANY PROPOSING TO DO WITH THE**
5 **TRANSMISSION SERVICE CHARGE?**

6 A. The Company is proposing to change the TSC to reflect the fact that the winning
7 suppliers of the POLR auction will be responsible for any transmission and
8 ancillary services. The Company is proposing to modify the TSC to recover only
9 the transmission charges imposed by PJM directly or indirectly by a supplier.

10
11 **Q. DO YOU AGREE WITH THIS APPROACH?**

12 A. No. If the suppliers are responsible for paying transmission charges and include
13 them in their bid prices, there should be no additional charges by PJM.

14
15 **Q. WHAT SHOULD BE DONE WITH ANY DIRECT TRANSMISSION**
16 **CHARGES FROM PJM?**

17 A. If, at some point, PJM imposes a transmission charge on the Company for any
18 reason, the Company should file with the Commission to recover these charges as
19 it would with any other cost of doing business. Any additional charges to
20 ratepayers should be reviewable by the Commission and the Company should be
21 required to prove why the ratepayers should have to pay them. The Commission
22 must have the opportunity to examine any new charges as to applicability and to

1 insure that any new charges from PJM are charged to the proper entity for
2 payment.

3
4 **Q. WHAT IS YOUR OBJECTION TO THE FLOW THROUGH OF**
5 **INDIRECT TRANSMISSION CHARGES FROM A SUPPLIER TO**
6 **RATEPAYERS?**

7 A. If, as the Company's RFP is designed to do, the price in a supplier's bid is
8 supposed to include all applicable transmission charges, there should be no
9 indirect transmission charges to the Company. To allow the Company to pass on
10 any indirect transmission charges automatically could provide one supplier with a
11 competitive advantage in the power supply market.

12
13 **Q. HOW DOES THE COMPANY PLAN TO ACQUIRE POWER FOR ITS**
14 **LARGE COMMERCIAL AND INDUSTRIAL CLASS CUSTOMERS WHO**
15 **REMAIN ON POLR SERVICE?**

16 A. The Company will conduct two RFPs in 2009 for the purpose of obtaining power
17 for the large commercial and industrial class of customers. Customers in this class
18 will have an opportunity in late 2008 to elect fixed annual pricing; however, if
19 they do not select a fixed hourly service or service with an alternate supplier they
20 will receive POLR service in 2010 at hourly rates (Petition, p. 16).

1 Q. WHEN WILL THE COMPANY KNOW WHAT THE FIXED HOURLY
2 RATE FOR THE LARGE COMMERCIAL AND INDUSTRIAL CLASS
3 WILL BE?

4 A. Sometime in late 2009, about a year after it has forced its customers to make a
5 choice between a fixed rate and an hourly rate.

6
7 Q. WHAT IS YOUR OBJECTION TO THE COMPANY'S PLAN FOR
8 LARGE COMMERCIAL AND INDUSTRIAL CUSTOMERS OPT IN
9 PROCEDURES?

10 A. The Company is asking the large commercial and industrial customer to choose
11 between a fixed price for the year and the variable hourly price without knowing
12 what the fixed price will be. In effect, the Company is asking the large customers
13 to make important business decisions without knowing what the choices are. The
14 large customers should have the same ability as the small customers to choose
15 after the rates become known and not before.

16
17 Q. HOW WILL THE COMPANY INSURE AGAINST DEFAULT BY A
18 SELECTED SUPPLIER?

19 A. The winning bidders will be required to post a Performance Assurance to cover
20 the cost of any failure to comply with the contracted POLR supply (PPL Electric
21 Statement No. 2, p. 9).

1 **Q. DO YOU HAVE ANY OBJECTIONS TO THIS PROVISION OF THE**
2 **COMPANY'S PROPOSAL?**

3 A. No. My only comment is that the Performance Assurance should be at a level
4 high enough that the Company's POLR customers will not be required to pay
5 anything additional for service if a supplier defaults.

6
7 **Q. WHAT IS YOUR POSITION ON THE COMPANY'S PROPOSED GSC?**

8 A. OTS agrees with the need for a GSC to recover the POLR related costs, but I do
9 not agree with the proposed reconciliation of those costs as proposed by the
10 Company.

11
12 **Q. WHY DO YOU DISAGREE WITH THE PROPOSED RECONCILIATION?**

13 A. I have four objections to allowing the Company to reconcile its POLR collections.
14 First, any reconciliation of the GSC would be anti-competitive. Second, the
15 addition of an E-factor for reconciliation would cause the POLR rate to fluctuate
16 and this fluctuation would make it difficult for other competitors to enter the
17 market because the rate to compare would become a moving target. Third, any
18 change in the POLR rate due to reconciliation would result in the POLR rate
19 deviating from market rates. Fourth, I am advised by my attorney that the
20 Company surrendered its right to reconciliation with its acceptance of the
21 restructuring of its rates.

1 **Q. WHY WOULD THE INCLUSION OF A RECONCILIATION OF THE GSC**
2 **BE ANTI-COMPETITIVE?**

3 A. The inclusion of a reconciliation clause in the GSC would give the Company's
4 POLR supply a competitive advantage that no other supplier could match. All
5 other suppliers would have to factor in the risk of under recovery in any price it
6 would offer potential customers. This risk could influence the price it must
7 charge.

8
9 **Q. HOW WOULD THE INCLUSION OF AN E FACTOR IN THE POLR**
10 **RATE AFFECT A COMPETITOR'S ABILITY TO OFFER A PRICE TO**
11 **POTENTIAL CUSTOMERS?**

12 A. The inclusion of an E-factor would enable the Company to have less risk involved
13 in the calculation of its POLR rate. It would remove the uncertainty of under
14 recovery thereby giving the Company's POLR supplier a competitive advantage.

15
16 **Q. WHAT AFFECT WILL ALLOWING THE COMPANY TO INCLUDE AN**
17 **E FACTOR IN THE POLR RATE HAVE ON THE MARKET RATE?**

18 A. I believe that the POLR rate should be a market based rate. In fact, the Company
19 goes to great lengths to prove that the rate which will result from its RFP will be a
20 market rate (Petition, p. 8). I believe that the inclusion of any charges, which
21 change the rate, will make the POLR rate less of a market rate and more of a
22 calculated rate.

1 **Q. IS THE COMPANY PERMITTED TO HAVE A RECONCILABLE RATE**
2 **FOR ITS GENERATION CHARGES?**

3 A. It is my understanding that when the Company agreed to the restructuring of its
4 rates under the Electricity Generation Customer Choice and Competition Act
5 (Customer Choice Act), it surrendered the option to reconcile its generation rates.
6 By asking for a reconcilable rate in this proceeding the Company would be
7 violating the intent of the Customer Choice Act.

8
9 **Q. HAS THE COMMISSION ALLOWED FOR THE RECONCILIATION OF A**
10 **POLR RATE FOR ELECTRIC GENERATION SERVICE?**

11 A. No. In the Pennsylvania Power POLR filing, at Docket No. P-00052188, Penn
12 Power requested an E-factor reconciliation for the difference between the revenue
13 collected from generation rates and the actual costs incurred. In its order, the
14 Commission denied this request. Consequently, a reconciliation should not be
15 allowed here.

16
17 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

18 A. Yes.

MICHAEL J. GRUBER

Appendix A

Education and Professional Background

In May 1976, I received a B. S. in Civil Engineering from The Pennsylvania State University. After graduation, I was hired by the Pennsylvania Public Utility Commission and worked in the Valuation Section of the Bureau of Rates and Research in the area of electric and telephone valuation and depreciation. When the Bureau was realigned into Divisions, I specialized in telephone valuation and depreciation. Later, I was transferred to the Engineering Section of the Electric Division to work on electric company valuation and depreciation.

In October 1977, I participated in a special depreciation training program sponsored by Western Michigan University in Kalamazoo, Michigan, entitled "Fundamentals of Service Life Forecasting".

In the fall of 1977 and spring of 1979, I successfully completed accounting courses at the Harrisburg University Center, which were sponsored by Elizabethtown College.

From 1977 through early 1987, I was a Fixed Utility/Valuation Engineer responsible for review and evaluation of claims for depreciation, original and trended original cost valuations, construction work in progress, plant held for future use, materials and supplies, and extraordinary property loss claim in many electric and telephone rate proceedings before this Commission.

In July 1978, I participated in a special depreciation training program sponsored by Western Michigan University at Calvin College in Grand Rapids, Michigan, entitled "Dynamics of Life Estimation".

I took part in the early stages of the "*1979 Triennial Review of The Bell Telephone Company of Pennsylvania Depreciation Review*", which was submitted to this Commission and the Federal Communications Commission (FCC) for review and comment prior to the FCC's prescribing of annual depreciation rates for the next three-year period.

Under the Commission's reorganization in 1987, I was assigned to the Office of Trial Staff, Engineering Section, and Analysis Division. In May of 1987, I was appointed as Supervisor of the Engineering Section, Engineering and Rate Design Division of the Office of Trial Staff, and was responsible for all rate-base, engineering and depreciation issues.

When the Office of Trial Staff reorganized in February of 1994, I was assigned the position of Assistant to the Division Chief, (of the newly formed) Telecommunications/Water Division of the Office of Trial Staff.

My duties, as Assistant to the Division Chief of the Telecommunications/Water Division of the Office of Trial Staff, involved informal training of entry level engineers and work on unusual issues which occur in the various rate proceedings before the Commission in which the Office of Trial Staff becomes involved.

I currently work as a Fixed Utility Valuation Engineer III working on a variety of utility filings.

Early in my time at the Public Utility Commission, I was a Fixed Utility Valuation Engineer in the following major rate proceedings before the Pennsylvania Public Utility Commission:

- 1) The Duquesne Light Company at Docket No. R.I.D 373
- 2) The Pennsylvania Electric Company at Docket No. R.I.D 392
- 3) The Metropolitan Edison Company at Docket No. R.I.D 434
- 4) The Bell Telephone Company of Pennsylvania at Docket
Nos. R.I.D 367 and R-79060719
- 5) The Bethel and Mt. Aetna Telephone and Telegraph Co. at Docket
No. R-77090452
- 6) The Mid-Penn Telephone Corporation at Docket No. R-77090462
- 7) The Commonwealth Telephone Company at Docket No. R-77090482

In addition, I have been a Fixed Utility Valuation Engineer in various other informal rate investigations.

I have testified in the following cases:

General Telephone Company of Pennsylvania at R-7910062
West Penn Power Company at R-80021082, F-842632, and R-850220
Pennsylvania Power & Light Company at R-8003114, R-822169,
R-842651, and R-00973954
Philadelphia Electric Company at R-80061225, and R-842590
Metropolitan Edison Company at R-80051196, R-811601, and R-842770
Pennsylvania Electric Company at R-80051197, R-811602, and R-842771
Pennsylvania Power Company at R-811510, R-832409, R-850267, and
R-870732
UGI Gas at R-821899, and R-870602
Duquesne Light Company at R-850021, R-860378, and R-870651
Shickshinny Water Company at R-870764
Marion Height Water Company at R-870774
National Fuel Gas Distribution Company at R-881125, R-891218,
R-00942991, and R-00963779
Arrowhead Public Service Corporation at R-891557
Duquesne Light Company at P-900485
General Public Utilities at P-910502, and G-900240
LP Water & Sewer at G-910255, A-230242, A-211770
Sunshine Hills Water Company at R-912023
West Penn Power at R-00922378
MPW Utilities Inc. at A-230026
Public Service Water Company at A-210025F002
UGI Utilities Inc., (Electric) at R-00932862, and R-00973975
Pennsylvania American Water Company at R-00932670
National Utilities Inc. at R-00932670
Newtown Artesian Water Company at R-00943157
IntraLATA Interconnection Investigation at I-00940034
MFS Intelenet of PA at A-310203
Alltel at P-981423
Equitable Gas Co., 1307(f), Docket Nos. R-00016132, and R-00005067
Pike County Power & Light, Docket No. R-00011872
UGI Utilities, Inc. – Gas Division, Docket No. R-00016376
Wellsboro Electric Company, Docket No. R-00016356
T. W. Phillips Gas and Oil Company, Docket No. R-0005807
Equitable Gas Co. Restructuring Filing, Docket No. R-00099784
P.F.G. Gas, Inc. and North Penn Gas Companies, Docket No. R-0005277
T. W. Phillips Gas and Oil Company – Restructuring Filing, R-994790
T. W. Phillips Gas & Oil Company, R-00016898
The Peoples Natural Gas Company d/b/a Dominion Peoples, R-00027134;
The Peoples Natural Gas Company, P-00021952

Philadelphia Gas Works -- Restructuring Filing, M-00021612
Duquesne Light Company - POLR, P-00032071
Penn Estates Utilities-Water, R-00038429
Penn Estates Utilities-Sewer, R-00038498
National Fuel Gas Distribution, R-00049108
Equitable Gas Company, R-00049154
PPL Electric Utilities Corporation, R-00049255
Valley Energy, Inc., R-00049345
UGI Utilities, Inc., R-00049422
Township of Falls - Sewer, R-00049557
National Fuel Gas Distribution Corp., R-00049656
National Fuel Gas Distribution Corp., R-00050216
Equitable Gas Company, R-00050272
UGI Utilities Inc., A-120011F2000

Some of the issues I have testified on include:

- 1) Depreciation and Service Life Analysis
- 2) Customer Contributions In Aid of Construction
- 3) Customer Advances for Construction
- 4) Construction Work in Progress
- 5) Material and Supplies
- 6) Post Test Year Plant Additions
- 7) Loan Financing and Repayment
- 8) Utility Plant Used and Useful in the Public Service
- 9) Cost of Gas
- 10) Take or Pay Obligations of Gas Utilities
- 11) Rules and Regulations for New Telecommunications Services
- 12) Contractual Obligations Between Utilities
- 13) Rate Structure and Tariff Issue
- 14) Excess Utility Plant Investment
- 15) Cost of Service and
- 16) General Prudence Issues
- 17) 1307(f) Gas Purchase Issues
- 18) Stranded Electric Costs
- 19) Chapter 30 Issue

OTS Exhibit No. 2
Witness: Michael J. Gruber

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00062227

Exhibit to Accompany

the

Direct Testimony

of

Michael J. Gruber

Office of Trial Staff

Concerning:

85% Limitation on Power Supply
Transmission Service Charge
Large Customer Opt in Dates
Performance Assurance Penalties
Generation Service Charge
Reconciliation

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set I
Dated September 20, 2006**

Docket No. R-00062227

Q.OTS-5. What is the basis of the 85% limitation for suppliers who bid to supply the Company's POLR load?

A.OTS-5. First, the purpose of the limitation is to ensure that there is no means by which "entry deterrence" can be exerted by a large supplier. For example, if suppliers were concerned that one large supplier may be able to supply all the load in each auction, they may elect not to participate in the auction which reduces the competitiveness of the auction. A larger supplier could arguably recognize this and impact other supplier's interest in the auction. Second, the limitation itself ensures suppliers have the expectation that an opportunity to be successful in the each of the auctions exists. Thus, there will be certainty that expending the effort to prepare offers may result in a *supply contract*.

**DOCUMENT
FOLDER**

OTS Statement No. 2-SR

Witness: Michael J. Gruber

DEC 19 2006 P-00062227

Hbg FX

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. P-00062227

Surrebuttal Testimony

of

Michael J. Gruber

Office of Trial Staff

DOCKETED
DEC 27 2006

RECEIVED

DEC 20 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

Reconciliation

Transmission Service Charge

85% Limitation on Power Supply (Load Cap)

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

3 A. My name is Michael J. Gruber. My business address is P. O. Box 3265,
4 Harrisburg, Pennsylvania 17105-3265.

5
6 **Q. ARE YOU THE SAME MICHAEL J. GRUBER WHO SUBMITTED OTS**
7 **STATEMENT NO. 2?**

8 A. Yes.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. This testimony will respond to rebuttal testimony presented by Company
12 witnesses Joseph M. Kleha, in Statement No. 3-R, concerning the reconciliation of
13 the proposed Generation Service Charge (GSC) and Joseph Cavicchi, in Statement
14 No. 2-R, concerning the load cap.

15

16 **Q. WHAT REASONS HAS COMPANY WITNESS KLEHA EXPRESSED IN**
17 **SUPPORT OF RECONCILIATION IN HIS REBUTTAL TESTIMONY?**

18 A. On page 8 of Statement No. 3-R, Mr. Kleha referenced a Commission motion on
19 October 18, 2006, which involved the full recovery of costs associated with
20 Customer Assistance Programs (CAP) through a reconcilable surcharge or one that
21 is frequently adjusted to insure complete recovery by the Company of its costs.

1 What Mr. Kleha failed to discuss is that CAP costs are distribution related costs
2 and not generation related costs like the GSC.

3 Mr. Kleha also states that reconciliation of the GSC is necessary for
4 compliance with the Alternative Energy Portfolio Standards Act (AEPS). In
5 addition, he points out that under the proposed Competitive Bridge Plan, it is the
6 responsibility of the bidder to supply sufficient renewable energy resources in
7 order for a bid to be successful.

8 I believe that in this instance, it is the supplier's responsibility to recover
9 the costs associated with its AEPS requirements and not the electric distribution
10 company (EDC). In this regard, Section 3 (A) (1) ¹ of the AEPS indicates that
11 either the supplier or the EDC will be responsible for obtaining the alternative
12 energy credits.

13
14 **Q. WHAT POSITION DOES MR. KLEHA TAKE ON THE EFFECT**
15 **RECONCILIATION WILL HAVE ON POLR RATES?**

16 A. On page 9 of statement 3-R, he states that he does not believe that reconciliation
17 will have any significant effect on POLR rates. However, at pp. 12-13, he
18 discussed the risk which would have to be shifted to the supplier if the Company is
19 not permitted to institute reconciliation. Further, he states that this risk would
20 cause higher rates.

¹ 73 P.S. § 1648.3 (A) (1)

1 **Q. HOW DOES THIS ARGUMENT AFFECT YOUR POSITION AGAINST**
2 **ALLOWING RECONCILIATION?**

3 A. It strengthens my position against reconciliation. Competitors will not have the
4 option of a reconcilable rate; therefore any rate they offer would have to include
5 that risk in its formulation. In contrast, the POLR rate would not include any
6 increase for the risk of under-recovery. Therefore, my argument that
7 reconciliation would harm competition is fully supported by this example.

8
9 **Q. DOES MR. KLEHA SAY ANYTHING ELSE ABOUT THE EFFECTS OF**
10 **NOT HAVING RECONCILIATION OF THE GSC?**

11 A. Yes, Mr. Kleha is of the opinion that supplier default would become a larger
12 problem if there is no reconciliation.

13
14 **Q. DO YOU HAVE ANYTHING TO SAY WITH REGARD TO SUPPLIER**
15 **DEFAULT?**

16 A. Yes. I believe it is the EDC's responsibility to insure that there are enough
17 performance assurance clauses in place to prevent the POLR customer from being
18 harmed.

1 **Q. DO YOU HAVE ANY OTHER ISSUES?**

2 A. Yes, Mr. Kleha correctly states at pp. 4-5 of his Statement 3-R that the Company's
3 withdrawal of its proposed Transmission Service Charge modifications, satisfies
4 the concerns I raised on this matter in my direct testimony. Also, in Statement No.
5 2-R, Company Witness Cavicchi states that he believes that OTS is using a 50
6 MW tranche size as a substitute for a load cap which limits a supplier to a
7 maximum of 85% of the overall POLR load.

8
9 **Q. IS THIS BELIEF TRUE?**

10 A. No.

11
12 **Q. WHAT IS THE POSITION OF OTS CONCERNING LOAD CAPS?**

13 A. Quite simply, I believe that load caps are unnecessary and anti-competitive.
14 Limiting a supplier's ability to supply generation at a lower price to only 85% of
15 the POLR load, makes the supply of that last 15% of the POLR load less
16 competitive because it excludes a supplier with the ability to supply POLR
17 generation at a lower price purely because it is already supplying the first 85% of
18 the POLR generation.

19
20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes.

DEC 19 2006

*P-00062227
10/6/06 TX*

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
BARBARA R. ALEXANDER

DOCKETED
DEC 27 2006

ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

RECEIVED

DEC 26 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

DECEMBER 2006

1 Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

2 A. My name is Barbara R. Alexander. I use the title of Consumer Affairs Consultant. My
3 address is 83 Wedgewood Dr., Winthrop, ME 04364. I appear in this case as a witness
4 on behalf of the Office of Consumer Advocate (OCA).

5 Q. PLEASE STATE YOUR BACKGROUND AND QUALIFICATIONS.

6 A. I opened my consulting practice in March 1996, after nearly ten years as the
7 Director of the Consumer Assistance Division of the Maine Public Utilities Commission.
8 While there, I testified as an expert witness on consumer protection, customer service and
9 low-income issues in rate cases and other investigations before the Commission. My
10 consulting practice is directed to consumer protection, customer service and low-income
11 programs and policies relating to the regulation of the telephone, electric and gas
12 industries. In particular, I have focused on the changes in policies and procedures
13 required by state regulation in the transition to retail competition. My recent clients
14 include the Pennsylvania Office of Consumer Advocate, New Jersey Division of
15 Ratepayer Advocate, Maryland Office of People's Counsel, Maine Office of Public
16 Advocate, Illinois Citizens Utility Board, and AARP (in Montana, Illinois, New Jersey,
17 Maine, and the District of Columbia). Among my publications is: Retail Electric
18 Competition: A Blueprint for Consumer Protection, (U.S. Department of Energy, Office
19 of Energy Efficiency and Renewable Energy, October, 1998). Most recently, I have
20 focused attention on Default Service issues relating to the transition to retail competition
21 for both electric and natural gas industries. I have published several papers on Default

1 Electric Service,¹ and have recently published a paper on state regulatory policies to
2 dampen price volatility in the provision of natural gas supply service.² I have filed
3 testimony on default service issues in Maine, Montana, Maryland, District of Columbia,
4 Pennsylvania, and made numerous presentations on this issue before state regulatory
5 commissions and at national conferences.

6 I am also an attorney, and a graduate of the University of Michigan (1968) and the
7 University of Maine School of Law (1976).

8 I have been involved in the implementation of retail electric and natural gas
9 competition in Pennsylvania on behalf of the OCA for several years. I filed testimony on
10 consumer education, consumer protection, supplier licensing, customer enrollment,
11 default service, and Code of Conduct issues for the OCA in the Commission's electric
12 restructuring proceedings in 1997 and 1998 and on these same issues in the natural gas
13 restructuring cases in 1999 and with regard to the PGW gas restructuring proceeding in
14 2003. I have provided testimony submitted on behalf of the OCA on service quality and
15 low income program issues associated with recent electric and natural gas distribution
16 company mergers. With respect to POLR issues, I filed testimony on behalf of the OCA
17 in the Duquesne Light POLR III plan case, Docket No. P-00032071, and the Penn Power
18 POLR case, Docket No. P-00052188.

19 I attach my Resume as Appendix A.
20

¹ My April 2002 paper is available at <http://www.ncat.org/liheap/pubs/barbadefault3.doc>. My most recent publication on Default Electric Service, "Managing Default Service to Provide Consumer Benefits in Restructured States: Avoiding Short Term Price Volatility" (2003), is also available at http://www.neaap.ncat.org_experts_index.

² "Natural Gas Price Volatility: Regulatory Policies to Assure Affordable and Stable Gas Supply Prices for Residential Customers," (2004), available at <http://www.ncat.org/liheap/news/Feb04/gaspricevol.htm>

1 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

2 A. No.

3 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

4 A. I am filing Rebuttal Testimony in response to the testimony of Thomas Butler on behalf
5 of Dominion Retail, Frank Lacey on behalf of Direct Energy Services, and James Ajello
6 on behalf of Reliant Energy.

7 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

8 A. My Rebuttal testimony is based on the assumption that the purpose of this proceeding is
9 to decide how PPL should acquire the necessary generation resources to provide POLR
10 service for 2010 and that this proceeding does not address a longer term POLR policy or
11 POLR plan. Therefore, I do not address Mr. Butler's suggestion on behalf of Dominion
12 Retail that a three-year POLR contract might be appropriate. Rather, my testimony
13 opposes the proposals made by Mr. Lacey on behalf of Direct Energy Services and Mr.
14 Butler's "optimal" POLR approach that would require PPL to purchase POLR generation
15 resources on a monthly basis and impose monthly price changes for residential
16 customers. My testimony also addresses the interpretations and policy implications made
17 by Mr. Ajello on behalf of Reliant Energy concerning two recent surveys of Pennsylvania
18 customers concerning retail electric competition.

1 Q. OVERALL, DO YOU AGREE WITH THE BASIS FOR THE PROPOSALS BY THE
2 RETAIL ELECTRIC GENERATION SUPPLIERS (EGS) CONCERNING POLR
3 SERVICE AND ITS ROLE FOR PENNSYLVANIA RESIDENTIAL ELECTRIC
4 CUSTOMERS?

5 A. No. The views espoused by the EGS witnesses in this case (and in other cases) reflect an
6 intent to provide residential customers with their essential electricity service based on
7 volatile short term wholesale market prices for one type of contract, an all-requirements
8 contract that is purchased for a monthly period. These witnesses appear to believe that
9 such a method of providing POLR will drive these customers to competitive retail
10 marketers who will then provide what customers want, a longer term and more stably
11 priced electricity product. The marketers argue that they cannot compete against a stable
12 POLR price, even in those jurisdictions which have purchased their default service
13 through competitive wholesale market solicitations and passed through annual price
14 changes based on the changing contract prices included in the default service portfolio.
15 The proposal to require that PPL purchase 100% of its POLR obligation every month and
16 pass through monthly price changes to residential customers should be rejected.

17 Q. PLEASE SET FORTH THE REASONS WHY BUYING 100% OF THE POLR
18 OBLIGATION EACH MONTH OR CHANGING POLR PRICES EACH MONTH
19 SHOULD BE REJECTED.

20 A. There are many reasons why the Commission should reject this proposal:
21 • First, this case concerns the POLR obligation that PPL must secure for one year. It
22 would be unwise to set in motion a dramatic change in the way POLR service has
23 been provided for such a short term period. None of the other interim POLR cases in

1 Pennsylvania have adopted this proposal even though it has previously been
2 proposed. Furthermore, both Maryland³ and Delaware⁴ regulators have recently
3 rejected the same proposal made by Mr. Lacey in this proceeding for upcoming
4 default service solicitations for 2007.

- 5 • Second, retail competition states are generally moving away from short-term POLR
6 portfolio plans and adopting longer term “thinking” about POLR. Since retail
7 competition has not developed for residential customers in any State (other than
8 Texas, which has a unique market structure and set of statutory policies not applicable
9 to Pennsylvania), and short-term wholesale market contracts reflect volatile prices
10 that are driven by natural gas prices, regulators and policymakers are adopting default
11 service policies that require a more diverse array of contracts and contract terms to
12 assure an affordable and stable electricity product for customers who have no options.
13 This is not a move away from “competition,” but recognition that the default service
14 portfolio can reflect a diverse variety of competitively priced contract types and
15 contract terms rather than relying entirely on short-term and more volatile all-
16 requirements contracts of three years or less.

- 17 i) In response to higher Standard Offer Service (SOS) prices and concerns about the
18 impending installed capacity program adopted by the regional ISO, **An Act to**

³ The Maryland PSC rejected the proposal for monthly price changes as proposed by the Retail Electric Supply Association for the upcoming SOS solicitation for 2007, citing a need for greater price stability for residential customers. Case 9064, Order 81102, October 31, 2006, pages 40-41. The Order is available at: http://webapp.psc.state.md.us/Intranet/CaseNum/NewIndex3_VOpenFile.cfm?ServerFilePath=C%3A%5CCasenum%5C9000%2D9099%5C9064%5C092%2Epdf

⁴ The Delaware PSC rejected the proposal for monthly price changes as proposed by the Retail Electric Supply Association for its forthcoming SOS solicitations, citing a need for greater price stability for residential customers. Docket 04-391, Order No. 7053, October 3, 2006, page 21. The order is available at: <http://www.state.de.us/delpsc/orders/7053.pdf>

1 **Enhance Maine's Energy Independence and Security** (Acts of 2005 Chapter
2 677) was recently adopted. The Maine legislation adopted two different
3 amendments and approaches for electricity prices. First, the Standard Offer section
4 of Maine's restructuring law is amended to specifically authorize the PUC to
5 design energy efficiency programs⁵ and include their cost in the SOS price. This
6 approach will allow the PUC to initiate a competitive bidding process for energy
7 efficiency programs and link the achievement of actual usage reductions to contract
8 payments as part of its SOS portfolio. In addition, the statute has been amended to
9 add an explicit policy goal that should guide the Maine Commission's planning and
10 implementation of SOS. That is: "over a reasonable time period the lowest price
11 for standard-offer service to residential and small commercial customers." To
12 implement this policy the PUC can consider various contract lengths and contract
13 terms. The second new initiative authorizes the Maine Commission to take certain
14 steps, if necessary, to increase capacity resources and long term reliability of
15 service for Maine's electricity supply. Under this approach, the PUC may
16 negotiate long term capacity contracts (with a priority given for renewable
17 resources) and order the distribution utilities to enter into those contracts.

18 ii) *After the results of the 2006 competitive acquisition of Standard Offer Service for*
19 *residential customers resulted in a 56% average total bill increase, Delaware*
20 *enacted **The Electric Utility Retail Customer Supply Act of 2006** (75 Del. Laws*
21 *242 (2005)). The law now explicitly states that Standard Offer Service "shall be*

⁵ Similar to its role in the implementation of SOS, the Maine PUC is responsible for the planning and implementation of energy efficiency programs with public benefits funding. This program is marketed under the name, *Efficiency Maine*.

1 treated as a public utility service or function,” but the right to shop and select a
2 competitive electricity provider is expressly continued. The only investor-owned
3 electric utility (Delmarva, a subsidiary of Pepco Holdings, Inc.) is required to
4 create and file an Integrated Resource Plan with a 10-year planning period by
5 December 1, 2006. The required Integrated Resource Plan must “evaluate all
6 available supply options during a ten (10) year planning period in order to acquire
7 sufficient, efficient and reliable resources over time to meet its customers’ needs at
8 a minimal cost.” The Integrated Resource Plan must also investigate all potential
9 options, including demand side management, wholesale market contracts obtained
10 via bid or auction, long-term purchased power contracts, self generation, as well as
11 short term or spot market purchases where appropriate. In addition, as a
12 preliminary move to a more diversified portfolio, the utility is required to
13 specifically solicit long term contracts in late 2006 with a term not to exceed 25
14 years “for the construction of new generation resources within Delaware for the
15 purpose of serving its customers taking Standard Offer Service.”

16 iii) Faced with rising electricity prices and in reaction to short term wholesale market
17 contracts used for default service, Rhode Island enacted **The Comprehensive**
18 **Energy Conservation, Efficiency and Affordability Act of 2006** (2006 General
19 Assembly, S. 2903, signed June 30, 2006). Under the Rhode Island electric
20 restructuring model, the electric utilities remained responsible for acquiring
21 Standard Offer Service for non-shopping customers which had been done under a
22 series of relatively short term wholesale market contracts. After proposed rate
23 increases of up to 25% by the largest electric utilities due to the impact of SOS

1 prices, the Rhode Island General Assembly enacted a comprehensive bill that
2 addresses reforms for SOS policies and procurement, new low income bill payment
3 assistance programs, and a significant increase in funding and implementation of
4 energy efficiency and demand response programs. The obligation of the electric
5 utilities to arrange for Standard Offer Service was extended from 2009 through
6 2020 and the obligation to plan and acquire the necessary resources is now
7 governed by “least cost procurement.” This term is defined to include system
8 reliability, energy efficiency and conservation procurement, and supply
9 procurement. The electric utilities are responsible for procurement plans, which
10 must be approved by the PUC.

11 iv) Maryland has adopted statutory reforms to its Standard Offer Service in Senate Bill
12 1, effective July 1, 2006. The obligation to provide SOS is extended indefinitely
13 after the initial statutory end date of July 2003. This service must be structured to
14 “obtain the best price for residential and small commercial customers in light of
15 market conditions at the time of procurement and the need to protect these
16 customers from excessive price increases.” The contracts may include those
17 acquired through a competitive process, as well as one or more bilateral contracts
18 outside the competitive process. The contracts must result in a “portfolio of
19 blended wholesale supply contracts of short, medium or long terms, and other
20 appropriate electricity products and strategies, as need to meet demand in a cost
21 effective manner.” In addition, the procurement may include “cost effective energy
22 efficiency and conservation measures and services.”

- 1 • Third, changing POLR prices every month for residential customers would be
2 harmful to many customers, particularly those with modest or fixed incomes. This
3 type of pricing proposal for the generation portion of the bill would essentially
4 prevent the EDC from offering budget payment plans because of the unknown and
5 unpredictable nature of future POLR prices during a 12-month period. Another
6 adverse impact of such an approach would be to threaten the affordability of basic
7 electricity service for those residential customers on payment plans and those enrolled
8 in Customer Assistance Programs where the underlying bill must be stable and
9 predictable to assure regular monthly payment. Such an approach may also
10 complicate and potentially prevent the calculation of an accurate CAP benefit or
11 monthly bill. Even if such an approach does not create an insurmountable barrier for
12 the calculation of CAP payment plans and budget payment plans, monthly price
13 changes and unpredictable POLR prices will result in increased universal service
14 administrative and operational costs.
- 15 • Fourth, contrary to the implications of Mr. Ajello’s recitations of the results of recent
16 customer surveys in Pennsylvania, there is no basis for asserting that residential
17 customers want volatile bill and price changes as a “price” for the option to buy a
18 more stable electricity product from a competitive marketer. On the contrary, surveys
19 in other states have documented that customers want default service to be the lowest
20 and most stably priced product and that regulators should not artificially adopt an
21 approach that would raise default service prices to stimulate retail competition.
- 22 • Finally, there is no basis for concluding that adopting such an approach, particularly
23 in this case which addresses PPL’s POLR obligation for one year, will in fact result in

1 robust retail competition for residential customers. In general, no sustainable or
2 robust market for the retail sale of electricity to residential customers has developed.
3 This is true whether the state has adopted more volatile or frequent price changes for
4 generation supply or relied on a ladder approach with short term wholesale market
5 contracts for default or SOS. In some New York jurisdictions, the New York Public
6 Service Commission has promoted monthly price changes for default electric service
7 for exactly the reasons put forth by Mr. Lacey. The change in default service
8 procurement and pricing was also accompanied by enrollment programs sponsored by
9 the EDC with discounts that were funded in part by utility ratepayers. The results to
10 date have been less than encouraging. The vast majority of residential customers
11 have remained with their utility. The overall state migration rate for residential
12 customers is about 10%, but this average masks significant differences among the
13 electric utilities. The rate of residential customer migration ranges from 1.2% to
14 37%, the latter a reflection of the "incentives" program in effect at Orange and
15 Rockland Utilities.⁶ Even though the price for default service varies monthly for all
16 Consolidated Edison customers in New York, only 7-8% of the residential customers
17 have migrated to alternative energy suppliers. In Massachusetts where default service
18 prices have changed every six months, the level of marketer activity and residential
19 shopping is negligible. As of July 2006, 9% of residential customers were served by
20 a competitive supplier on a statewide basis, but less than 1% of Boston Edison's

⁶ New York PSC, Electric Retail Access Migration Reports, available at: www.dps.state.ny.us/Electric_RA_Migration.html. The most recent report was issued in June 2006.

1 residential customers had migrated to another supplier.⁷ Approximately 6% of the
2 total residential migration percentage is composed of customers in a municipal
3 aggregation program that serves several small towns called Cape Light Compact
4 Project. In jurisdictions that have relied on annual price changes for default service—
5 e.g., Maryland, Connecticut, District of Columbia, Maine—there are almost no
6 marketers seeking residential customers.

7 Q. PLEASE DISCUSS THE INTERRELATIONSHIP BETWEEN POLR POLICY AND
8 RETAIL ELECTRIC COMPETITION.

9 A. The Commission's POLR policies should be neutral with respect to the ability of
10 marketers to offer different electric services to residential customers. However, the
11 Commission should not rely on competitive providers to assure the primary customer
12 benefits that should be reflected in the POLR product, particularly protection from
13 excessive volatility. If marketers can offer services that are lower priced or that reflect
14 attributes that some customers may want, e.g., green power, more volatile prices,
15 alternative metering or DSM services, they should be free to make such offers pursuant to
16 licensing and consumer protection rules.

17 The goal of restructuring was to provide customer benefits. There is no basis for
18 interpreting the Pennsylvania restructuring statute as suggesting that residential
19 customers must be given an "ugly" service just to create more retail shopping for
20 residential customers. This is particularly true when there is no factual basis for
21 concluding that such an approach would work in any case. The goal of restructuring was
22 not to achieve a certain level of customer switching or migration. Nor was the goal to

⁷ Massachusetts electric migration statistics are published monthly by the Massachusetts Division of Energy Resources: <http://www.mass.gov/Eoca/docs/doer/2006migrate.pdf>.

1 prop up competitive entrants who are not able to assemble a portfolio of electricity
2 contracts or products to “beat” a stable POLR price or who are unable to offer value to
3 residential customers beyond POLR service. The goal of restructuring was to create the
4 potential for using competitive market forces to achieve the ultimate goal of long term
5 lower costs for electricity.

6 Q. CAN YOU DISCUSS IN MORE DETAIL THE SURVEYS RELIED UPON BY MR.
7 AJELLO IN HIS DISCUSSION OF WHAT CUSTOMERS WANT IN
8 PENNSYLVANIA.

9 A. The surveys discussed by Mr. Ajello and attached to his testimony do not address
10 customer preferences for electricity pricing and POLR pricing policies. These surveys
11 document that many customers prefer to rely on competitive markets to price electricity,
12 not a remarkable result since the U.S. economy typically relies on competitive markets to
13 price most goods and services. Taken in isolation, it is understandable that customers
14 would want to see competitive forces at work to lower their electric bill. However, it is
15 not appropriate to take these generic statements and policy preferences and suggest that
16 the results have meaning for the determination of POLR pricing policies. In other states,
17 statistically valid surveys have documented that residential customers prefer stable
18 electricity prices and would be willing to pay a small premium to achieve this goal. The
19 Maine PUC conducted a survey several years ago and found that the vast majority of
20 customers would rather have lower standard offer (the Maine equivalent of POLR is
21 Standard Offer) prices than have a greater number of competitive suppliers from which to
22

1 choose.⁸ AARP surveys in Connecticut and New York have also documented customer
2 preference for price stability and less frequent price changes for essential energy services.
3 AARP conducted a statistically valid survey of Connecticut residents age 50 and older in
4 early 2003. The vast majority of respondents said they want the state to set stable and
5 affordable rates for electricity even if it meant less opportunity to choose an electricity
6 provider. Nearly nine in ten residents surveyed felt that it was very important or
7 somewhat important that their electricity rates do not change a lot from month to month.⁹

8 Q. WILL THE USE OF FREQUENT PRICE CHANGES FOR THE POLR PORTION OF
9 THE ELECTRIC BILL REQUIRE AN EXTENSIVE AND EXPENSIVE CUSTOMER
10 EDUCATION PROGRAM AND INCREASE UTILITY EXPENSES?

11 A. Yes. If the POLR price changes every month and cannot be predicted in advance,
12 customers will not have a “price to compare” against which to shop and consider offers
13 made by EGSs. This problem is evident in the natural gas restructuring programs where
14 natural gas supply prices change frequently and confuse and make more difficult a
15 customer’s ability to shop and compare offers from competitive natural gas suppliers.
16 Furthermore, since residential customers have not experienced monthly price changes for
17 electricity, the obligation to educate customers and prepare for such a dramatic change
18 will naturally fall on the EDC, increasing its operations expenses associated with
19 additional education materials, call center talk time, and changes to the utility’s ability to

⁸ Nearly ¾ of all respondents preferred the lower prices to the option of having more choices in the competitive market for electricity and 2/3 opposed the notion of raising the standard offer price to encourage entry by competitive suppliers. This was true across all demographic and usage profiles. The survey is available on the Maine PUC website: http://www.state.me.us/mpuc/industries/electricity/standard_offer/standard_offer_study.html.

⁹ Connecticut adopted retail electric competition in 1998. The AARP survey is available at: <http://www.aarp.org/research/reference/publicopinions/aresearch-import-134.html>.

1 offer budget payment plans and other payment plans designed to stabilize customer bills
2 to make them affordable and more likely to be paid on a regular basis.

3 Q. ARE THERE OTHER DANGERS IN RELYING SOLELY ON COMPETITIVE
4 ENERGY MARKETERS TO PROVIDE A STABLE PRICE FOR ESSENTIAL
5 ELECTRICITY SERVICE?

6 A. As clearly demonstrated by events in Pennsylvania and elsewhere, if a marketer fails to
7 properly construct a portfolio when it offers a one or two year fixed price offer for
8 electric service to customers, the marketer can and will suddenly exit the market and
9 return its customers to the EDC. The Commission should not rely entirely on
10 competitive marketers who do not have an obligation to serve as the basis for assuring
11 stable and reasonably priced electricity service for residential customers.

12 Q. DOES THIS COMPLETE YOUR TESTIMONY?

13 A. Yes, at this time.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE PETITION)
OF THE PPL ELECTRIC UTILITIES) DOCKET NO. P-00062227
CORPORATION FOR APPROVAL OF A)
COMPETITIVE BRIDGE PLAN)

APPENDIX A TO THE
REBUTTAL TESTIMONY
OF
BARBARA R. ALEXANDER

ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

DECEMBER 2006

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Maine Office of Public Advocate
Colorado Office of Consumer Counsel
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The Utility Reform Network (TURN) (California)
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- Consumer Protection and Service Quality policies and programs associated with the regulation of competitive energy and telecommunications providers;
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Prior Employment

DIRECTOR 1986-96
Consumer Assistance Division
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One of five division directors appointed by a three-member regulatory commission and part of commission management team. Direct supervision of 10 employees, oversight of public utility consumer complaint function, appearance as an expert witness on customer services, consumer protection, service quality and low income policy issues before the PUC. Chair, NARUC Staff Subcommittee on Consumer Affairs.

SUPERINTENDENT 1979-83
Bureau of Consumer Credit Protection
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Director of an independent regulatory agency charged with the implementation of Maine Consumer Credit Code and Truth in Lending Act. Investigations and audits of financial institutions and retail creditors, enforcement activities, testimony before Maine Legislature and U.S. Congress.

Education

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University of Maine School of Law Portland, Maine

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University of Michigan Ann Arbor, Michigan

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Rebuttal and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, In the Matter of the Petition of the Pennsylvania Power Co. for Approval of an Interim Provider of Last Resort Supply Plan, Docket No. P-00052188 [Default or POLR Electric Service policies] (December 2005 and January 2006).

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Direct Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, In Re Application of UGI Utilities, Inc., UGI Utilities Newco, Inc., and Southern Union Co., Docket Nos. A-120011F2000, A-125146, A-125146F5000 (June 2006). [Customer Service, Service Quality, and Universal Services]

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Direct and Rebuttal Testimony on behalf of the Maryland Office of People's Counsel before the Maryland PSC, In The Matter of the Optimal Structure of the Electric Industry of Maryland, Case No. 9063 (October and November 2006). [Default service policies]

Comments on behalf of AARP Maine before the Maine PUC on various dockets and notices concerning the implementation of Standard Offer Service for residential customers, Docket Nos. 2006-314, 2006-557, and 2006-411 (July-November 2006). [Default service policies]

Comments on behalf of AARP District of Columbia before the District of Columbia PSC, In the Matter of the Development and Designation of Standard Offer Service in the District of Columbia, Case No. 1017 (2006). [Default service policies]

Comments on behalf of AARP New Jersey before the New Jersey Board of Public Utilities, In the Matter of the Establishment of A Universal Service Fund Pursuant to Section 12 of the Electric Discount and Energy Competition Act of 1999, Docket No. EX00020091 (August 2006) [Recommendations for USF program changes]

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Direct Testimony on behalf of Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, Pennsylvania PUC v. Natural Fuel Gas Distribution Corp., Docket No. R-00061493 (September 2006) [Supplier Purchase of Receivables Program]

Presentations and Training Programs:

- National Low Income Energy Consortium (NLIEC) Annual Conference
- NARUC
- NASUCA
- State Legislatures: *New Jersey, Texas, Kentucky, and Maine*
- Commissions: *Pennsylvania, Georgia, Kentucky, Illinois, New Jersey*
- DOE-NARUC National Electricity Forum
- AIC Conference on Reliability of Electric Service
- Institute of Public Utilities, MSU (Camp NARUC) [Instructor since 1996]
- Training Programs on customer service and service quality regulation for international regulators (India and Brazil) on behalf of Regulatory Assistance Project
- Georgia Natural Gas Deregulation Task Force [December 2001]
- Mid Atlantic Assoc. of Regulatory Utility Commissioners [July 2003]
- Illinois Commerce Commission's Post 2006 Initiative [April 2004]
- Delaware Public Service Commission's Workshop on Standard Offer Service [August 2004]

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 1

Direct Testimony of Douglas A. Krall

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

2 A. My name is Douglas A. Krall. My business address is Two North Ninth Street,
3 Allentown, Pennsylvania, 18101.

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

6 A. I am employed by PPL Electric Utilities Corporation ("PPL Electric" or the
7 "Company") a subsidiary of PPL Corporation. I work in the Asset Management
8 Department of PPL Electric and my title is Manager – Regulatory Strategy.

9
10 Q. Please describe your primary responsibilities in that position.

11 A. As Manager – Regulatory Strategy, I am responsible for assisting in the
12 development of long-term strategy, goals and objectives; providing regulatory
13 insights into the development and implementation of business strategies; and
14 leading the development of responses to legislative, regulatory, and political
15 issues.

16
17 Q. What is your educational background?

18 A. I graduated from Stevens Institute of Technology in Hoboken, New Jersey in
19 1973 with a Bachelor of Engineering degree in Mechanical Engineering. I have
20 completed courses in Business Administration at Muhlenberg College in
21 Allentown, Pennsylvania.

22
23 Q. Are you a registered Professional Engineer?

1 A. Yes. I have been a registered Professional Engineer in the Commonwealth of
2 Pennsylvania since 1977. My registration number is PE-026733-E.

3
4 Q. Please describe your professional experience.

5 A. I joined the Mechanical Engineering Department of PPL Electric's predecessor,
6 Pennsylvania Power and Light ("PP&L"), in 1973 as an Engineer-Level I working
7 on studies related to PP&L's generating plants. In 1974, the engineering
8 functions were restructured, and I became a member of the Power Plant
9 Engineering Department. In 1975, I was promoted to the position of Engineer-
10 Level II, and, in 1978, to the position of Project Engineer within that department.
11 Later in 1978, I transferred to the System Planning Department, and in 1981, I
12 was promoted to the position of Senior Project Engineer. In both of those
13 positions I was responsible for the development of plans related to maintaining
14 and upgrading PP&L's existing fossil and hydro generating plants. In 1984, I was
15 promoted to the position of Manager-Generation Development Planning within
16 the System Planning Department with responsibility for the portion of PP&L's
17 capital budget related to existing fossil and hydro generating plants as well as
18 overall administrative responsibility for PP&L's capital budget. I was also, in that
19 position, PP&L's coordinator for activities related to compliance with the 1990
20 Federal Clean Air Act Amendments. In December 1994, my title changed to
21 Manager-Integrated Resource Planning, but the duties remained relatively the
22 same. In April 1996, I became the Manager-Resource Planning and Pricing. In
23 this capacity, I supervised the development of integrated resource plans, the

1 administration of PP&L's responsibilities regarding non-utility generation, the
2 development of PP&L's capital budget and the development and administration
3 of PP&L's tariff for electric service. When the Electricity Generation Customer
4 Choice and Competition Act ("Competition Act") was passed in Pennsylvania in
5 late 1996 and the pace of industry restructuring accelerated, my duties in this
6 position changed rapidly. The generation and capital budgeting functions were
7 moved to other organizations and, ultimately, to different affiliates. In their place,
8 I took on new duties related to load analysis and coordination of activities within
9 the regulated distribution entity to implement customer choice. In August 2001,
10 I assumed my current position.

11
12 Q. Have you previously testified as a witness before the Pennsylvania Public Utility
13 Commission ("PUC") or the Federal Energy Regulatory Commission ("FERC")?

14 A. Yes. I have testified before the PUC on numerous occasions including the
15 Company's most recent distribution rate proceeding (Docket No. R-00049255),
16 its restructuring proceeding (Docket No. R-00973954), a base rate proceeding
17 (Docket No. R-00943271), proceedings regarding non-utility generators, and
18 proceedings arising from customer complaints.

19 At the FERC, I have testified in regard to PP&L's compliance plans under
20 the 1990 Clean Air Act Amendments (Docket No. ER95-1267), and in regard to
21 PP&L's investment in generating plants to serve its wholesale customers (Docket
22 No. SC97-1-000).

23

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

2 A. My testimony describes and supports the following elements of PPL Electric's
3 August 2 Petition:

- 4 • An overview of PPL Electric's Competitive Bridge Plan ("CBP");
- 5 • The Company's proposals in the CBP to enhance its existing demand side
6 response ("DSR") programs;
- 7 • The Company's proposal in the CBP for a three-year consumer education
8 program beginning in 2007.

9

10 Q. Please identify any Exhibits you are sponsoring in this proceeding.

11 A. I am sponsoring Exhibits DAK 1 and DAK 2, which are explained in more detail
12 below.

13

14 Q. Please summarize the essential elements of PPL Electric's CBP.

15 A. On August 2, 2006, the Company filed a petition with the PUC asking it to
16 approve a CBP consisting of the following four essential elements:

- 17 • a three-year competitive procurement program, beginning in 2007, to obtain
18 all of the generation supply needed to meet the Company's Provider of Last
19 Resort ("POLR") obligations in 2010;
- 20 • enhancements of the Company's existing DSR programs;
- 21 • a three-year consumer education program beginning in 2007; and
- 22 • an increase in assistance for low-income customers beginning January 1,
23 2010.

1 Each of these initiatives is discussed in more detail in the direct testimony filed by
2 the Company.

3
4 Q. Please describe the direct testimony filed by the Company in this proceeding.

5 A. PPL Electric has filed four statements of direct testimony in support of its
6 proposal. The Company's witnesses and the subject matter of their testimony
7 are:

- | | | | |
|----|-------------------|------------------|--|
| 8 | • Statement No. 1 | Douglas A. Krall | Overview of the CBP Filing;
9 Enhancements of existing DSR
10 Programs; Consumer Education |
| 11 | • Statement No. 2 | Joseph Cavicchi | Competitive Procurement Program
12 to obtain POLR Supply for 2010 |
| 13 | • Statement No. 3 | Joseph M. Kleha | Generation Supply Charge and
14 Other Rate-Related Issues |
| 15 | • Statement No. 4 | Timothy R. Dahl | Assistance for Low Income
16 Customers |

17
18 Q. Why does PPL Electric believe that it is appropriate to implement the CBP?
19

20
21 A. The Company believes that implementation of the CBP will help to reduce the
22 likelihood of so-called "rate shock" when its generation rate cap ends on
23 January 1, 2010. I would like to provide some background on this issue.
24

25
26 On August 27, 1998, the Commission approved a settlement of PPL
27 Electric's restructuring filing under the Competition Act. Among other things, the
28 Restructuring Settlement extended PPL Electric's generation rate cap from the
29 end of 2005 to the end of 2009. It also confirmed that PPL Electric would
30 continue to serve as the POLR for its non-shopping retail customers for the

1 duration of the stranded cost recovery period, i.e., through December 31, 2009.
2 To meet its POLR obligation within the rate cap constraints, PPL Electric issued
3 a request for proposals ("RFP") to obtain, through a competitive bidding process,
4 the required supply of energy and capacity. PPL EnergyPlus, LLC, an affiliate of
5 PPL Electric, was the winning bidder. On June 20, 2001, the parties executed a
6 generation supply agreement ("GSA") under which PPL Electric purchases its
7 POLR supply requirements from PPL EnergyPlus. On July 13, 2001, the
8 Commission approved the GSA.

9 *By its terms, the GSA terminates on December 31, 2009, and, after that*
10 *date, PPL EnergyPlus has no obligation to provide generation supply to PPL*
11 *Electric. As a result, beginning January 1, 2010, PPL Electric must obtain the*
12 *generation supply needed to meet its POLR obligations from the competitive*
13 *market. The price for that supply will be set by the market and ultimately*
14 *reflected in the POLR rates charged to its retail customers.*

15 Over the past year, significant price increases resulting from the end of
16 rate caps and the purchase of POLR supply in the competitive market have
17 become an important public policy issue. For example, in its order scheduling an
18 en banc hearing to address this issue, the Commission cited the experience of
19 Pike County Light and Power Company (an increase of over 70% in total electric
20 bills beginning in 2006), Delmarva Power Company (an increase of 59% in
21 residential rates beginning May 1, 2006) and Baltimore Gas & Electric Company
22 (an increase of 72% in total electric bills beginning July 1, 2006). More recently,
23 issues regarding price and the willingness of suppliers to provide certain POLR

1 products have surfaced in the Pennsylvania Power Company generation supply
2 procurement.

3 PPL Electric believes that, based on current forward market prices for
4 generation in 2010, that its total POLR rate increase on January 1, 2010 should
5 be much smaller than those cited above. The Company currently estimates that
6 the increase will be on the order of 20% to 30%. This amount is still substantial,
7 however, and could be higher or lower based on actual market prices over the
8 next several years. PPL Electric, therefore, believes that it is prudent to take
9 action now to begin to obtain POLR supply for 2010, which may help to moderate
10 POLR rate increases on January 1, 2010 by spreading the acquisition of POLR
11 supply over a period of several years and, thereby reduce the risk from a short-
12 term price spike.

13
14 Q. As part of its CBP, is PPL Electric requesting permission to implement additional
15 shopping rules for its retail customers?

16 A. No. In its filing, PPL Electric is not proposing any new restrictions on shopping
17 by retail customers, except minimum "opt-in" requirements for large commercial
18 and industrial customers who desire to receive annual fixed rates for POLR
19 service in 2010. Under these "opt-in" rules, large commercial and industrial
20 customers must decide by the end of 2008 whether to elect annual fixed rates. If
21 such a customer does not select the fixed rate option and returns to POLR
22 service during 2010, the Company will charge that customer an hourly rate based
23 primarily on the Locational Marginal Price ("LMP") incurred to provide this POLR

1 service. Conversely, if a customer elects the fixed price option and leaves POLR
2 service to shop during 2010, it will be charged the Generation Rate Adjustment
3 ("GRA") currently included in the Company's tariff. Mr. Kleha discusses
4 operation of the GRA in more detail in his direct testimony. Amounts collected
5 under the GRA will not be retained by the Company, but, instead, will be
6 distributed on a pro rata basis to the suppliers serving the applicable customer
7 class recognize that the financial impact of the switching directly affects those
8 suppliers. These "opt-in" rules and the associated POLR rate ramifications
9 should reduce suppliers' perceived risk of providing POLR supply to PPL Electric
10 for these customers. The result should be lower prices for that supply and,
11 ultimately, lower POLR rates. I note that in the recent Pennsylvania Power
12 Company POLR procurement process, there has been substantial difficulty in
13 obtaining acceptably-priced bids for fixed rate POLR service to large customers.

14 I believe that by minimizing, to the extent possible, restrictions on
15 shopping, the Company's filing supports the continued development of
16 competitive retail markets in Pennsylvania. This approach also gives customers
17 maximum shopping flexibility throughout the 2007-2010 time period.

18
19 Q. Is the Company requesting that the Commission act on its petition by a specific
20 date?

21 A. Yes. As Mr. Cavicchi explains in his direct testimony, PPL Electric proposes to
22 issue the first RFP for 2010 POLR supply in March 2007. Initiating the RFP
23 process on that date will enable the Company to conduct the six POLR

1 procurements that it proposes in the filing. However, the Company cannot
2 proceed with an initial RFP in March 2007 unless the Commission has acted on
3 its Petition. Accordingly, the Company requests in its Petition that the
4 Commission enter its final order approving the Company's proposed CBP no
5 later than January 31, 2007. We recognize that this is an ambitious schedule,
6 but we believe that our proposals should be relatively non-controversial,
7 particularly because they will only be in effect for a one-year period and they will
8 not set policy or precedent for other companies or for any POLR plans after
9 2010. Of course, the Company will cooperate fully with the Commission and
10 intervening parties to support resolution of this matter by January 2007.

11
12 Q. Is PPL Electric requesting that the PUC issue any specific rulings to support
13 implementation of the CBP?

14 A. Yes. In addition to approval of all aspects of its CBP, PPL Electric requests that
15 the Commission include the following three specific provisions in its final order:

16 First, as discussed in more detail below, the Company is requesting
17 coordination of the CBP with the PUC's POLR regulations.

18 Second, the Company requests that the Commission approve the POLR
19 Supply Master Agreement ("SMA") as an affiliated interest agreement. PPL
20 Electric's unregulated generation affiliates will be permitted to participate in the
21 Company's POLR supply solicitations. If one of those affiliates is the successful
22 bidder for one or more tranches of POLR supply, PPL Electric would enter into a
23 POLR SMA with that affiliate. I do not believe it would be practical or efficient for

1 the Commission to review the POLR SMA as an affiliated interest agreement at
2 that time. Moreover, rejection or significant modification of the agreement after a
3 solicitation has concluded and winning suppliers have been selected could
4 significantly disrupt the Company's POLR procurement process.

5 Third, the Company requests that the Commission include a commitment
6 that it will neither order nor approve any wholesale or retail "opt-out" customer
7 aggregation plan applicable to PPL Electric's retail customers during the 2007-
8 2010 period. These aggregation plans typically assign retail customers to one or
9 more electric generation suppliers ("EGSs") and a customer must affirmatively
10 "opt-out" of that supply to return to POLR service from an EDC. I understand that
11 many wholesale suppliers consider this type of aggregation a financial risk to
12 them that cannot be hedged and would reflect a premium in their prices to
13 compensate for that risk. This perceived risk may also reduce the number of
14 suppliers willing to participate in the RFPs. The Company believes that a
15 commitment by the PUC that it will not accept or approve such a plan, as
16 described above, during the 2007-2010 period should help to hold market prices
17 for POLR supply as low as possible and encourage supplier participation.

18
19 Q. In the proposed CBP, does PPL Electric propose any procedures for
20 procurement of POLR supply beyond 2010?

21 A. No. It is important to emphasize that PPL Electric's proposals in this filing
22 address POLR procurement and rate issues only for 2010. The following year,
23 on January 1, 2011, transition periods end for the other major EDCs in

1 Pennsylvania – Metropolitan Edison Company, Pennsylvania Electric Company,
2 PECO Energy Company and West Penn Power Company. We anticipate that,
3 well before January 1, 2011, the Commission will promulgate comprehensive
4 regulations to address POLR procurement and rate issues for 2011 and beyond.
5 In fact, the Commission's rulemaking process is well underway with draft
6 regulations currently in the review process.

7
8 Q. What is PPL Electric's position regarding POLR procurement for 2011 and
9 beyond?

10 A. PPL Electric believes that the Commission's POLR regulations should establish a
11 statewide descending clock auction that all Pennsylvania EDCs will use to obtain
12 POLR supply beginning in 2011. However, in this filing, PPL Electric is
13 proposing to issue a series of RFPs to obtain POLR supply for 2010. The
14 Company is proposing this approach for 2010, rather than its preferred auction
15 approach, for two reasons. First, because several major Pennsylvania EDCs will
16 remain under POLR rate caps until 2011, the solicitations for 2010 POLR supply
17 cannot be structured on a statewide basis. Second, because the 2010
18 solicitation is for only one year and involves only PPL Electric, it would not be
19 cost effective to establish an auction process. Although PPL Electric's preferred
20 approach for obtaining POLR supply after 2010 continues to be a statewide
21 descending clock auction, the Company is not seeking approval of that
22 mechanism in this filing.

23

1 Q. Do you believe that the Company's proposed CBP is in the public interest?

2 A. Yes. Each of PPL Electric's witnesses will address the public interest
3 considerations in his specific area of responsibility. However, I would like to
4 make two general observations. First, I believe that the Company's proposals
5 reflect the balanced approach that PPL Electric believes is required as the
6 generation rate caps end and generation supply for POLR service is obtained in
7 the competitive market. It supports continued development of the competitive
8 market through a detailed market-based procurement mechanism, while at the
9 same time attempting to reduce the risk of "rate shock" on January 1, 2010
10 through the use of laddered solicitations over a three-year period prior to the
11 commencement of deliveries. However, I want to emphasize that the Company's
12 proposed POLR procurement proposal may not significantly moderate those
13 increases if market prices remain consistently high throughout the RFP period.
14 Under those circumstances, other "rate shock" mitigation measures may be
15 appropriate such as the "early phase-in" approach discussed in PPL Electric's
16 comments and reply comments in the proceeding initiated by the Commission's
17 Mitigation Order.

18 Second, the CBP is coordinated with other events expected to occur in
19 Pennsylvania over the next several years. If accepted by the Commission, the
20 Company's proposal will provide a mechanism for it to obtain generation supply
21 necessary to meet its POLR obligations in 2010. At the end of that year, PPL
22 Electric will be on the same transition schedule as the other major EDCs in
23 Pennsylvania. The result will be a statewide transition to competitive POLR rates

1 pursuant to Commission POLR regulations that are expected to be in place to
2 guide future supply procurement and cost recovery. Implementation of the
3 Company's proposed CBP prior to that time may provide additional information
4 and experience useful in development of the Commission's final regulations. For
5 example, the Company has carefully considered and evaluated POLR
6 procurement processes and governing documents from throughout the Mid-
7 Atlantic region when developing its CBP.

8
9 Q. Has PPL Electric considered how it will propose to coordinate its procurement of
10 POLR supply with promulgation of the Commission's regulations?

11 A. Yes. Although the Company anticipates that the Commission's POLR
12 regulations will be in place for 2011, it proposes alternatives to address other
13 potential outcomes. *If the regulations are not in place for 2011, PPL Electric will*
14 *submit another filing with the Commission requesting permission to implement a*
15 *descending clock auction to obtain POLR supply for 2011 and beyond. In order*
16 *to "ladder in" supply over a three-year period, that auction would begin in 2008 to*
17 *obtain the first one-third of the POLR supply needed in 2011. Conversely, if the*
18 *Commission's POLR regulations are effective before 2011, PPL Electric requests*
19 *in its Petition a waiver of those regulations to the extent necessary to honor any*
20 *agreements for 2010 POLR supply previously entered into under the CBP. The*
21 *Company believes that such a waiver is necessary to support the Company's*
22 *proposed three-year POLR procurement initiative. On a prospective basis, PPL*
23 *Electric would comply fully with the Commission's POLR regulations. For*

1 example, if the CBP is approved, and subsequently new POLR regulations
2 become effective January 1, 2009, contracts for POLR supply entered into with
3 third parties under the CBP in 2007 and 2008 would be honored, but the
4 remaining procurements in 2009 would be subject to the new POLR regulations.

5
6 Q. In their petitions to intervene, several parties have questioned the need for the
7 Commission to act on PPL Electric's Petition, contending that the Company's
8 POLR service for 2010 should simply follow the Commission's POLR regulations,
9 when issued. Do you agree with this position?

10 A. No, I do not. First, as these parties acknowledge, the Commission's POLR
11 regulations have not been issued and none of the parties knows when the
12 regulations actually will be issued. For example, one party cites the newly
13 revised deadline established by the Independent Regulatory Review Commission
14 ("IRRC") for issuance of POLR regulations. This date is ten months later than
15 the previous date by which regulations were expected. Moreover, the PUC is
16 not required to issue regulations by that date. It is nothing more than a deadline
17 for issuing regulations at the current rulemaking docket. If the PUC does not
18 meet the deadline, it simply must re-notice the regulations and take additional
19 comments. There is no legal requirement that the Commission issue regulations
20 by any particular date. Second, the revised IRRC deadline is not adequate for
21 PPL Electric to implement its CBP, which proposes a total of six procurements
22 over a three-year period. Waiting for rules to be finalized in April, 2008 would
23 result in loss of the opportunity to access the market during 2007 and early 2008,

1 and the loss of half of three of the six scheduled solicitations, i.e., those
2 scheduled for March, 2007; November, 2007; and March, 2008. This delay
3 would compress the procurements into a period of less than two years; would
4 restrict the Company's ability to ladder in its procurement; and would increase
5 *the risk that procurement would take place during an abnormally high cost*
6 *period.* In addition, even if the PUC does issue regulations shortly, there is no
7 assurance that they will even apply to PPL Electric for 2010. Those regulations
8 might, for example, apply only to the period after December 31, 2010 when all
9 generation rate caps across Pennsylvania have expired. For these reasons, the
10 Company believes that the PUC should act on PPL Electric's Petition and
11 approve it as being in the public interest as soon as practicable.

12
13 Q. Turning now to the second subject of your direct testimony, please describe PPL
14 Electric's proposals to enhance its existing DSR programs.

15 A. PPL Electric has offered DSR programs to its customers for many years and
16 most of the Company's programs pre-date restructuring. The Company's
17 interruptible service programs for industrial customers were first initiated in the
18 1980's, and incorporated components related to both reliability (in the form of
19 emergency interruptions) and price response (in the form of economic
20 interruptions). In the mid-1990s, the Company introduced an experimental price
21 response service that permits industrial customers to purchase generation to
22 serve incremental load above a baseline at a price that varies hourly and is
23 forecast a day ahead using information from PJM's day-ahead energy market.

1 This rate also permits customers to be compensated by PPL Electric at the same
2 prices for reductions below their baseline usage. Both of these programs were
3 closed to new customers as part of the settlement of PPL Electric's restructuring
4 proceeding, but a total of about 70 customers continue to take service under
5 these programs. Demand-side programs offered to residential customers include
6 off-peak water heating and residential thermal storage programs that involve
7 equipment on the customers' premises and rates that encourage customers to
8 shift loads from on-peak periods to off-peak periods. Like the programs for
9 industrial customers, these programs were closed to new customers as part of
10 the settlement of PPL Electric's restructuring proceeding, but a total of about
11 15,000 residential customers continue to take service under these programs.
12 These programs were closed to new participants because the structure of the
13 programs is inconsistent with an industry structure under which the EDC
14 contracts for all generation supply from the competitive market.

15
16 Q. Does the Company plan to re-open these legacy programs to new customers or
17 continue them for existing participants?

18 A. No, it does not. The Company plans to end these legacy programs on December
19 31, 2009. From that date, existing participants will take service under the
20 applicable firm rate schedule consistent with the character of service they
21 receive.

22
23 Q. What is the basis for the Companies proposal to end its legacy programs?

1 A. These programs were created at a time when electric utilities in Pennsylvania
2 were vertically integrated companies; i.e., they not only provided distribution
3 service, but they also constructed, owned, and operated generating plants.
4 These legacy programs were designed to either shift or interrupt generation
5 service so that higher cost generation could be avoided at times of peak
6 demands and generating plant construction could be delayed. Customer
7 participation in these programs resulted in the revenue requirements of the
8 vertically integrated utility being lower than they otherwise would have been.
9 Program participants received pricing that reflected discounts from the firm prices
10 they would have otherwise paid.

11 In the restructured environment, EDCs have an obligation to provide
12 POLR service, but there is no revenue requirement associated with POLR
13 service – only an obligation to obtain that service at a price that reflects the
14 prevailing market and a promise that it will recover its costs on a full and timely
15 basis. EDCs fulfill this obligation by conducting a competitive solicitation for
16 supply such as the one that PPL Electric is proposing in its CBP filing. As Mr.
17 Cavicchi explains in his testimony, an important element of such a solicitation is
18 the design of the products that wholesale suppliers will be offered the opportunity
19 upon which to bid. In its CBP, PPL Electric is seeking bids for three products;
20 fixed price firm service for each of three customer classes. Interruptible service,
21 time-variant pricing, and any other non-firm, non-fixed-price service that is
22 reflected in the legacy programs are, in fact, different products. In order to offer
23 such products, consistent with the Act's mandate that supply be obtained at

1 prevailing market price, PPL Electric believes that it would need to solicit
2 separate bids in the interruptible market, on-peak market, off-peak market, and
3 hourly market. PPL Electric does not have a sophisticated energy trading
4 function to manage such acquisitions or design such products. PPL Electric
5 believes that, in general, such functions should be performed and products
6 should be provided by EGSs. Accordingly, PPL Electric believes that ending
7 these programs on December 31, 2009 is consistent with the Act and will
8 promote retail competition.

9
10 Q. Does the Company's proposal include any programs that would permit
11 customers who desire to manage their electricity consumption in response to
12 price to do so?

13 A. Since the settlement of its restructuring case, PPL Electric has developed two
14 DSR programs – one for residential customers, and the other for commercial and
15 industrial customers – that the Company developed to be more compatible with
16 the post-transition structure of the industry. Both of these more recent DSR
17 programs enable customers to manage their loads in response to pricing
18 information provided by PPL Electric. In this filing, the Company is proposing to
19 extend these programs beyond the end of the transition period and enhance
20 them.

21
22 Q. Please describe PPL Electric's proposed changes to these two programs.

1 A. The Demand Side Response Rider – Residential, put in place as an experimental
2 rate with Commission approval in 2002, provides residential customers with a
3 *rate incentive to shift their loads from on-peak periods to off-peak periods during*
4 *the four summer months.* The Company proposes to extend the termination date
5 of the residential program from 2007 through the end of 2010, double the limit on
6 participation to 600 customers in 2008 and 2009, and then remove participation
7 limits in 2010. In addition, the Company proposes to expand the residential
8 program from a summertime-only program to a program that is available to
9 customers year-round in 2010, with the inclusion of pricing for those periods not
10 currently included. Also, the pricing for 2010 will be revised to more fully reflect
11 actual competitive market prices.

12 The Demand Side Initiative Rider, put in place as an experimental rate for
13 large commercial and industrial customers with Commission approval in 2001,
14 permits eligible customers to designate portions of their load for market pricing.
15 The Company proposes to extend the existing commercial and industrial
16 program from 2007 through the end of 2010. Because the commercial and
17 industrial program permits customers to have a portion of their load served at a
18 fixed price, customers desiring to participate in this program in 2010 must make
19 an election by the end of 2008. If such a customer leaves POLR service before
20 the end of 2010, it will be subject to the GRA, as described in Mr. Kleha's
21 testimony.

1 Q. In your opinion, why are these proposals appropriate?

2 A. The Company's proposed approach provides several advantages. First, it builds
3 on PPL Electric's existing DSR programs. There is some customer familiarity
4 with these programs and the Company has established processes and
5 procedures to administer them. PPL Electric believes that an expansion of these
6 programs will be well-received by its customers. Second, the Company's
7 proposed approach begins to use customer consumption data provided by its
8 Automated Meter Reading ("AMR") system. This data will enable PPL Electric to
9 make these programs available to additional customers and to provide additional
10 information to participants that will help them manage their energy usage and
11 their bills. Third, these programs are simply riders that apply to existing rate
12 schedules and not entirely separate products. PPL Electric believes they can be
13 administered within the scope of its proposed procurements without introducing
14 new risk to suppliers that could result in price premiums. Finally, although the
15 Company does believe that these programs represent products that might be
16 more appropriately offered by EGSs, the Company also believes that they are
17 appropriate as part of an overall consumer education program. Being able to
18 offer these modest programs enhances the ability of the Company to educate its
19 customers on the wise use of energy, the nature of market pricing, and on
20 opportunities to find similar products in the competitive retail market.

21
22 Q. Is the Company proposing any tariff changes to implement these proposals?

1 A. Yes. PPL Electric proposes revisions to its existing DSR tariff provisions to
2 extend the effective date of the residential rider and increase customer
3 participation. In addition, the Company proposes a modification to the
4 commercial and industrial rider to extend its termination date to December 31,
5 2010. The proposed tariff pages reflecting these changes are set forth in Exhibit
6 DAK 1. These proposed tariff changes were originally provided as Attachment 4
7 to the Company's August 2 Petition. Additional changes will be made to
8 incorporate market pricing mechanisms for transmission, energy, and capacity,
9 consistent with the PJM Open Access Transmission Tariff, PJM energy markets,
10 and PJM capacity markets.

11
12 Q. Turning to the third subject of your testimony, please describe PPL Electric's
13 proposals regarding consumer education.

14 A. In this filing, PPL Electric proposes to implement a comprehensive consumer
15 education program (in addition to its existing programs) beginning in 2007 and
16 continuing through 2009. Exhibit DAK 2, originally provided as Attachment 2 to
17 the August 2 Petition, contains a more detailed description of the proposed
18 program. The Company requests permission to fund this program using the
19 approximately \$875,000 that remains in its current customer choice education
20 account. Spending on the proposed program would be ramped up over three
21 years as follows: \$200,000 in 2007; \$300,000 in 2008; and \$375,000 in 2009.

22 PPL Electric proposes that the consumer education program focus on the
23 following four areas:

- 1 • existing customer choice education;
- 2 • demand-side response education;
- 3 • wise use of energy education;
- 4 • POLR rate education.

5 The education program would address each of these areas over the three-year
6 period. However, the relative emphasis on each and the specific messages in
7 each would evolve over that period to recognize that the POLR rate caps end on
8 December 31, 2009.

9
10 Q. In your opinion, why are these proposals appropriate?

11 A. The Company believes that its consumer education proposals will achieve two
12 critical objectives. First, and most importantly, they will increase customers'
13 *knowledge of retail customer choice in Pennsylvania and their options to*
14 *participate.* Customers who understand the operation and benefits of the
15 competitive market will be more receptive to shopping opportunities offered by
16 Electric Generation Suppliers ("EGSs"). Consumers also will better understand
17 POLR service, how that service is priced, and the role it plays in the competitive
18 environment.

19 Second, PPL Electric's proposed plan should increase customers'
20 awareness of the benefits of using energy wisely and their familiarity with various
21 applications of DSR. With this information, consumers should be able to manage
22 their electricity usage and, perhaps, reduce their bills. Consumer use patterns
23 driven by changes in energy prices and other market characteristics can support

1 continued development of a reliable and cost-effective competitive energy
2 market. Moreover, additional opportunities to manage their electricity
3 consumption and to obtain electricity from EGSs will directly benefit customers.
4 With these options, they should be able to reduce their overall cost of electricity,
5 as well as choose specific products attractive to them, e.g., "green power." A
6 significant portion of the consumer education will be built around usage data and
7 analytical tools that will be available to customers for the first time as the result of
8 further development of the Company's AMR system.

9
10 Q. Is this proposal intended to address all consumer education needs?

11 A. No. The program described above is intended to address consumer education
12 needs related only to the four subject areas summarized above. It is not
13 intended to address broad statewide consumer education needs. As stated
14 previously in its comments filed in the Price Mitigation Proceeding, PPL Electric
15 would support a collaborative effort to develop a statewide program to provide
16 further education on broad topics such as the competitive generation market and
17 demand side response.

18
19 Q. Does this conclude your direct testimony?

20 A. Yes.

21



PPL Electric Utilities Corporation

GENERAL TARIFF

RULES AND RATE SCHEDULES FOR ELECTRIC SERVICE

In the territory listed on pages 4, 4A, and 4B
and in the adjacent territory served.

ISSUED:

EFFECTIVE:

Issued by
JOHN F. SIPICS, PRESIDENT
Two North Ninth Street
Allentown, PA 18101-1179

NOTICE

THIS TARIFF MAKES (CHANGES) IN EXISTING RATES. SEE PAGE TWO.

PPL Electric Utilities Corporation

LIST OF CHANGES MADE BY THIS SUPPLEMENT

CHANGES:

Generation Rate Adjustment Rider (GRA)

Page Nos. 15 and 15A

BUS Service is changed to BUSS. In the last paragraph of Page 15A, the Application of the GRA in 2010 is defined.

Demand Side Initiative Rider
(Experimental)

Page 19T

The Service date under this Rider is extended three years to January 1, 2011.

Demand Side Response Rider –
Residential (Experimental)

Page 19W

The pilot program and billing under this Rider was extended three years to September 30, 2010.

Transmission Service Charge

Page 19Z

The Transmission Charge definition was expanded to include charges billed indirectly by any entity providing generation supply to the Company for BUSS.

Generation Supply Charge (GSC)

Page Nos. 19Z.2 and 19Z.3

The new GSC provides a method for recovery of the generation supply costs to customers taking BUSS from the Company under this tariff.

PPL Electric Utilities Corporation

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GENERATION RATE ADJUSTMENT RIDER

(C)

A Generation Rate Adjustment (GRA) shall be applied to each kilowatt-hour supplied under this Tariff, to each customer who has returned to Basic Utility Supply Service (BUSS) and who, prior to the anniversary date of the customer's return to BUSS, has chosen to purchase its energy needs from an alternative electric generation supplier. The application of this Rider will begin with bills rendered on or after the effective date of this Rider. This Rider is applicable to service under all rate schedules contained in this Tariff except Rate Schedules RS, RTS, and RTD.

When the customer commences to purchase its electric energy needs from an alternative electric generation supplier on any date before the anniversary date of the customer's return to BUSS, the customer shall pay a net GRA calculated as follows. The net GRA is the summation of each monthly positive or negative GRA for the period beginning with the date of the customer's return to BUSS and ending with and including the billing period immediately preceding the billing period in which the customer begins to purchase its electric energy needs from an alternative electric generation supplier.

The net GRA will not be applied to a customer's bill if the customer begins to purchase its electric energy needs from an alternative electric generation supplier on or after the anniversary date of the customer's return to BUSS.

Not less than 30 days prior to the commencement of the customer's purchase of its electric energy needs from an alternative electric generation supplier, the customer must provide notice to the Company that the customer will no longer purchase BUSS and will purchase its electric energy needs from an alternative electric generation supplier.

The net GRA, calculated for each applicable customer, shall be applied to the customer's bill as soon as possible after the customer begins to purchase its electric energy needs from an alternative electric generation supplier. The monthly GRA shall be determined in accordance with the formula set forth below:

$$GRA = \frac{[KWH * [(LMP + A + C) * V]] - C\&E}{100 * [1 - T]}$$

Where GRA = Generation rate adjustment to be applied to short-term BUSS, when this option is chosen by a customer who has returned from being supplied by an alternative electric generation supplier.

KWH = The total kilowatt-hours used by the customer during the current billing period.

(Continued)

GENERATION RATE ADJUSTMENT RIDER (CONTINUED)

(C)

LMP = The monthly average Locational Marginal price (LMP) for the current billing period, expressed in cents per kilowatt-hour. The monthly average LMP for the current billing period is determined by averaging the daily average LMP for the days of the current billing period. The daily average LMP is determined by using the actual Pennsylvania-New Jersey-Maryland Interconnection, LLC (PJM) hourly LMPs for the day and weighting those hourly prices by the historical load profile for the customer's rate class.

A = Administrative costs and Ancillary Services required to provide short-term BUSS. Ancillary Services include, but are not limited to: regulation, operating reserves, scheduling, system control, dispatch services and transmission line losses.

C = The price of generation capacity, expressed in cents per kilowatt-hour. The price is developed by using the PJM Monthly Capacity Credit Market Clearing Price for the calendar month immediately preceding the customer's current billing period.

V = The adjustment for line losses to the Secondary delivery voltage is 1.05682. The adjustment for line losses to the Primary delivery voltage level is 1.02841. The adjustment to the Transmission delivery voltage level is 1.000.

T = The Pennsylvania gross receipts tax rate, expressed in decimal form.

C&E = The Capacity and Energy component of the customer's bill calculated for the current billing period under the customer's applicable rate schedule.

The net GRA, calculated by using the above formula, shall not be less than zero. The GRA shall be in addition to minimum bills under the various applicable rate schedules. The GRA shall not be subject to any credits or discounts, and shall not be affected by the State Tax Adjustment Surcharge. The GRA shall not be subject to the rate caps established by the Electricity Generation Customer Choice and Competition Act.

During 2010, the GRA shall apply, as described above, to all customers except as provided for in this section. If a customer in the Large Commercial and Industrial customer class elects, before December 31, 2008, to receive BUSS from the Company during 2010 and purchases its generation supply needs from an alternative electric generation supplier anytime in 2010, the customer shall pay a net GRA for the period beginning with the billing period in which the customer begins to purchase its generation supply needs from an alternative energy supplier and ending on December 31, 2010. The anniversary date provisions and calculations shall not apply to the customer, but, in all other aspects, the GRA shall apply as described above.

**DEMAND SIDE INITIATIVE RIDER
(EXPERIMENTAL)**

PURPOSE

This experimental Rider provides an option for eligible existing and new commercial and industrial customers to adjust their load requirements in response to market prices of energy.

APPLICATION PROVISIONS

This Rider is applicable to commercial and industrial customers who have a monthly maximum demand of 1000 KW or greater year round and are served under Rate Schedule LP-4, LP-5, LP-6, IS-P(R), or IS-T(R). An electric service contract, or supplement to an existing electric service contract, is required for billing under this Rider.

Service under this Rider will end on January 1, 2011.

(C)

DEFINITIONS

1. Customer Reference Load (CRL) -- is the customer's normal historic hourly KWH usage under Rate Schedule LP-4, LP-5, LP-6, IS-P(R), or IS-T(R) for one complete year. The CRL represents the customer's electricity consumption pattern and typical level of operation.

If less than one complete year of billing history is available, the Company initially will determine an appropriate CRL level prior to the application of this Rider. Agreement on the CRL level by the customer and the Company is a precondition for customer participation under this Rider. The Company will adjust the CRL if, on a calendar month basis, the customer's total monthly KWH usage changes by more than plus or minus ten (10) percent.

2. Customer Reference Load Adjustment Factor (CRLAF) -- is the portion of the CRL elected by the customer to be billed under Rate Schedule LP-4, LP-5, LP-6, IS-P(R), or IS-T(R). The remainder of the CRL will be billed under this Rider. The customer may select values for the CRLAF, ranging from zero (0) to one hundred (100) percent, in ten (10) percent increments. The CRLAF, expressed as a decimal fraction, is fixed for twelve consecutive months. The customer may change the CRLAF annually by December 31 for application to service billed on and after April 1 of the following year under this Rider.

3. Adjusted Customer Reference Load (Adjusted CRL) -- is the CRL multiplied by the CRLAF.

4. Marginal Energy Cost -- is an hourly marginal cost based on the PJM Locational Marginal Price for the PPL zone.

5. Loss Adjustment Factor -- is an adjustment for losses between the generator and the customer's metering point.

6. Market Price (MP) -- is an hourly price determined by the Company from its estimated Marginal Energy Cost and Loss Adjustment Factor. For informational purposes only, the Company will make available on the Internet, by 5:00 p.m. each day, 24 forecasted hourly MP rates for the next day's service. Billing for service under this Rider is based on actual PJM Locational Marginal Prices for the PPL zone, multiplied by the Loss Adjustment Factor, multiplied by the Market Adjustment Factor.

(Continued)

**DEMAND SIDE RESPONSE RIDER – RESIDENTIAL
(EXPERIMENTAL)**

PURPOSE

This experimental Rider provides for the voluntary participation of eligible existing and new residential customers in a demand side response pilot program. The objective of this Rider is to shift residential energy usage away from the peak demand hours that can occur during the summer months, when wholesale electricity prices are high.

APPLICATION PROVISIONS

This Rider is applicable to existing and new residential customers who are served, or qualify to be served, under Rate Schedule RS and have a monthly energy usage of 1000 KWH or greater during each of the months of June, July, August, and September. Eligibility for existing customers will be determined by actual usage during the year prior to application and, for new customers, by the Company's standard usage estimating techniques.

Customers served under this Rider must receive Basic Utility Supply Service as defined in Rule 1 of this Tariff.

This pilot program is available for up to 300 eligible residential customers who volunteer to be served under this Rider through 2007. In 2008 and 2009, the participation level will be increased to 600 customers. In 2010, the program will be open to all customers. (C)

Customers served under this Rider must have an Automatic Meter Reading (AMR) device available at their premises.

Customers served under this Rider may not receive Off-Peak Water Heating or Separate Water Heating Service under Rate Schedule RS.

The pilot program and billing under this Rider will end on January 1, 2011. (C)

DEFINITIONS

1. Eligible Customers – are residential customers who meet the Application Provisions of this Rider.

2. Participating Customers – are Eligible Customers who apply to the Company, and subsequently are selected by the Company, on a first-come, first-served basis, to participate in its demand side response pilot program. All Eligible Customers selected by the Company to participate in the pilot program will be notified by the Company of their selection. Participation in year one will commence at the beginning of the Participating Customer's first billing cycle on or after June 1, 2002.

If more than the permitted number of Eligible Customers apply to the Company to participate in the pilot program, the Company will select, on a first-come, first-served basis, only the permitted number of Eligible Customers set forth above. If any Participating Customers terminate participation, the Company will select annually, additional Eligible Customers to participate, on a first-come, first-served basis, until the permitted number of Eligible Customers are participating. Participation will commence at the beginning of the Participating Customer's first billing cycle after selection. (C)

(Continued)

TRANSMISSION SERVICE CHARGE

A Transmission Service Charge (TSC) shall be applied to each kilowatt-hour supplied to customers who receive Basic Utility Supply Service ("BUSS"), as defined in Rule 1B(1), from the Company under this Tariff. The TSC, determined to the nearest one-thousandth of 1 mill per kilowatt-hour, in accordance with the formula set forth below:

$$TSC = \left[\frac{TC_c - E}{S} \right] \times \frac{1}{(1-T)}$$

Where:

TSC = Transmission Service Charge, stated in mills per kilowatt-hour.

TC_c = The total estimated charges to be incurred by the Company to provide transmission service under the PJM Open Access Transmission Tariff (OATT), approved or accepted by the Federal Energy Regulatory Commission, for customers who receive BUSS from the Company, unless such customers obtain transmission service from another provider.

Transmission Charge – all applicable charges incurred by the Company to acquire transmission service (including all ancillary service charges) on behalf of BUSS customers which are billed by PJM under the OATT or by any entity providing generation supply to the Company for BUSS. (C)

The computation year (c) shall be January 1 through December 31 over which the TSC, as computed, will apply.

- E = Net over or undercollection of the charges associated with the acquisition of transmission service as of the end of the 12-month period ending November 30 immediately preceding the computation year, including applicable interest. Interest shall be computed monthly at the appropriate rate, as provided for in Section 1308(d) of the Public Utility Code, from the month the over or undercollection occurs to the effective month that the overcollection is refunded or the undercollection is recouped.
- S = The Company's total retail KWH sales to customers who receive BUSS under this tariff, and to which the TSC applies, projected for the computation year (c).
- T = The total Pennsylvania gross receipts tax rate in effect during the billing month, expressed in decimal form.

(Continued)

PPL Electric Utilities Corporation

GENERATION SUPPLY CHARGE

Beginning on January 1, 2010, the Generation Supply Charge (GSC) shall be applied to each kilowatt-hour supplied to customers taking Basic Utility Supply Service ("BUSS") from the Company under this Tariff. The GSC, determined to the nearest one-thousandth of 1 mill per kilowatt-hour, in accordance with the formula set forth below, shall be applied to all kilowatt-hours billed for BUSS service provided during the billing month:

$$GSC = \left[\frac{GSc - E}{S} \right] \times \frac{1}{(1-T)}$$

Where:

GSC = Generation Supply Charge, stated in mills per kilowatt-hour, to be applied to each kilowatt-hour supplied to customers taking BUSS from the Company under this Tariff. The GSC shall be calculated separately for each of the following three Customer Classes: (1) residential; (2) small commercial and industrial (taking service at secondary voltage levels); and (3) large commercial and industrial (taking service at primary and transmission voltage levels).

GSc = The total estimated direct and indirect costs incurred by the Company to acquire generation supply from any source on behalf of BUSS customers in the applicable Customer Class.

The computation year (c) shall be January 1 through December 31 over which the GSC, as computed, will apply. Projections of the Company's costs to acquire generation supply for the computation year shall include all direct and indirect costs of generation supply to be acquired by the Company from any source plus any associated generation supply-related procurement and administration costs.

E = Experienced net over or undercollection of costs associated with the acquisition of generation supply for BUSS customers as of the end of the 12-month period ending November 30 immediately preceding the computation year, including applicable interest. Interest shall be computed monthly at the rate provided for in Section 1308(d) of the Public Utility Code, from the month the over or undercollection occurs to the month in which the overcollection is refunded or the undercollection is recouped.

S = The Company's total retail KWH sales to BUSS customers in the applicable Customer Class, projected for the computation year (c).

T = The Pennsylvania gross receipts tax rate in effect during the billing month, expressed in decimal form.

(Continued)

PPL Electric Utilities Corporation

GENERATION SUPPLY CHARGE (CONTINUED)

The GSC shall be filed with the Pennsylvania Public Utility Commission (Commission) by December 1 of each year, beginning on December 1, 2009. The rate shall become effective for BUSS service rendered on an after the following January 1, unless otherwise ordered by the Commission, and shall remain in effect for a period of one year, unless revised on an interim basis subject to the approval of the Commission. Upon determination that the GSC, if left unchanged, would result in a material over or undercollection of generation supply-related costs incurred or expected to be incurred during the current 12-month period ending November 30, the Company may file with the Commission for an interim revision of the GSC to become effective 30 days from the date of filing, unless otherwise ordered by the Commission.

The Company will file with the Commission by December 1 of each year, beginning on December 1, 2010, an annual reconciliation of the GSC revenue recovery during the immediately preceding application period pursuant to 66 Ps. C.S. §1307. The reconciliation shall become effective for service rendered on and after January 1 and shall remain in effect for a period of one year, or until new GSC rates are approved by the Commission.

Reconciliation of the GSC will be conducted separately for each of the three Customer Classes. Any over/under collection for a Customer Class will be allocated to each individual Rate Schedule included within that Customer Class based upon the ratio of (1) the cumulative GSC over/under collection applicable to the Customer Class to (2) the projected GSC revenues for the Customer Class for the period during which the GSC reconciliation factor will be applied. The reconciliation will include a calculation of the adjustment to the GSC, in cents per KWH, by Rate Schedule, required to refund or recover previous application period over or under recoveries of the annual GSC. The reconciliation will be the difference between GSC revenue produced by actual usage and GSC revenue estimated on the basis of projected usage for that previous application period. Any over/under collection allocated to an individual Rate Schedule will be reflected in the GSC for that Rate Schedule during the application period. Any amount of under recovery that will not be recovered will be collected in the subsequent application period.

Minimum bills shall not be reduced by reason of the GSC, nor shall GSC charges be a part of the monthly rate schedule minimum. The GSC shall not be subject to any credits or discounts and shall not be affected by the State Tax Adjustment Surcharge (STAS).

The Company shall file a report regarding GSC collections within thirty (30) days following the conclusion of each computation-year quarter. These reports shall be in a form prescribed by the Commission. The third-quarter report shall be accompanied by a tentative estimate of the GSC for the next computation year.

Application of the GSC shall be subject to continuous review and audit by the Commission at intervals it shall determine. The Commission shall review the reasonableness and lawfulness of the level of charges produced by the GSC and the costs included therein.

**PPL Electric Utilities
Consumer Education Plan 2007-2009**

PPL Electric Utilities (EU) will conduct extensive consumer education efforts to prepare customers for the final phases of deregulation and the transition to Provider of Last Resort (POLR) generation rates.

The components and objectives of the consumer education efforts for 2007 thru 2009 include:

- Continuation of Existing Customer Choice Efforts
 - To provide useful, informative reference materials educate customers (residential and non-residential) about electric choice and how to shop
- Continuation and Expansion of Demand-Side Response Programs
 - To educate customers about energy usage, demand response and new rates
 - To give customers adequate knowledge to respond to requests to conserve or cut back on usage
- Introduction of Wise Use of Energy Education
 - To educate customers regarding energy use and conservation in preparation for post-transition electric rates
- Introduction of Provider of Last Resort (POLR) Rate Education
 - To increase awareness and understanding about the electric service components, POLR pricing and customer rate options

The attached matrix provides more details of how PPL EU intends to implement these efforts.

PPL Electric Utilities Consumer Education Plan 2007-2009			
Activity	2007	2008	2009
Existing Choice Education	<ul style="list-style-type: none"> • Twice annual Choice bill insert • New customer package with privacy release form to all new customers • Fulfillment package to respond to customer requests for information • PPL EU Choice Website • Respond to customers calling PPL EU for Choice information 	Same activities as 2007	Same activities as 2008
Projected Budget	\$100,000	\$100,000	\$100,000
Demand-Side Response Education (DSR)	<ul style="list-style-type: none"> • Begin early education about DSR via PPL EU Connect newsletter • Provide enhanced customer usage information to existing DSR pilot program customers • Begin collecting additional usage and interval data through PPL's Meter Data Management System (MDMS) • Offer data to customers and suppliers, as permitted, via web, spreadsheets, and EDI 	Same activities as 2007 plus: <ul style="list-style-type: none"> • Extend existing DSR pilot programs through 2009 • Expand residential program to include 600 customers • Recruit participants • Conduct pilots and gather feedback for future rate developments and programs 	<ul style="list-style-type: none"> • Continue pilots and gather feedback for future rate developments and programs • Open DSR programs up to all eligible customers for 2010
Wise Use of Energy Education	<ul style="list-style-type: none"> • Introduction of web-based Energy Analyzer to customers and increased energy usage information from new meter technology • Explanation of wise use of energy via PPL EU website and Connect Newsletter 	<ul style="list-style-type: none"> • Continue promotion of web-based Energy Analyzer and increased energy usage information from new meter technology • Explanation of wise use of energy via PPL EU website 	Same activities as 2008

	<ul style="list-style-type: none"> Public speaking engagements on Wise Use of Energy 	<ul style="list-style-type: none"> and Connect Newsletter Public speaking engagements on Wise Use of Energy 	
Provider of Last Resort (POLR) Rate Education	<ul style="list-style-type: none"> Education on the end of the rate caps and the completion of the transition via newsletters, PPL EU website, and presentations Sensitize customers to future POLR rates and, in particular, market pricing for industrial and commercial customers. 	<ul style="list-style-type: none"> Work with large industrial/commercial customers regarding their rate options for 2010 to prepare them to make selections by end of 2008 Continue to educate customers regarding future POLR rates and, in particular, market pricing for industrial and commercial customers. 	<ul style="list-style-type: none"> Education on new 2010 rate options and choices for customers via rate notices, mailings, PPL EU website and newsletters Conduct community advertising as appropriate Public speaking engagements on rates
New rate Changes/Options			<ul style="list-style-type: none"> Introduce 2010 rate options to affected customers Educate customers on new options and choices via mailings and presentations
Projected Budget	\$100,000	\$200,000	\$275,000
Total Projected Annual Budget:	\$200,000	\$300,000	\$375,000

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 1-R

Rebuttal Testimony of Douglas A. Krall

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

2 A. My name is Douglas A. Krall. My business address is Two North Ninth Street,
3 Allentown, Pennsylvania, 18101.

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

5 A. I am employed by PPL Electric Utilities Corporation ("PPL Electric" or the
6 "Company") a subsidiary of PPL Corporation. I work in the Asset Management
7 Department of PPL Electric and my title is Manager – Regulatory Strategy.

8 Q. Have you provided testimony previously in this proceeding?

9 A. Yes, I have. I provided written direct testimony that was designated as
10 Statement No. 1. I also provided Exhibits DAK1 and 2. My direct testimony
11 addressed the following:

- 12 1. An overview of PPL Electric's Competitive Bridge Plan ("CBP");
- 13 2. The Company's proposals in the CBP to enhance its existing demand side
14 response ("DSR") programs;
- 15 3. The Company's proposal in the CBP for a three-year consumer education
16 program beginning in 2007.

17 Q. Please describe the purpose of your rebuttal testimony.

18 A. The purpose of my rebuttal testimony and Exhibit DAK 3 is to address issues
19 raised by other parties regarding the following:

- 20 1. The non-precedential nature of the CBP.
- 21 2. Pricing for the Large Commercial and Industrial Class of customers.
- 22 3. Pricing for the Residential and Small Commercial and Industrial Classes of
23 customers.

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- 4. Issues related to the consumer education program proposed in the CBP.
- 5. Issues related to demand side response programs.
- 6. Issues related to the procurement of resources to meet the requirements of the Alternative Energy Portfolio Standards (AEPS) Act.

In considering these issues, I will be addressing the direct testimony of the following witnesses:

- Sustainable Energy Fund of Central Eastern Pennsylvania's (SEF) witness Dr. Rex D'Agostino
- Citizens for Pennsylvania's Future (PennFuture) witness Dr. Thomas Tuffey
- Office of Consumer Advocate (OCA) witness Dr. Steven Estomin
- Direct Energy Services, LLC (Direct Energy) witness Mr. Frank Lacey
- PP&L Industrial Customer Alliance (PPLICA) witness Mr. Kevin Wilkie
- Reliant Energy, Inc. (Reliant) witness Mr. James Ajello
- First Energy Solutions Corp. (FES) witness Ms. Irena Prezelj
- Dominion Retail, Inc. (Dominion) witness Mr. Thomas Butler

Before responding to these specific issues, however, I would like to summarize PPL Electric's efforts to balance the interests of all stakeholders in this proceeding and its efforts to narrow or eliminate contested issues.

Q. Please describe how PPL Electric attempted to balance the interests of the stakeholders in this proceeding.

1 A. As shown by the direct testimony submitted by the other parties in this
2 proceeding, there are significant differences of opinion regarding fundamental
3 aspects of obtaining Provider of Last Resort ("POLR") supply and recovering the
4 costs of POLR service from customers. These differences arise from the
5 absence of binding precedent or regulations regarding POLR service. PPL
6 Electric's CBP strikes an appropriate balance among these competing interests
7 by providing consumers with market-based POLR service that takes into account
8 current policy debates, and provides the opportunity for Electric Generation
9 Suppliers ("EGSs") to enter the market. The objective of the CBP is to provide
10 market-based POLR service that reasonably accommodates the expiration of the
11 current rate capped generation services on December 31, 2009. PPL Electric's
12 CBP achieves this objective by defining POLR services that align customers'
13 future generation prices with the actual demands that they place upon the
14 electricity system while recognizing that customers' POLR rates need not be
15 highly volatile to be market based. Moreover, given PPL Electric's installation of
16 an Automated Meter Reading ("AMR") system for all its customers and software
17 that turns that system into an Advanced Metering Infrastructure ("AMI"), the ability
18 for retail competitors to use these data to develop and offer a variety of
19 alternative services to POLR is greatly enhanced, encouraging retail competition.
20 Contrary to the positions of some parties to this proceeding, PPL Electric's CBP
21 will result in the provision of basic POLR service at market based prices and
22 allow for increased retail competition.

23

1 Q. How has PPL Electric attempted to narrow the issues in this proceeding?

2 A. At a conceptual level, the Company attempted to incorporate in its filing POLR
3 procurement processes and documents that have been previously approved in
4 Pennsylvania or other jurisdictions. For example, the proposed Request for
5 Proposals process and Supplier Master Agreement are based upon documents
6 previously approved in Maryland. After the CBP was filed, PPL Electric and all of
7 the other major parties engaged in a series of comprehensive settlement
8 discussions. Although a global settlement could not be reached, these
9 discussions were very valuable in identifying areas of agreement and issues on
10 which parties were willing to compromise. Based on discussions with intervening
11 parties and further analysis of its proposals, the Company has further narrowed
12 the number and scope of contested issues in its rebuttal testimony.

13
14 Q. Please describe how the Company's rebuttal testimony further narrows the
15 issues.

16 A. In its rebuttal testimony, wherever possible, the Company accepted positions
17 reflected in other parties' direct testimony. In several instances, PPL Electric
18 could accommodate other parties' concerns simply by withdrawing a proposal
19 included in the CBP. In other instances the Company has proposed
20 modifications to its CBP in an effort to offer a compromise. In its rebuttal
21 testimony, the Company has agreed to:

- 22 (1) Confirm that its proposed CBP is non-precedential and is intended to apply
23 to POLR supply only during 2010 (Mr. Krall);

- 1 (2) Comply with final POLR regulations prospectively to the extent such
2 regulations apply to PPL Electric in 2010 (Mr. Krall);
- 3 (3) Amend the procurement of supply for customers in the Large Commercial
4 and Industrial Customer Class to provide for one solicitation in October
5 2009 and to permit customers to "opt in" to fixed price POLR service within
6 30 days thereafter (Mr. Krall);
- 7 (4) Withdraw its proposed modification of the Generation Rate Adjustment
8 ("GRA") to apply the GRA to customers in the Large Commercial and
9 Industrial Customer Class "opting in" to fixed price POLR supply for 2010
10 (Mr. Kleha);
- 11 (5) Permit shopping by customers in the Large Commercial and Industrial
12 Customer Class without limitations other than compliance with the
13 Commission's switching rules and the Company's tariff, including the
14 existing GRA (Mr. Krall);
- 15 (6) Withdraw its proposed modification of the Transmission Service Charge
16 ("TSC") to include in the TSC indirect transmission service charges from
17 suppliers and amend the bid process to provide that PPL Electric will incur
18 transmission costs for POLR supply (Mr. Kleha);
- 19 (7) Limit rate dislocation by phasing-in the design of Rate Schedule RTS by
20 maintaining the absolute difference in 2009 average generation rates
21 between Rate Schedules RTS and RS. This modification is contingent
22 upon the Commission granting reconciliation of the GSC (Mr. Krall);

- 1 (8) Facilitate a collaborative effort to develop a more detailed consumer
2 education program and to address the timing of consumer education
3 expenditures (Mr. Krall);
- 4 (9) Begin collecting and organizing customer data in 2007 and provide bidders
5 and suppliers with relevant customer volume and usage information
6 beginning in 2010 (Mr. Krall);
- 7 (10) Identify and provide notice, as part of the Company's consumer education
8 program, of available DSM programs to customers representing the top
9 10% of peak load in each Customer Class (Mr. Krall).
- 10 (11) Include the Company's entire 2010 AEPS solar set aside obligation for
11 customers in the Residential and Small Commercial and Industrial
12 Classes in the two solicitations scheduled to occur in 2007 (Mr. Krall);
- 13 (12) Confirm the Company's intent to recover the cost of universal service
14 programs only from customers in the Residential Customer Class (Mr.
15 Dahl);
- 16 (13) Confirm the Company's intent to recover the cost of universal service
17 programs through a base rate proceeding or any available cost recovery
18 option under the Commission's CAP Policy Statement (Mr. Dahl);

19
20 Q. What does the Company hope to achieve through this modification of its CBP?

21 A. While we were not able to achieve a global settlement, PPL Electric believes that
22 the above concessions should bring the parties' positions much closer together
23 and significantly limit the number of contested issues. PPL Electric asks that the

1 parties carefully review these concessions and to the extent possible accept
2 them, in surrebuttal testimony, as a reasonable resolution of this proceeding.

3
4 Q. Recognizing this effort by PPL Electric to accommodate the concerns of other
5 parties, what issues remain contested in this proceeding?

6 A. Although many additional details are discussed in the testimony submitted by the
7 intervening parties and several small issues may remain outstanding, only three
8 fundamental issues remain unresolved. Those issues are: (1) the use of a
9 multiple year procurement process to obtain residential and small commercial
10 and industrial POLR supply for 2010, (2) the appropriate structure for POLR rates
11 for large commercial and industrial customers, and (3) reconciliation of PPL
12 Electric's POLR rates. Given the narrow scope of this proceeding as a 2010
13 bridge to full statewide competition and given the significant concessions made
14 by PPL Electric in its rebuttal testimony, we believe we have significantly
15 narrowed the remaining scope of this proceeding.

16
17 Q. Please elaborate on what you mean by the very narrow scope of PPL Electric's
18 proposals?

19 A. First, as I just discussed, PPL Electric believes the issues in this proceeding have
20 been narrowed to only three major areas of contention. Second, contrary to the
21 assertions of Mr. Butler, testifying on behalf of Dominion Retail, Inc., the
22 Company is not proposing to utilize the CBP as its long-term POLR plan. The
23 Company has repeatedly stated, and I reiterate, the CBP is intended to apply

1 solely to procurement of POLR supply for calendar year 2010. Beginning
2 January 1, 2011, PPL Electric anticipates that its procurement of POLR supply
3 will be part of a statewide process established by the Commission's final POLR
4 regulations. Third, contrary to the assertions of Mr. Ajello, testifying on behalf of
5 Reliant Energy, Inc., and Mr. Butler, PPL Electric is not attempting to establish
6 Commission precedent in this filing. In fact, the Company's proposal in this filing
7 to issue a series of RFPs to obtain POLR supply for 2010 is not consistent with
8 its preferred approach for the long-term. PPL Electric believes, as clearly stated
9 in its comments before the Commission's En Banc Hearing on Policies to Mitigate
10 Potential Electricity Price Increases (Docket No. M-00061957), that the
11 Commission's POLR regulations should establish a statewide descending clock
12 auction that all Pennsylvania EDCs will use to obtain POLR supply beginning in
13 2011.

14
15 Q. What are the implications of this narrow perspective?

16 A. There are several. The CBP, as its name implies, is intended simply to create a
17 bridge from the end of PPL Electric's transition period on December 31, 2009 to
18 the end of transition periods for the other major EDCs on December 31, 2010.
19 The CBP is not intended to apply beyond December 31, 2010 and, as has been
20 the case for other EDCs' interim POLR mechanisms, is not intended as a
21 precedent for future POLR procurement. Thus, in its review of PPL Electric's
22 CBP, the Commission can focus solely on the issue of POLR supply for 2010.
23 The termination of PPL Electric's POLR rate caps on December 31, 2009, will

1 mark the end of a 14-year period of rate stability. Since 1996, the Company's
2 POLR rates have changed only to reflect slight adjustments permitted by its
3 restructuring settlement. Those rates have not increased to reflect rising costs or
4 rising market prices. A bridge during 2010 from the Company's POLR rate caps
5 to market prices will assist all stakeholders in making the adjustment to full
6 market prices in 2011. In my opinion, the CBP is a reasonable and appropriate
7 mechanism for addressing fundamental POLR issues and facilitating that bridge
8 to 2011.

9
10 Q. Earlier you discussed the Company's AMR system and efforts the Company has
11 underway to evolve that system into an AMI system. Could you please describe
12 these systems and how they support the Company's CBP proposal?

13 A. Starting in 2002 and concluding in 2004, PPL Electric undertook an upgrade of
14 its 1.3 million meters with meters capable of being read remotely and the
15 installation of a communications infrastructure capable of reading those meters
16 and acquiring usage data. Completion of this AMR project, at a capital cost of
17 about \$160 million, permitted the Company to eliminate manual meter reading,
18 reduce the need for field visits, and reduce the effort required to address high
19 usage inquiries. As described in testimony during PPL Electric's most recent
20 distribution rate case (Docket No. R-00049255), that project provided expense
21 reductions associated with these functions that more than offset the cost of the
22 project. Building on this platform, the Company currently is installing a meter
23 data management system that includes the following:

- 1 - A customer interface that will permit customers to analyze and better
2 understand their electricity usage and bills,
- 3 - A data repository capable of storing two years of hourly reads from all
4 customers,
- 5 - A complex billing engine that will be capable of billing customers using
6 hourly data, and
- 7 - A settlement system that will permit customers' usage to be settled
8 using their actual hourly data rather than load profile information.

9 The installation of these additional capabilities will provide PPL Electric's
10 customers with understanding and tools that will permit them to manage their
11 consumption of electricity and their electric bills in a market environment.

12 Customers will be able to understand how their usage varies, how hourly prices
13 vary, and identify ways that they may reduce or shift their usage to their own
14 economic benefit. The Company expects that the availability of hourly data for
15 customers interested in shopping, coupled with the opportunity for suppliers to
16 serve the customers' actual load rather than a load profile, will result in more
17 competitive offers, more opportunities for customers to save money, and an
18 increase in shopping. Finally, with better data and an opportunity to serve actual
19 usage, the Company expects that suppliers will be better able to offer customers
20 a variety of demand-side programs. The Company expects to begin to roll out
21 these capabilities in phases during 2007 and 2008. The CBP's consumer
22 education program is designed to dovetail with that roll-out. The demand side
23 programs included in the CBP are intended to generate customer interest and to

1 serve as an educational tool without displacing the opportunity for retail suppliers
2 to offer other more comprehensive or tailored programs. The procurement and
3 pricing proposed in the CBP are intended to produce alternatives against which
4 customers can begin to understand market pricing, and evaluate energy
5 efficiency, conservation, and shopping opportunities.
6

7 Pricing for Large Commercial and Industrial Customers

8 Q. A number of witnesses have commented on PPL Electric's proposed pricing for
9 the Large Industrial and Commercial Class of customers. Could you briefly
10 summarize the concerns that have been raised?

11 A. Yes. Mr. Wilkie (on behalf of PPLICA - page 4 line 5) and Ms. Prezelj (on behalf
12 of FES – page 4 line 22) both object to PPL Electric's proposal that customers in
13 the Large Customer and Industrial Class make a binding election to receive
14 fixed-price service in late 2008 and prior to knowing the price of that service. Mr.
15 Wilkie also recommends that PPL Electric be directed to include in its tariff a
16 formula for any hourly service and that the Company be directed to offer day-
17 ahead hourly service.
18

19 Mr. Ajello (on behalf of Reliant - page 15 line 18) and Ms. Prezelj (on behalf of
20 FES – page 5 line 18) both propose that PPL Electric not offer fixed price service
21 to customers in the Large Customer and Industrial Class and, instead, offer only
22 hourly service.
23

1 Q. Please respond to the proposals of Reliant and FES that Large C&I customers
2 receive only real time hourly POLR service from PPL Electric.

3 A. I have several concerns with this proposal. First, it is unprecedented in
4 Pennsylvania. All of the major utilities in the Commonwealth currently offer a
5 fixed price option of some kind to their largest customers. Most of these utilities'
6 plans are in place through 2010. I see no reason why PPL Electric should be
7 required to be the only major EDC in Pennsylvania to offer only hourly POLR
8 service to its customers.

9
10 Second, the Reliant/FES proposal fails to reflect the bridge nature of PPL
11 Electric's CBP. As I explained above, PPL Electric's customers, including its
12 Large Commercial and Industrial customers, have received service pursuant to
13 capped generation rates since 1996. After 14 years of service under rate caps,
14 surely some bridge is appropriate, rather than jumping immediately and
15 precipitously to real time hourly rates as the only available POLR option. PPL
16 Electric's proposal to provide a fixed price option for Large Commercial and
17 Industrial customers for 2010 reflects a reasonable compromise bridge proposal
18 and should be approved.

19
20 Third, the Reliant/FES proposal fails to recognize the types of customers
21 included in PPL Electric's Large Commercial and Industrial category. The Large
22 Commercial and Industrial category includes those customers taking service
23 under Rate Schedules LP-4, LP-5, LP-6, and their interruptible counterparts

1 (Rate Schedules IS-P, IS-T and miscellaneous other interruptible rates). While
2 the largest customers, those on LP-5 and LP-6, have had hourly metering for
3 many years and generally have the sophistication to deal with hourly prices, this
4 is not the case for those customers on LP-4. For example, PPLICA witness Mr.
5 Wilkie states in his testimony (page 3 line 3) that even though his firm, Mount Joy
6 Wire, has been served under an interruptible rate (Rate Schedule IS-T), the
7 nature of Mount Joy's operations is such that, in Mr. Wilkie's words, "(W)e have
8 only limited ability to respond to market price fluctuations for electricity." Indeed,
9 Mr. Wilkie's statement is consistent with the nature of PPL Electric's Rate
10 Schedule IS-T which limits, yearly and monthly, the number of interruptible
11 events to which a customer is exposed. Furthermore, the population of
12 customers served under PPL Electric's Rate Schedule LP-4 includes hospitals,
13 schools, government buildings, and others that will be unable to respond to
14 hourly prices. It may be, of course, that the retail market will offer these
15 customers a fixed price alternative, but it would be very risky to assume that this
16 will occur immediately following an extended period during which rates have
17 been capped. A fixed price option, as a one-year bridge, is a reasonable and
18 appropriate protection.

19
20 Q. Please respond to the concern that under PPL Electric's proposal, Large
21 Commercial and Industrial customers will not know the price they will pay for
22 service before they are required to opt in to POLR service.

1 A. The purpose of PPL Electric's proposal was not to hide the price from customers,
2 but simply to acquire POLR power in more than one solicitation to protect against
3 price volatility, and to bid out a known amount of load and load shape in order to
4 reduce the risk that wholesale suppliers would face and, thereby, keep prices
5 more reasonable. However, having reviewed the concerns expressed by various
6 parties, particularly those of the large customer group (i.e., PPLICCA) PPL Electric
7 has decided to revise its proposal. Specifically, PPL Electric proposes to
8 conduct a single solicitation for fixed price service for Large Commercial and
9 Industrial customers for 2010. The solicitation would take place in October
10 2009. Interested Large Commercial and Industrial customers would sign up for
11 this solicitation in advance. PPL Electric will conduct the solicitation and inform
12 customers of the resulting prices. Customers would then have 30 days to select,
13 or "opt in" to, the fixed price service for 2010. Those customers who do not sign
14 up for the solicitation and those customers who sign up for the solicitation but do
15 not accept the price resulting from the solicitation will receive real time hourly
16 service for 2010 as their POLR default service.

17
18 In addition, as explained in Mr. Kleha's rebuttal testimony, the Company, again
19 responding to concerns expressed by several parties, is withdrawing its proposed
20 revisions to the Generation Rate Adjustment (GRA). Large Commercial and
21 Industrial customers, including those who sign up for fixed price service, will be
22 free to shop in 2010 without restriction, except that (1) they must comply with the
23 existing GRA; (2) they must comply with existing switching rules which require

1 that retail suppliers provide notice of a customer's desire to leave POLR at least
2 16 days prior to the meter reading when the change in supplier is to take effect;
3 and (3) if they wish to return to POLR they cannot return to fixed price service
4 and must, instead, take real-time hourly POLR service.
5

6 I believe that this revised proposal reflects a reasonable compromise of the
7 competing positions advanced by the parties on this issue and should be
8 approved.
9

10 Q. FES contends (page 6 line 1) that all large customers should be included in the
11 fixed price pool and that they be required to "opt in" to hourly service. How does
12 the Company respond to that proposal?

13 A. As a general rule, large customers should be more sophisticated in their energy
14 purchases and, therefore, a default to hourly pricing is not unreasonable. FES
15 expresses the concern that customers may inadvertently be placed on a service
16 "that they more than likely do not want." PPL Electric's proposal to provide
17 education on the options available to them, solicit customer interest in a fixed
18 price service, and then seek confirmation from those customers after the price of
19 that service has been determined should minimize the possibility of customers
20 making uninformed decisions.
21

1 Q. Please respond to the proposal that PPL Electric be required to provide a
2 detailed formula for its real time hourly default service for Large Commercial and
3 Industrial customers.

4 A. I do not think a formula is necessary. PPL Electric, unlike Duquesne Light
5 Company, is not proposing to directly offer and administer a real time hourly
6 POLR service option. Rather, PPL Electric is proposing to bid this service out
7 and simply pass through the costs to customers. Under this approach, a detailed
8 formula is unnecessary. Instead, PPL Electric will define the service being
9 provided by an EGS (e.g., real-time hourly zonal price and then relevant capacity
10 and ancillary services prices) and request that the EGSs indicate what they want
11 to be paid to provide the service, taking on all PJM obligations that may arise
12 through its provision (except for transmission charges). In this way, PPL Electric
13 will not need to be responsible for detailed PJM accounting requirements and will
14 simply be the transmission and distribution company.

15
16 **Pricing for Residential and Small Commercial and Industrial Customers**

17 Q. A number of witnesses have commented on PPL Electric's proposed pricing for
18 the Residential and Small Commercial and Industrial classes of customers.
19 Could you briefly summarize the concerns that have been raised?

20 A. Yes. Both Mr. Ajello (on behalf of Reliant – page 10 line 7) and Mr. Lacey (on
21 behalf of Direct Energy – page 2 line 10) contend that it is premature to establish
22 any pricing structure for Residential and Small Commercial and Industrial
23 customers and, instead, PPL Electric should wait for the issuance of the

1 Commission's POLR rules and request a pricing structure consistent with the
2 rules. In the alternative, Mr. Lacey recommends that PPL Electric be directed to
3 implement a "monthly market pricing model". Other witnesses on behalf of EGSs
4 have expressed other criticisms of the CBP solicitations.

5
6 Dr. Estomin (on behalf of OCA) objects (page 12 line 12) to a single flat cent per
7 kWh rate for all customers; proposing instead that customers currently being
8 served under Rate Schedules RS and RTD be grouped together, but that
9 customers served under Rate Schedule RTS be maintained separately and that
10 their rate continue to be discounted relative to the other residential customers. In
11 addition, Dr. Estomin recommends (page 17 line 1) that, instead of flat cent per
12 kWh rates, the Company should maintain a declining block structure and
13 translate the flat price obtained through bids into separate prices for each block.

14
15 Q. Several parties contend that PPL Electric's filing, and particularly its proposed
16 laddering for the Residential and Small Commercial and Industrial Classes is
17 premature and should await issuance of final POLR regulations by the
18 Commission. Do you agree with this assessment?

19 A. No, I do not. First, completely apart from the Commission's regulations, I believe
20 it is absolutely essential that PPL Electric start now to acquire power to serve its
21 smaller POLR customers. Our laddering approach was developed in direct
22 response to the failures experienced in other POLR solicitations, such as Pike
23 County, where customers experienced generation rate increases of over 100%

1 because of poor timing of POLR solicitations. It should be obvious that an EDC
2 should not put all of its eggs in one basket through a single POLR solicitation that
3 is subject to weather and the vagaries of the energy markets. This is particularly
4 true for our smaller customers who do not have the size, sophistication or interest
5 to protect themselves through forward purchasing and other hedging
6 mechanisms. I do not believe that a single solicitation for smaller customers is
7 sound public policy at this time for a one-year bridge program for a single utility.
8

9 Moreover, the fact that the PUC may issue final POLR regulations at some point
10 in the future should not change this analysis. First, the PUC has been
11 developing POLR regulations for a number of years, but has yet to issue final
12 regulations. Second, any regulations that are issued must undergo review by the
13 Independent Regulatory Review Commission and may take many more months
14 to finalize. Waiting for final regulations could significantly shorten the laddering
15 period and needlessly expose PPL Electric's smaller customers to price volatility.
16 Third, PPL Electric has specifically anticipated the issuance of final regulations
17 and has committed in the CBP to comply prospectively with these regulations, if
18 and when they are issued, and if they are applicable to PPL Electric for 2010.
19

20 In addition, the absence of regulations has already created uncertainty in the
21 financial and capital markets. Financial analysts have noted the absence of
22 POLR policy as an uncertainty and have raised a number of questions regarding
23 the status of POLR regulation in Pennsylvania. PPL Electric understands the

1 complexities surrounding these POLR issues and is not criticizing the PUC for
2 the timing of the regulations. However, it is very important to the Company and
3 its customers to have a plan in place while awaiting final regulations. The CBP
4 accomplishes this goal and preserves the ability to comply with regulations when
5 issued.

6
7 Q. Dominion Retail's witness Mr. Butler asserts, at page 3 of his testimony, that PPL
8 Electric has asked that it be granted waivers to allow it to acquire supply
9 according to the CBP even if the Commission were to come out with regulations
10 that were contrary to the CBP solicitation approach. Do you have any
11 comments?

12 A. Yes. Mr. Butler apparently misunderstands PPL Electric's request for waiver.
13 PPL Electric has requested waivers from any new Commission POLR regulations
14 only to the extent solicitations have been undertaken prior to the effective date of
15 such regulations. For example, if the CBP were approved, and solicitations were
16 undertaken in 2007 and 2008, the contracts with wholesale suppliers pursuant to
17 those solicitations, and the resulting portion of the POLR prices resulting from
18 those contracts, would not be voided by new POLR regulations that
19 hypothetically become effective on January 1, 2009. However, PPL Electric
20 would, to the extent possible, obtain the remaining one-third of its POLR
21 requirement pursuant to such new POLR regulations. This limited waiver is
22 necessary to provide potential wholesale bidders with the assurance that their
23 contracts will be honored. Otherwise, PPL Electric would have to include a

1 "regulatory out" provision in the POLR SMA, which likely would discourage any
2 wholesale suppliers from bidding.

3
4 Q. How do you respond to the recommendation that pricing for Residential and
5 Small Commercial and Industrial customers should employ a "monthly market
6 pricing model"?

7 A. Mr. Lacey describes a process (page 7 line 7) by which the Company would
8 conduct a series of auctions for supply for one month periods. Auctions would be
9 held 60 days in advance of the delivery month and contracts would be completed
10 with successful bidders not later than 45 days from the start of supply. Mr. Lacey
11 states that the 45-day window allows customers sufficient time to evaluate
12 competitive offers in light of the future month's price. However, the Company
13 sees several problems with this approach. First, it exposes customers in the
14 Residential and Small Commercial and Industrial Classes to price volatility that
15 they would not otherwise face. Second, the mechanics of fitting monthly price
16 changes to 20 different billing cycles that span months will create huge consumer
17 education challenges and, potentially, tremendous customer confusion. Finally,
18 PPL Electric's costs to administer such a rate structure would be considerably
19 greater when compared to the proposed CBP.

20
21 Q. Please describe the price volatility that customers in these classes will
22 experience.

1 A. Initially I would note that Mr. Lacey's recommendation and his observations on
2 volatility under the CBP appear to be based, at least in part, on a
3 misunderstanding of the Company's CBP proposal. Mr. Lacey states (page 4
4 line 21) that under PPL Electric's proposal, customers will be exposed to monthly
5 price volatility as a function of changes in usage from month to month and the
6 application of the declining block structure in PPL Electric's tariff. However, the
7 Company's proposal is to replace its existing block pricing for generation with a
8 flat cent per kWh charge. As a consequence, under the CBP, PPL Electric
9 customers would see the same price per kWh for generation regardless of the
10 amount of electricity they consume. Any remaining block structure pricing that
11 customers experience will be related to the Company's distribution rates, which
12 are not a subject of these proceedings.

13
14 Under Mr. Lacey's proposal customers will experience a new price each month.
15 While the Company knows of no historical data regarding the prices paid for
16 monthly full requirements load following supply bid 60 days in advance of
17 delivery, Exhibit DAK 3 tabulates historical monthly average Locational Marginal
18 Prices (LMPs) for the years 2002 through 2005 as a way to assess the degree of
19 volatility to which customers might be exposed. While LMP represents only a
20 part of the cost of supply and of customers' bills, the following insights can be
21 drawn:

- 22 - Because LMPs change every month, it can be expected that
23 customers will see changes in price every month.

- 1 - Month to month increases can be as much as 2.2 cents per kWh and
- 2 decreases can be as much as 2.0 cents per kWh.
- 3 - Month to month increases can be as much as 52% and decreases can
- 4 be as much as 32%.
- 5 - The difference within a calendar year can be as much as 4.4 cents per
- 6 kWh and 200%.

7 Clearly, customers will experience very substantial price volatility under Mr.
8 Lacey's proposal that they would not experience under the Company's CBP. I
9 want to make clear also that the Company is not advocating that customers
10 never be exposed to price volatility. In fact, the demand side programs that the
11 Company proposes as part of the CBP will expose customers to price volatility.
12 The Company does advocate, however, that, because the CBP represents a
13 bridge from capped prices, the pricing during that period, while derived from the
14 market and reflective of the market, should not expose all customers to more
15 extreme market volatility.

16
17 Q. Please describe the mechanical problems associated with implementing Mr.
18 Lacey's proposal.

19 A. Mr. Lacey's proposal would seek monthly supply contracts, but customers are
20 actually billed in 20 billing groups spread through each month in order to levelize
21 meter reading and billing activities and to levelize revenue collections. As a
22 consequence, every customer, except for fewer than 500 who are billed a
23 calendar month basis, will be billed on a price that reflects a pro rating of two

1 successive months. Mr. Lacey describes a customer having 45 days to consider
2 competitive alternatives, but, in reality, that customer may never actually know
3 the price for the second part of the billing period by the time he must commit to a
4 competitive alternative. Furthermore, even if the customer were to have the
5 POLR price for the entire billing period, that would only be a one month price so
6 the customer would either be faced with shopping month to month (if monthly
7 competitive offers are actually available) or guessing as to the price of future
8 POLR months. The Company believes that Mr. Lacey's proposal would actually
9 make it more difficult for customers to make educated shopping decisions.
10 Under his proposal, it is conceivable that customers may shop only because they
11 will take the first fixed price offer and not because it is in their best economic
12 interest.

13
14 An additional serious problem associated with Mr. Lacey's proposal is that it
15 would be totally impractical to offer customers budget billing – a program that
16 many small customers rely on to help them manage their spending. Without
17 knowledge of forward prices, the calculation of a monthly budget amount for
18 customers would be pure guesswork with the result that the annual budget
19 reconciliation would become extremely volatile and, ultimately, defeat the
20 purpose of having a budget. Approximately 155,000 customers (14% of all
21 residential customers) participate in the budget billing program.
22

1 Q. At pages 11-12 of his testimony, Mr. Ajello criticizes PPL Electric's laddered
2 solicitation process for small customers as not being able to "guarantee" a
3 particular level of price increases. Please comment.

4 A. PPL Electric never suggested that its laddered solicitation would guarantee any
5 particular price, or that it would control increases to a range of 20%-30%. PPL
6 Electric's goal was, and is, to avoid having POLR prices set at a time of abnormal
7 market prices, as appears to have occurred for Pike County Light & Power
8 Company. PPL Electric does believe that a series of laddered solicitations for
9 the Year 2010 will provide the market's assessment of the expected cost of
10 POLR supply, without undue bias caused by unusual events.

11
12 Q. Please respond to Dominion Retail witness Butler's proposal that PPL Electric
13 solicit all of its requirements in 2009 and fix prices for three to five years.

14 A. There are various aspects of this proposal that are unacceptable to PPL Electric.

15
16 First, fixing a price for three to five years is completely contrary to PPL Electric's
17 goal of a one-year "bridge" to full statewide competition. PPL Electric is not
18 seeking to preempt the Commission's ultimate adoption of POLR regulations by
19 establishing POLR rates going out to 2012 or 2014.

20
21 Second, having PPL Electric solicit all of its requirements for this 3 to 5 year
22 period over a limited number of solicitations in one year continues to present the
23 problem that resulting POLR rates could be affected by unusual market forces.

1 This concern about the effect of a short-term price spike, which was a primary
2 reason for PPL Electric's proposal for six solicitations over a period of three
3 years, would be magnified if the resulting rate is then fixed for 3 or more years.
4 In that regard, I question why a single-year acquisition for a 3 to 5 year fixed
5 POLR rate is more reasonable than a three-year solicitation process for a one-
6 year fixed rate.

7
8 I also am concerned about the premium that would be built into any bids for a 3
9 to 5 year fixed POLR product. PPL Electric's proposal to have wholesale
10 suppliers provide "tranches," or a fixed percentage of customer requirements,
11 places upon wholesale suppliers all load risk, including all shopping risk. None of
12 the EGSs appear to disagree with this approach. However, the risk associated
13 with customers leaving POLR service in 2010 may be perceived as much less
14 than the risk of customers leaving and returning over a 3 to 5 year period.
15 Similarly, a supplier bidding on a one-year fixed POLR rate is assessing the risk
16 of changes in the number of customers and their usage for a one-year time span,
17 whereas the supplier would have to factor in the expected load shape and growth
18 occurring over the 3 to 5 year fixed-price period. All things being equal,
19 increased risk would translate into increased premiums in the bids, thereby
20 driving up the POLR rates.

21
22 Q. Please respond to OCA's proposal with respect to Rate Schedule RTS.

1 A. OCA recommends that the absolute difference in 2006 average rates between
2 Rate Schedule RS and Rate Schedule RTS be maintained. Dr. Estomin
3 calculates this absolute difference to be \$0.0301 per kWh (page 13, table 2 at
4 line 11). The effect of this proposal would be to charge Rate Schedule RS
5 customers slightly more than the average residential customer class rate
6 developed under the CPB, and to charge Rate Schedule RTS customers
7 somewhat less than the average residential customer class rate.

8
9 PPL Electric would agree to modify its CBP to adopt the concept proposed, with
10 certain modifications described below, provided that its reconciliation proposal is
11 adopted. As explained by Mr. Kleha, and as acknowledged by Dr. Estomin (page
12 18), if the Rate Schedule RS and Rate Schedule RTS rates differ from the
13 average residential class rate under the CBP, there is increased risk that
14 revenues and costs under the CBP will diverge.

15
16 Q. What modifications does the Company propose to Dr. Estomin's proposal?

17 A. The Company believes two modifications are necessary. First, it appears that
18 Dr. Estomin's calculation is done on a total bill basis; i.e., the differentials
19 between Rate Schedules RS and RTS include not just the contribution of
20 differences in the design of generation rates, but, also, differences in the design
21 of distribution rates. Distribution rates are not at issue in this proceeding and it is
22 inappropriate to undertake a POLR design that, in effect, addresses distribution
23 issues. Accordingly, the Company's first modification to OCA's proposal is to

1 calculate the differential effect on the Energy and Capacity and Stranded Cost
2 components of the rate schedules only. Second, Dr. Estomin's proposal would
3 hold the differential that exists in 2006 while the Company believes that, because
4 the increase at issue is the one customers will see from 2009 to 2010, the more
5 appropriate differential to focus on is the one that will exist between Rate
6 Schedule RS and Rate Schedule RTS generation charges in 2009. Because the
7 Company's tariff specifies Energy and Capacity and Stranded Cost charges in
8 each year through 2009, it is possible to perform this calculation. From a
9 conceptual perspective, while the Company's Commission-approved
10 restructuring settlement includes a design for stranded recovery and energy and
11 capacity that intends the sum of the two be constant through the 2006 through
12 2009 period, the 2006 tariff figures used by Dr. Estomin include the effect of the
13 annual reconciliation of the Competitive Transition Charge and Intangible
14 Transition Charge. The Company believes that the differential that is set for
15 2010 should not reflect the reconciliation of stranded collections in the 2005-2006
16 period and, therefore, would also modify OCA's proposal to reflect 2009 charges
17 as published in the Company's tariff.

18
19 Q. How would the Company's modifications affect OCA's proposal?

20 A. The Company accepts the average use by RS and RTS customers that OCA has
21 used in the calculation. Applying their billing determinates to 2009 charges for
22 Energy and Capacity and Competitive Transition Charge (Intangible Transition
23 Charge is forecast to be zero cents per kWh in 2009), the Company calculates a

1 differential of 1.35 cents per kWh and is willing, subject to Commission approval
2 of its reconciliation proposal, to design 2010 POLR rates for Rate Schedule RTS
3 to be 1.35 cents per kWh lower than those for Rate Schedule RS. The
4 calculation of this differential is presented in Exhibit DAK 3. As recognized by Dr.
5 Estomin, retaining the differential will require that the average RS generation rate
6 be slightly higher than the average generation rate for the residential class as a
7 whole.
8

9 Q. Do you agree with Dr. Estomin's proposal that the generation rates for Rate
10 Schedules RS and RTD should be moved to equality?

11 A. Yes. This is consistent with PPL Electric's original proposal in this proceeding.
12

13 Q. Please respond to Dr. Estomin's proposal that the generation rates for Rate
14 Schedules RS and RTD under the CPB should continue to reflect blocked rates.

15 A. PPL Electric does not agree with this proposal. As shown in the first table on
16 page 16 of Dr. Estomin's testimony, Dr. Estomin's own calculations demonstrate
17 that if current 2006 declining block rates for energy and capacity plus transition
18 charges were converted to block rates, the resulting effects upon total monthly
19 bills would be very minor. Furthermore, as demonstrated by comparing the
20 results shown on the second table on page 16 to the results shown in the table
21 on page 17, Dr. Estomin's proposal to move block rates half of the way to flat
22 rates produces less than a 2% difference from estimated flat rates in 2010. In my
23 opinion, this small differential does not justify adoption of Dr. Estomin's proposal

1 to retain block generation rates for Rate Schedules RS and RTD and undertake
2 *the rate translation and additional reconciliation that would be required.*

3
4 Q. Finally, have you reviewed Mr. Ajello's testimony regarding several opinion
5 surveys that appear to show that both residential customers and business
6 customers favor competition in the electric utility industry?

7 A. Yes and I would like to make two points in response to this testimony. First,
8 those surveys are not really relevant to the current case. To assert that
9 customers favor competition does not answer, or even address, fundamental
10 questions such as the most appropriate method for obtaining POLR supply or the
11 proper pricing mechanism for POLR service. It will not assist the Commission in
12 determining whether the Company's CBP is a reasonable proposal for obtaining
13 POLR supply for 2010 as a bridge to state-wide market pricing for POLR service
14 in 2011. Second, both of the surveys cited by Mr. Ajello, and set forth in Reliant
15 Exhibit JAA-2, contain serious flaws that detract from their credibility and
16 usefulness.

17
18 Q. What concerns do you have with the survey that was conducted by Triad
19 Strategies for Strategic Energy?

20 A. I have three concerns with that survey. First, it is biased because the poll
21 reached only those residents of Pennsylvania who stated that they were "likely"
22 to vote in the November 2006 election. Non-voters were excluded from the
23 survey and, therefore, the results do not reflect the opinions of a significant

1 segment of the electricity consumers in the Commonwealth. Second, the survey
2 is biased because several of the questions are prefaced by a statement that
3 strongly suggests competition will provide significant benefits to consumers. The
4 two questions quoted on page 4 of that survey in Reliant Exhibit JAA-2 are good
5 examples. Such a preface may unfairly influence respondents to indicate
6 support for competition, whereas a more neutral preface would not influence their
7 responses. Third, the survey does not support a conclusion that consumers
8 favor competition as strongly as Mr. Ajello appears to suggest. In fact, as shown
9 on page 4 of that survey in Reliant Exhibit JAA-2, only two respondents out of a
10 total of 700 identified gas/energy prices as "the single most important problem
11 facing Pennsylvania today." Based on that response, gas/energy prices ranked
12 next to last out of the seventeen issues identified in the survey. Even then, that
13 modest ranking could be inflated if one of the two respondents choosing the
14 issue thought it included gasoline prices.

15
16 Q. What concerns do you have with the survey that was conducted by Voter
17 Consumer Research?

18 A. I have two concerns with that survey. First, its results are not very useful or
19 reliable because the sample size was much too small. As indicated on page 12
20 of that survey in Reliant Exhibit JAA-2, only 150 residential "electricity decision
21 makers" completed the survey and those 150 decision makers were spread
22 across the service territories of PPL Electric, Duquesne Light Company and
23 Philadelphia Electric Company which, together, comprise a total population of

1 about 3.5 million residential customers. In response to Question No.8 of PPL
2 Electric's Interrogatories, Set II, Reliant indicated that, of the 150 respondents,
3 only 54 consumers were located in PPL Electric's service territory. By contrast,
4 in conducting its customer satisfaction survey every quarter, PPL Electric surveys
5 600 residential customers out of a total residential customer base of
6 approximately 1.3 million. Second, the survey produces unreliable results
7 because two responses are combined into a single score. For example, on page
8 7 of that survey in Reliant Exhibit JAA-2, the percentage of customers indicating
9 that electricity deregulation has produced "better" reliability and service is
10 combined with the percentage of customers indicating the "same" reliability and
11 service. The results of this question and the implications that can be drawn from
12 that result will vary widely depending on whether the "same" response constitutes
13 a minor or a major portion of the blended score.

14
15 Q. What is your overall reaction to these surveys and their findings?

16 A. PPL Electric has been, and remains, a staunch supporter of competition in the
17 electric utility industry. From that perspective, I do not have any quarrel with the
18 surveys cited by Mr. Ajello. However, I do not believe that they are relevant to
19 the resolution of this case, and I believe they are fundamentally flawed. I do not
20 believe that the Commission should rely on them in reaching its decision in this
21 proceeding.

1 Consumer Education Program

2 Q. A number of witnesses have commented on PPL Electric's proposed consumer
3 education program. Could you briefly summarize the concerns that have been
4 raised?

5 A. Yes. SEF witness Dr. D'Agostino states (page 4 line 19) his belief that the
6 Company's program is not comprehensive and that the proposed funding is not
7 sufficient to carry out a truly comprehensive program. Dr. D'Agostino offers
8 (page 6 line13) SEF's experience and assistance in further defining a consumer
9 education program and (page 15 line 6) proposes Commission oversight of the
10 program.

11
12 OCA witness Dr. Estomin (page 23 line 13) asserts that PPL Electric's proposed
13 allocation of dollars associated with consumer education is too heavily weighted
14 toward 2007 and 2008 and should be designed, instead, to spend greater
15 amounts in 2009. Dr. Estomin also (page 23 line 21) offers the opinion that PPL
16 Electric's proposal for consumer education is not sufficiently defined and that the
17 Company should be directed to work with other parties to develop program
18 details.

19
20 Q. How do you respond to the concern raised by SEF that PPL Electric's proposed
21 consumer education program is not comprehensive?

22 A. As stated in my direct testimony (Statement No. 1, page 23 line 11), the
23 Company's proposed program is not intended to address broad statewide

1 consumer education needs. It is intended only to address the needs associated
2 with the CBP. What Dr. D'Agostino describes as a comprehensive plan may
3 indeed be appropriate as a separately funded statewide consumer education
4 effort coupled with a statewide plan for the long-term provision of POLR.
5 However, it is clearly not appropriate for a one-year bridge that may or may not
6 be consistent with the final structure of POLR regulations. PPL Electric's
7 proposed program is consistent with the needs created by the CBP and should
8 be approved on that basis.

9
10 Q. How do you address the concerns raised by both SEF and OCA that the
11 Company's proposal needs to be better defined?

12 A. PPL Electric agrees that parts of its proposal need to be better defined. Other
13 parts of it are, however, quite well defined. Statement No. 1 describes (page 21
14 line 22) four areas that would be the focus of the proposed consumer education
15 program. In the area of existing customer choice education, for example, the
16 Company is required, in accordance with Commission rules, to issue the "Price to
17 Compare" to its customers in May and October of each year. The Company has
18 been carrying out this obligation by maintaining the required information on its
19 website and including an insert with the required information in its May and
20 October cycles of bills. The Company would expect to continue this activity in
21 the same fashion through 2009, that it would be relatively unaffected by the CBP,
22 and that, accordingly, no further definition is required.

23

1 POLR rate education and demand-side response education will need to reflect
2 the final form of the CBP and some additional definition will undoubtedly be
3 required. However, other aspects, such as the direct mail pieces the Company
4 has developed to make eligible customers aware of the residential demand
5 response program and to solicit their participation, already exist and have been
6 used within the Commission's DSR Working Group as a model for this type of
7 education.

8
9 It is the Company's intent that efforts in the fourth area, education on the wise
10 use of energy, be built on the platform provided in the meter data management
11 system that the Company is in the process of installing. This product provides a
12 customer interface that permits residential customers to analyze their electricity
13 use, analyze the energy use of appliances or home improvements they may
14 consider buying, and to analyze impacts on their electric bills. While further
15 definition of the program is required, that definition must be consistent with the
16 interface being installed and its capabilities.

17
18 Q. How does the Company propose to accomplish this further definition?

19 A. The Company would welcome the participation of the other parties and
20 Commission staff, as we have in past consumer education efforts, to help define
21 program objectives and efforts. The Company concurs with the suggestions of
22 SEF and OCA in this regard. Accordingly, if the Commission approves the CBP,

1 the Company will facilitate a collaborative process to develop a more detailed
2 design of the consumer education program within the \$875,000 budget.

3
4 Q. How do you respond to the concern raised by OCA that the Company's proposed
5 funding of the consumer education program is too heavily weighted toward 2007
6 and 2008 and should be designed, instead, to spend greater amounts in 2009?

7 A. The cash flow presented in Statement No. 1 (page 21 line 21) is consistent with
8 OCA's view; i.e., it is more heavily weighted toward 2009. This was done,
9 consistent with OCA's logic, to increase education efforts closer to the time when
10 customers will be using that education. The real difference between the OCA's
11 view and the Company's proposal is, therefore, one of degree. Given that both
12 the Company and OCA agree the education programs need to be further defined
13 in certain areas, it would also seem reasonable to expect the cashflows to be
14 adjusted as the programs are further defined. Accordingly, PPL Electric is willing
15 to address cash flows as a part of the collaborative process I discussed
16 previously. The Company does note, however, that there are four considerations
17 that caused it to include more funding in 2007 and 2008 than the OCA might
18 otherwise recommend. These are as follows:

- 19 1. The base level of spending to continue to carry out required customer
20 choice education is \$100,000 per year in 2007, 2008, and 2009.
- 21 2. The customer interface to the meter data management system that was
22 described above is expected to be available during 2007 and presents an
23 opportunity to educate customers in this timeframe.

1 3. If customers are going to undertake energy efficiency or conservation
2 measures prior to 2010, they will need to be educated on their options
3 sufficiently prior to that date to allow them time to implement those
4 measures and potentially take advantage of tax credits available under
5 the federal Energy Policy Act of 2005 which are scheduled to expire
6 (unless extended by Congress) at the end of 2007.

7 4. Consistent with the original CBP proposal that customers in the Large
8 Commercial and Industrial class would need to decide to elect fixed-price
9 service in late 2008, funds were included in 2008 to provide educational
10 materials to assist them in making that decision.

11
12 Q. How do you respond to the concern of SEF that the proposed spending of
13 \$875,000 is a reflection of the funds available and not of the funding needed?

14 A. The Company agrees that the \$875,000 amount is the amount that remains in its
15 current customer choice education account. The total amount set aside for
16 consumer education pursuant to the Company's Commission-approved
17 restructuring settlement was almost \$22 million. PPL Electric believes that the
18 education programs it has identified arise from customer choice and, therefore,
19 spending these remaining funds on the proposed programs is consistent with the
20 purpose for which the funds were set aside. PPL Electric believes that educating
21 consumers regarding POLR supply and energy use are appropriate functions of
22 a distribution company for two fundamental reasons:

1 1. POLR supply and actions a customer may take to use energy wisely are
2 available to all customers whether they shop or not.

3 2. The costs of such programs should be recovered through a non-
4 bypassable mechanism to assure that the program provider is
5 compensated and that all customers contribute appropriately for the
6 service they are provided.

7 Limiting the program to the amount of funds available has the advantage of not
8 requiring the creation of a collection mechanism or any new collections from
9 customers. In this regard, I emphasize that PPL Electric will not agree to any
10 further expansion of the education program without further funding.

11
12 The remaining issue is whether \$875,000 represents enough funding to carry out
13 on-going customer choice education plus new initiatives related to
14 implementation of the CBP; keeping in mind that the CBP will only be in place for
15 a single year and may not reflect the long-term characteristics of POLR
16 regulations. The Company continues to believe that \$875,000 is sufficient for the
17 purpose of educating consumers regarding issues they may face arising from the
18 CBP. The Company does agree with other parties that a more comprehensive
19 consumer education program will be needed to educate consumers consistent
20 with the Commission's final rules on POLR supply. Part of the Company's
21 rationale for advocating a standard statewide POLR process is that such a
22 process can be more effectively communicated to customers using statewide
23 media than processes that are unique to individual service territories. Such a

1 consumer education program should, logically, be part of the implementation of a
2 statewide process and not part of a one-year effort.

3
4 Q. On page 16 of his testimony, SEF witness Dr. D'Agostino proposes to have PPL
5 Electric adopt a home energy audit program. How do you respond to this
6 proposal?

7 A. The customer interface to the meter data management system that I described
8 previously includes a rather sophisticated, web-based, interactive home energy
9 audit that the Company believes will be very useful in helping customers to
10 understand their energy usage and to explore opportunities they have to use
11 energy more wisely and reduce their electricity bills. Because this tool is
12 interactive and web-based, the Company believes that it will be able to provide
13 significant education to customers about the tool and its use within the \$875,000
14 budget proposed.

15
16 **Demand-Side Response Programs**

17 Q. A number of witnesses have commented on PPL Electric's proposed demand
18 side response programs. Could you briefly summarize the concerns that have
19 been raised?

20 A. Yes. PennFuture witness Dr. Tuffey states (pages 4 and 5) that the Company
21 should institute a program to identify and provide notice to customers
22 representing the top 10% of peak load in each customer class. Dr. Tuffey
23 proposes that the Company provide those customers with voluntary strategies to

1 reduce or shift load and provide the same customers with information the day
2 after at least two "critical events" and recommend strategies that would reduce
3 cost for the next peak event. Dr. Tuffey also proposes that the Company submit
4 to the Commission by December 31, 2009 for implementation during 2010, a
5 "real time DSR program that would be structured to enroll customers
6 representing 10% of the peak load in each customer class." Finally, Dr. Tuffey
7 proposes that PPL Electric implement two sets of energy efficiency programs.
8 The first would be designed to achieve a 1% reduction in kWh consumed by
9 customers in 2010. The second, to be submitted to the Commission by
10 December 31, 2009 for implementation in 2010, is described as a "real time
11 Energy Efficiency and Conservation program that would be structured to annually
12 reduce (kWh) consumed by the equivalent of the projected annual load growth."

13
14 FES witness Ms. Prelezj states (page 10 line 14) that PPL Electric should not be
15 permitted to extend or expand its DSR programs, in particular as those programs
16 relate to customers in the Large Commercial and Industrial Customer Class.

17
18 Q. How do you respond to Dr. Tuffey's proposals?

19 A. Dr. Tuffey's proposals regarding notifying customers representing the top 10% of
20 peak load in each customer class and providing those customers with voluntary
21 strategies to reduce or shift load, both as a general matter and following "critical
22 events," would seem to be matters relating to the education of consumers. Dr.
23 Tuffey's proposals regarding the establishment of a real time DSR program for

1 the same group of customers and the establishment of energy efficiency and
2 conservation programs seem to be matters relating to the creation of incentive
3 programs rather than simply education.
4

5 As stated earlier, the Company is willing to facilitate a collaborative process to
6 develop a more detailed design of the consumer education program within the
7 \$875,000 budget and the notification of customers that they are among the
8 Company's largest contributors to peak load could be a part of that program.

9 The total number of customers who would have to be notified would be about
10 100,000 customers. The Company currently has no mechanism to reach these
11 customers individually other than by direct mail. For example, the Company has
12 no capability to print a special bill message to only those customers or to insert a
13 paper notice in the course of billing for only this group. The Company typically
14 estimates the cost of this type of mailing at about \$1.00 per piece. The Company
15 believes that it would be appropriate for the collaborative to consider whether this
16 would be a wise use of available funds. The Company does not believe,
17 however, that notification of the same group of customers with similar information
18 the day after "critical events" is practical or desirable. Notification would, as
19 described previously, need to be by direct mail so it could not be in the
20 customers' hands within 24 hours. Finally, each notification would cost about
21 \$100,000.
22

1 With regard to the establishment of a real time DSR program for customers
2 representing the top 10% of peak load in each customer class, the Company
3 believes that its two proposed DSR programs already meet this need. The
4 Company's proposed programs will be available to all customers in the
5 Residential and Large Commercial and Industrial Classes and, although not
6 based on real time hourly prices, these programs do have pricing that varies with
7 time and, thereby, provides participants an incentive to shift load to lower cost
8 hours. The Company does not believe that it is appropriate to establish
9 extensive new energy efficiency and conservation programs in the context of a
10 simple one-year bridge plan for POLR supply. If targeted to achieve the
11 reductions proposed by Dr. Tuffey, such programs will have a significant effect
12 on the Company's recovery of distribution revenue and should only be
13 considered in the context of a distribution rate proceeding or, in the alternative, in
14 the context of the efforts of the Commission's Demand Response Working Group
15 to consider and, if appropriate, recommend to the Commission the
16 implementation of revenue recovery mechanisms that "decouple" revenue
17 collection from usage.

18
19 Q. How do you respond to FES' recommendation that the Company not be
20 permitted to extend or expand its DSR programs?

21 A. As stated in Statement No. 1 (page 20 line 14), the Company agrees in principle
22 with FES' view that it might be more appropriate for electric generation suppliers,
23 rather than the POLR, to be providing DSR programs to customers. However,

1 the Company believes that, because there are very few suppliers offering service
2 to customers in the Company's service territory, it is appropriate for it to offer a
3 limited number of such programs, at least during a bridge period. In addition,
4 being able to offer a few modest DSR programs enhances the ability of the
5 Company to educate its customers on the wise use of energy and the nature of
6 market pricing. In that way customers will be better prepared to take advantage
7 of such programs when they are offered in the competitive retail market.
8

9 Q. A number of witnesses have suggested that, in addition to its own demand-side
10 programs and programs that other parties have proposed, the Company should
11 also conduct a Request for Proposal (RFP) solicitation for conservation and
12 demand-side programs as part of its solicitation for supply. Could you briefly
13 summarize the concerns that have been raised?

14 A. Yes. Both Dr. Tuffey (on behalf of PennFuture) and Dr. Estomin (on behalf of
15 OCA) recommend that, as part of its solicitation for supply, PPL Electric be
16 directed to issue an RFP for bids to provides DSR or energy efficiency programs
17 for a specified percentage of its capacity and energy needs.
18

19 Q. How do you respond to these concerns?

20 A. The Company intends for the CBP to be a simple one-year bridge and believes
21 that the inclusion of demand-side programs within the solicitation process
22 significantly complicates the process with little or no likely benefit for customers.
23 The inclusion of such solicitations introduces uncertainty for those bidding supply

1 because prospective suppliers will not know how load shapes may be affected by
2 the demand-side solicitations. As a result, the prospective suppliers are likely to
3 bid prices that are higher than they might otherwise be. Also, the inclusion of
4 such programs and the need to sign up customers to participate will create a
5 significant consumer education need that it is not factored into the Company's
6 consumer education proposal. Finally, because most demand side investments
7 require several years to recover sufficient benefits to offset costs, the Company
8 questions the practicality of soliciting customer participation for a one-year period
9 or, alternatively, the willingness of aggregators to sign customers to a program of
10 longer than one year when they are only guaranteed a revenue stream for a
11 single year. The Company believes that the demand side programs it has
12 proposed in the CBP are sufficient to satisfy the demand of customers for such
13 programs in the context of a one-year bridge to an as-yet undefined POLR end
14 state. The Company believes that solicitation programs such as those proposed
15 by Dr. Tuffey and Dr. Estomin have a greater chance of success if undertaken in
16 the broader context of a statewide POLR process and, in fact, after that process
17 has had an opportunity to mature.

18 19 **AEPS Resources**

20 Q. Dr. Tuffey (on behalf of PennFuture) recommends (page 9) that the Company be
21 directed to include in its 2007 solicitations for supply its full 2010 requirement for
22 Tier I resources, including solar, under the AEPS Act instead of simply requiring

1 bidders to assure that their bid includes the appropriate percentage of each type
2 of resource required by the Act. Do you agree with this recommendation?

3 A. No, I do not as it relates to all Tier I resources. Dr. Tuffey's rationale is that this
4 sort of front-end loading is necessary to provide Tier I resources that do not
5 currently exist time to finance and construct facilities prior to 2010. The
6 Company believes that, as structured, the Act intends that compliance
7 obligations be met in a market environment that promotes fair competition among
8 all types and vintages of Tier I resources in order to achieve the environmental
9 objectives of the Act at the lowest cost to customers. Dr. Tuffey's proposal would
10 limit those market dynamics to the year 2007 and preclude cost effective
11 opportunities that might otherwise come along in 2008 or 2009 and be available
12 to reduce the cost impact on PPL Electric's customers. The Company also
13 questions whether a one-year commitment with a supplier for generation to serve
14 PPL Electric's POLR load would actually provide a revenue stream significant
15 enough to aid in the financing and construction of projects in any meaningful
16 way. It is the Company's experience that developers are typically looking for
17 several years of committed revenues and, as a one-year bridge, the CBP does
18 not offer an opportunity for multi-year revenue commitments.

19
20 Q. Is any portion of Dr. Tuffey's proposal acceptable to the Company?

21 A. Yes. The Company is willing to adopt Dr. Tuffey's proposal with respect to solar
22 photovoltaic resources. The Act treats solar photovoltaic resources differently
23 from Tier I or Tier II resources in a number of ways, and the Company, therefore,

1 is willing to re-design its 2007 supply procurements for customers in the
2 Residential and Small Commercial and Industrial classes to include percentages
3 of solar photovoltaic resources that will be sufficient to meet the Company's
4 entire 2010 compliance obligation for those classes. Consequently, its 2008 and
5 2009 procurements for those classes will include no solar photovoltaic resources.
6 Solar photovoltaic resources associated with customers in the Large Commercial
7 and Industrial class will be procured in 2009.

8

9 Q. Does this conclude your rebuttal testimony?

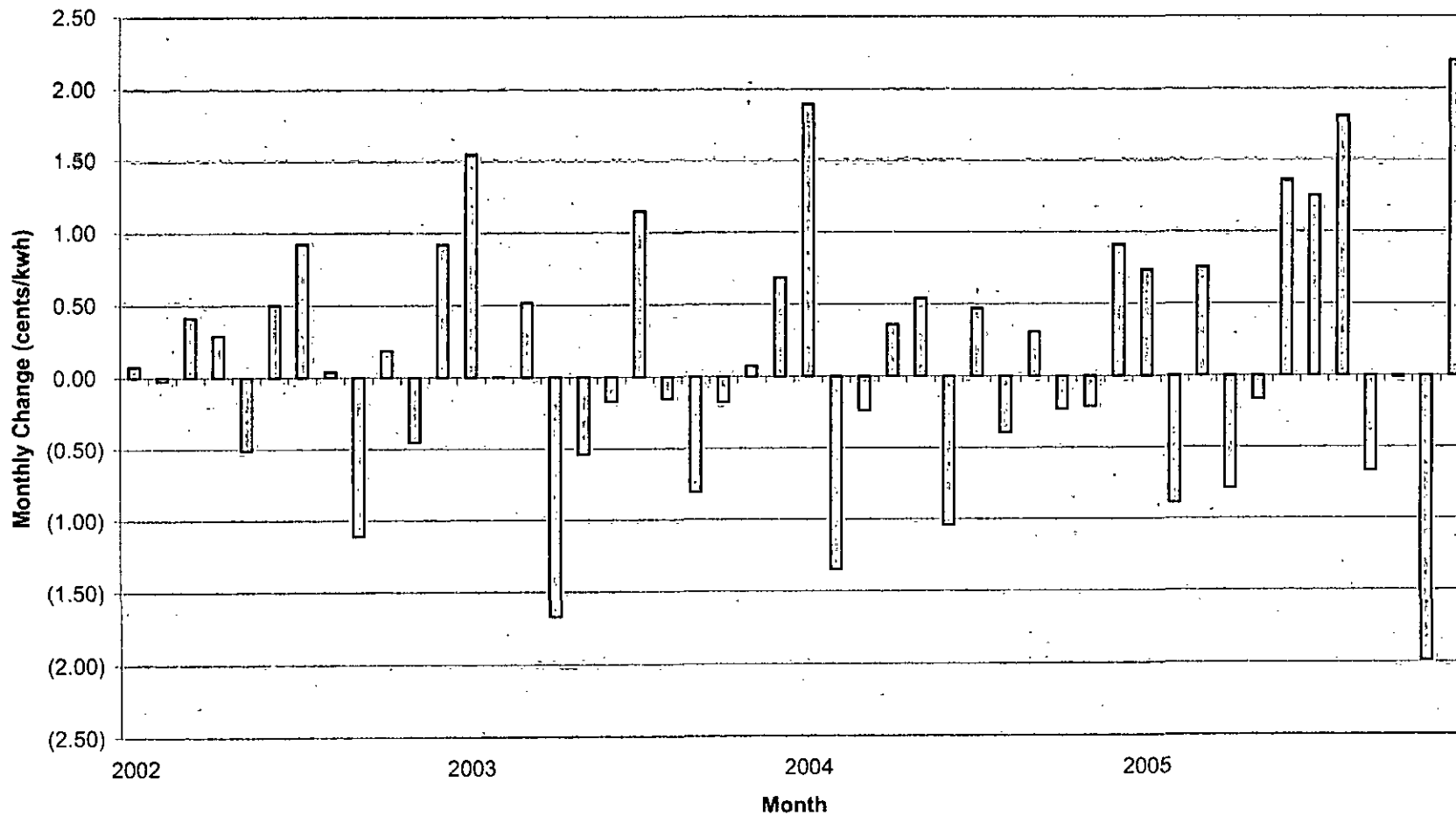
10 A. Yes, it does.

PPL Electric Utilities
Analysis of Monthly Average LMP at the PPL Zone

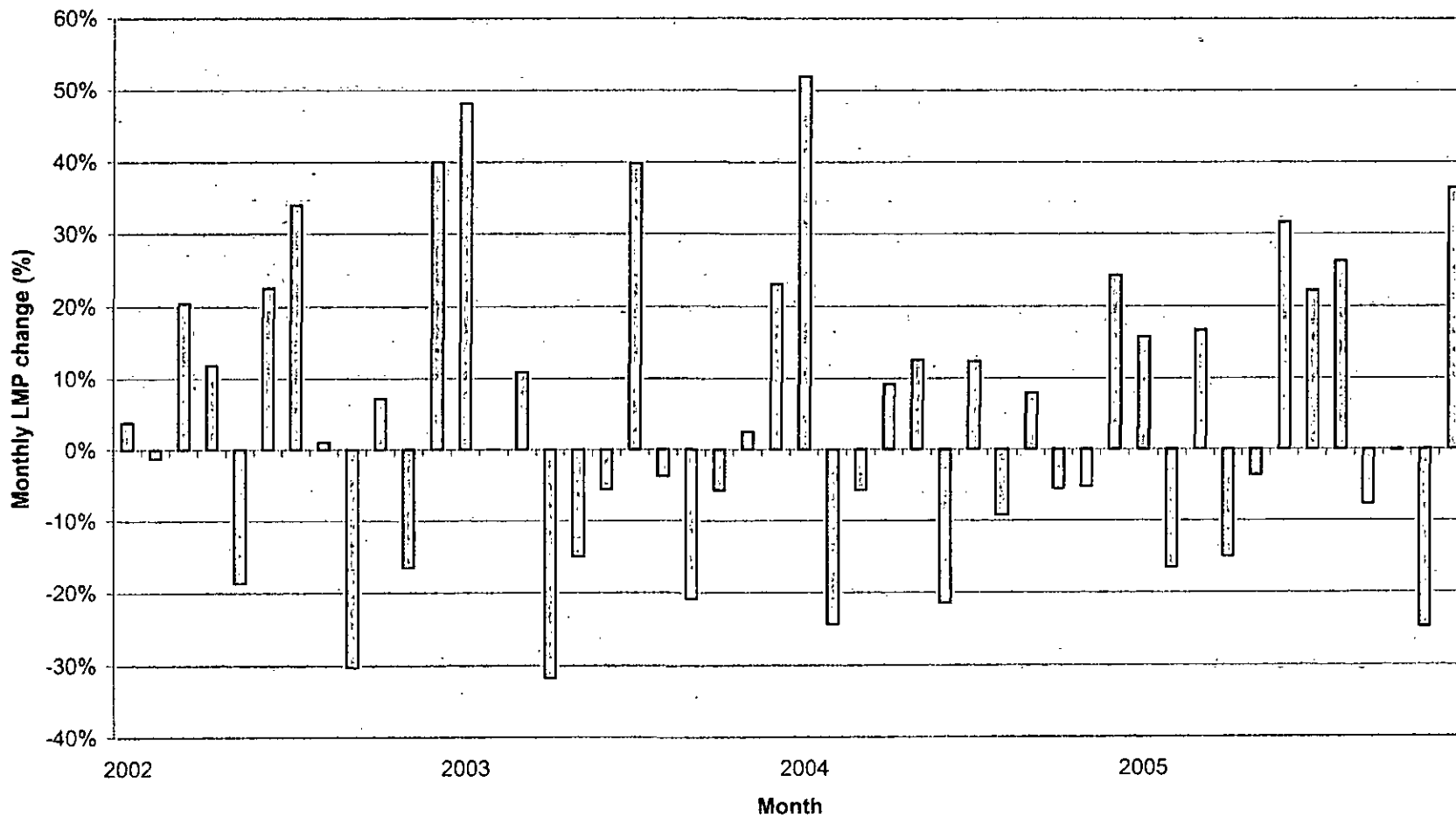
Year	Month	Average LMP PPL Zone cents/kwh	Month to month Difference cents/kwh	Month to month Change %
2001	December	1.97		
2002	January	2.05	0.08	4%
2002	February	2.02	(0.03)	-1%
2002	March	2.44	0.41	20%
2002	April	2.73	0.29	12%
2002	May	2.22	(0.51)	-19%
2002	June	2.72	0.50	23%
2002	July	3.64	0.92	34%
2002	August	3.68	0.04	1%
2002	September	2.56	(1.11)	-30%
2002	October	2.75	0.18	7%
2002	November	2.29	(0.45)	-17%
2002	December	3.21	0.92	40%
2003	January	4.75	1.54	48%
2003	February	4.75	0.00	0%
2003	March	5.27	0.52	11%
2003	April	3.60	(1.67)	-32%
2003	May	3.06	(0.54)	-15%
2003	June	2.88	(0.17)	-6%
2003	July	4.03	1.15	40%
2003	August	3.88	(0.15)	-4%
2003	September	3.07	(0.81)	-21%
2003	October	2.89	(0.18)	-6%
2003	November	2.96	0.07	2%
2003	December	3.64	0.68	23%
2004	January	5.54	1.89	52%
2004	February	4.19	(1.35)	-24%
2004	March	3.95	(0.24)	-6%
2004	April	4.31	0.36	9%
2004	May	4.85	0.54	13%
2004	June	3.80	(1.04)	-22%
2004	July	4.27	0.47	12%
2004	August	3.88	(0.40)	-9%
2004	September	4.19	0.31	8%
2004	October	3.95	(0.23)	-6%
2004	November	3.74	(0.21)	-5%
2004	December	4.65	0.91	24%
2005	January	5.39	0.73	16%
2005	February	4.49	(0.89)	-17%
2005	March	5.25	0.75	17%
2005	April	4.45	(0.79)	-15%
2005	May	4.29	(0.17)	-4%
2005	June	5.64	1.36	32%
2005	July	6.90	1.25	22%
2005	August	8.70	1.81	26%
2005	September	8.04	(0.67)	-8%
2005	October	8.02	(0.01)	0%
2005	November	6.03	(1.99)	-25%
2005	December	8.23	2.20	36%

PPL Electric Utilities
Monthly Change in LMP at the PPL Zone
For the Period 2002 through 2005

DAK 3



PPL Electric Utilities
Monthly Percent Change in LMP at the PPL Zone
For the Period 2002 through 2005



PPL Electric Utilities
Calculation of Rate Schedule RTS and Rate Schedule RS Price Differential

Average Rate Schedule RS Energy and Capacity and Competitive Transition Charges

	kW	kWh	2009 Rate	Total
Energy & Capacity				
First 200 kwh		200	\$ 0.05949	\$ 11.90
Next 600 kwh		600	\$ 0.05231	\$ 31.39
Excess kwh		200	\$ 0.04800	\$ 9.60
Total Energy & Capacity				\$ 52.88
Competitive Transition Charge				
First 200 kwh		200	\$ 0.01293	\$ 2.59
Next 600 kwh		600	\$ 0.01147	\$ 6.88
Excess kwh		200	\$ 0.01059	\$ 2.12
Total Competitive Transition Charge				\$ 11.59
Total Charges				\$ 64.47
Average Rate				\$ 0.0645

Average Rate Schedule RTS Energy and Capacity and Competitive Transition Charges

	kW	kWh	2009 Rate	Total
Energy & Capacity				
On-peak demand in excess of 2 kw	4.9		\$ 5.31	\$ 26.02
All kWh		2,349	\$ 0.03275	\$ 76.93
Total Energy & Capacity				\$ 102.95
Competitive Transition Charge				
All kWh		2,349	\$ 0.00719	\$ 16.89
Total Charges				\$ 119.84
Average Rate				\$ 0.0510

Price Differential between Rate Schedules RS and RTS **\$ 0.0135**

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DEC 26 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. P-00062227

PPL Electric Utilities Corporation

Statement No. 2

Direct Testimony of Joseph Cavicchi

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

2 A. My name is Joseph Cavicchi. My business address is 20 University Road,
3 Cambridge, Massachusetts 02138-5756.

4

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

6 A. I am employed by Lexecon, an FTI Company ("Lexecon"), as a Managing
7 Director.

8

9 Q. Please briefly describe the services provided by Lexecon.

10 A. Lexecon is an economics and financial consulting firm that provides corporations,
11 law firms, and government agencies with clear analysis of complex economic
12 and financial issues for use in legal and regulatory proceedings, and in strategic
13 decision-making. Lexecon is actively involved in a wide variety of matters that
14 can arise in the areas of economics and finance. Our practice areas include
15 energy and environmental economics, antitrust, securities, damages, intellectual
16 property, as well as business consulting and public policy analysis.

17

18 Q. What are your duties as Managing Director?

19 A. I provide economic analysis and expert testimony in various state and federal
20 regulatory proceedings related to electricity markets. Throughout my entire
21 career I have been directly involved with corporations, institutions, and state and
22 federal government regulation in relation to the electricity industry. During the
23 past decade I have been working exclusively in the regulation of the electricity

1 industry, and in particular carrying out quantitative modeling of wholesale
2 electricity markets. I provide extensive regulatory and strategic advice, as well
3 as analytical support, to electricity generation and distribution companies. The
4 assignments combine extensive knowledge of wholesale market operations with
5 general economic theory of contracting and electricity generation plant dispatch
6 in order to provide companies with a rigorous approach to wholesale market
7 analysis.

8
9 Q. What is your educational background?

10 A. I hold Masters degrees in Technology and Policy and in Environmental
11 Engineering from the Massachusetts Institute of Technology and Tufts University,
12 respectively. I am also a Registered Professional Engineer in the
13 Commonwealth of Massachusetts.

14
15 Q. Please describe your professional experience.

16 A. Prior to joining Lexecon, I was a staff mechanical engineer and a project
17 manager at the Massachusetts Institute of Technology, overseeing the
18 development, permitting, engineering, construction and start-up of a \$40 million,
19 20 megawatt gas turbine-based cogeneration facility at the Cambridge campus.
20 In addition, I was responsible for the implementation of various energy
21 consumption monitoring programs, and optimization of the operation of a
22 centrally distributed electricity, steam, and chilled water production facility.

23

1 Q. Have you previously testified as a witness on regulation and competition in the
2 electric industry?

3 A. Yes. I have testified on several occasions on wholesale electricity market
4 competitiveness and design at the Federal Energy Regulatory Commission. I
5 have also testified on qualifying facility pricing policy in the state of California as
6 well as wholesale market design policy within the state. Additionally, I have
7 written articles on electricity industry structure and issues associated with
8 procuring wholesale electricity supplies for delivery to retail customers.

9

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

11 A. My testimony describes and supports the competitive procurement program
12 proposed by PPL Electric Utilities Corporation ("PPL Electric or the "Company")
13 in its Request for Approval of a Competitive Bridge Plan ("CBP") filed with the
14 Pennsylvania Public Utility Commission ("PUC") on August 2, 2006. The central
15 objective of the Company's CBP is its proposal to obtain 2010 Provider of Last
16 Resort ("POLR") supply through six competitive solicitations beginning in 2007.
17 The primary components required to execute the competitive solicitation process
18 are provided in Exhibit JC 1, which was originally provided as Attachment 1 to
19 the August 2 Petition. That exhibit contains all the documents required to
20 implement the competitive solicitations, including a draft request for proposal
21 ("RFP") process and rules and a draft Provider of Last Resort Supply Master
22 Agreement ("POLR SMA"). The Company developed most of these documents
23 using documents that were approved for use in RFP processes by this PUC or

1 the Maryland Public Service Commission. The RFP and POLR SMA incorporate
2 considerable experience obtained in other POLR procurement proceedings and
3 represent a transparent, well-defined and objective approach for procuring PPL
4 Electric's 2010 POLR supply.

5
6 Q. Why is the Company proposing six competitive solicitations to obtain its POLR
7 supply requirements?

8 A. PPL Electric is proposing multiple procurements of POLR supply to provide, in
9 particular to its residential and small commercial and industrial customers, the
10 benefits of competitive electricity generation rates that are averaged over time.
11 Because it is impossible to accurately predict future wholesale market prices,
12 some of the Company's procurements will be at higher prices and some will be at
13 lower prices, but, over time, the overall cost will be an average of the year 2010
14 market prices prevailing at the times of the solicitations. Thus, by carrying out six
15 solicitations over a three-year period the Company is appropriately not assuming
16 that it can determine the best time to procure 2010 POLR supplies for its future
17 POLR customers. Instead, the Company proposes six regularly scheduled
18 procurements over a three-year period in an effort to obtain the benefits of
19 averaging the 2010 POLR supply generation rates for its customers using this
20 multi-solicitation or laddering approach.

21
22 Q. Why has the Company proposed the multi-solicitation approach commencing in
23 2007?

1 A. The Company believes that the appropriate generation supply product for its
2 residential and small commercial and industrial POLR customers is one where
3 the rate is not subject to significant volatility. To provide this type of rate requires
4 that the Company purchase supplies from forward electricity markets in which
5 delivery will be taken a number of years in the future. Obtaining supplies from
6 forward markets where deliveries are to be made two and three years in the
7 future will result in less significant price variations (i.e., lower volatility) over time
8 when compared to purchases for delivery more near-term such as for the next
9 year or next several months. Evidence of the effectiveness of this approach for
10 reducing price volatility has been observed in New Jersey where the Board of
11 Public Utilities reported in February of 2006, that although the prices established
12 in the 2006 fixed-price auction for smaller electricity customers were 55% above
13 the 2005 auction price, the resultant increase in prices for 2006 would only be
14 12-13.7%.

15 I also believe that customers expect their electric utilities to undertake a
16 prudent strategy for purchasing POLR supply and that this same product would
17 be what is offered to potential customers by electric generation suppliers
18 ("EGSs"). As the PUC is aware, there have been substantial political and public
19 concerns regarding POLR rate increases resulting from power procurement
20 procedures that have relied upon supplies obtained from an auction conducted at
21 a single point in time. Prudence dictates that a number of separate
22 procurements should be undertaken over a long enough period of time to

1 mitigate the risk that unique or short-term events would unduly push prices
2 upwards or downwards.

3
4 Q. How does the Company propose to distinguish among customer classes in its
5 solicitations?

6 A. PPL Electric proposes to obtain POLR supply for the following three separate
7 customer classes: (1) residential; (2) small commercial and industrial (taking
8 service at secondary voltage levels); and (3) large commercial and industrial
9 (taking service at primary and transmission voltage levels). Purchasing capacity,
10 energy, transmission and ancillary services for each separate customer class will
11 enable the Company to assign the cost of obtaining POLR supply to the
12 customers responsible for that cost.

13
14 Q. Please generally explain the proposed solicitation process.

15 A. The Company proposes to issue RFPs twice a year – in March and September of
16 2007, 2008, and 2009 – to purchase 2010 POLR supply for all customer classes,
17 except the large commercial and industrial class. For these larger customers,
18 the Company proposes to conduct two RFPs, both in 2009. The large
19 commercial and industrial customers will have an opportunity in late 2008 to
20 decide whether to select a fixed annual rate for 2010 and the Company will issue
21 RFPs in 2009 to obtain POLR supply for those customers that elect a fixed
22 annual rate. Large commercial and industrial customers who do not elect the

1 fixed annual POLR rate will be able to receive POLR service in 2010 at hourly
2 rates.

3 These multiple procurements of POLR supply should help to mitigate the
4 problem encountered by some electric distribution companies ("EDCs") of
5 purchasing all of their POLR supply at a time when market prices are considered
6 elevated. The different procurement schedule for the large commercial and
7 industrial customer class recognizes the various shopping options available to
8 those customers and the implications of those alternatives for PPL Electric's
9 procurement efforts.

10
11 Q. Please explain the solicitation process proposed by the Company in greater
12 detail.

13 A. In each RFP, the Company will procure a pro rata portion of the estimated 2010
14 POLR load for each customer class. The portion of total POLR supply included
15 in each RFP will be established such that, over the three-year period, a total of
16 60 tranches will be purchased for the residential class (6 solicitations of 10
17 tranches each); a total of 42 tranches will be purchased for the small commercial
18 and industrial class (6 solicitations of 7 tranches each); and a total of 38 tranches
19 will be purchased for the large commercial and industrial class (2 solicitations of
20 19 tranches each). Each tranche will be a fixed percentage of the customer
21 class' POLR load, with that percentage estimated to produce tranches of
22 approximately 50 MW. For example, each tranche for the residential class will be
23 approximately 1.7% of the class POLR load based on current Company

1 forecasts. Supply must be load-following and must include generation from
2 renewable sources sufficient to meet the Company's 2010 obligations under the
3 Alternative Energy Portfolio Standard ("AEPS") Act.

4 This approach, using a full-requirements POLR supply product similar to
5 that supplied by wholesalers in many other contiguous geographic areas, will
6 keep the procurement process simple, understandable and transparent. More
7 importantly, this approach simplifies bid evaluation because, after bidders have
8 qualified to participate and have posted adequate bid assurance collateral, which
9 I discuss below, the sole variable for determining winning suppliers will be bid
10 price.

11 As the RFP and POLR SMA describe in detail, each winning POLR
12 supplier must provide all products and services required by the Company to fulfill
13 its obligations as POLR. These products and services include at a minimum:
14 energy, capacity, transmission service, ancillary services and AEPS compliance.
15 As a result, each supplier will become the load-serving entity ("LSE") in the PJM
16 Interconnection, LLC ("PJM"), for its share of PPL Electric's POLR load. PPL
17 Electric, however, will remain the POLR for its retail customers.

18
19 Q. Does PPL Electric's proposal encourage broad supplier participation?

20 A. Yes. All qualified suppliers will have an opportunity to respond to the Company's
21 RFP. Qualification is straightforward, requiring primarily that the supplier be a
22 good-standing member of PJM and meet certain fundamental credit-worthiness
23 criteria. However, an individual bidder cannot supply more than 85% of a

1 customer class's POLR load offered in each solicitation. This limitation will
2 further encourage continued development of the competitive wholesale market
3 by ensuring that competitors will have a true opportunity to be winning suppliers.
4

5 Q. How does the Company propose to address the risk of supplier default?

6 A. PPL Electric proposes that suppliers selected to serve any portion of the
7 Company's POLR load be required to post performance assurance. Such
8 assurance is required to enable PPL Electric to recover costs arising from a
9 supplier default. I note that, depending upon a supplier's credit rating, a supplier
10 will be extended an unsecured credit amount, and the required performance
11 assurance would be a calculated amount in excess of any unsecured credit. The
12 performance assurance will be recalculated every business day based upon
13 forward prices for energy and capacity to be delivered in 2010. However, if in its
14 order in this proceeding the PUC provides an adequate commitment that PPL
15 Electric will be permitted to recover any costs it incurs as a result of supplier
16 default, the Company is willing to cap a qualifying supplier's performance
17 assurance at a level to be determined at the time of each solicitation, subject to
18 review by an independent third party at that time. To qualify for a performance
19 assurance cap, a supplier must have an investment grade rating of BBB or above
20 by Standard and Poor's, BBB or above by Fitch and Baa2 or above by Moody's.
21 The Company cannot propose a specific cap in this filing because the level of the
22 cap is driven by changing market conditions. A performance assurance cap set
23 in each RFP should encourage additional participation in the RFP and keep bid

1 prices for POLR supply as low as possible. However, if the PUC is unwilling or
2 unable to provide assurance of full rate recovery, the Company cannot assume
3 the financial risk of placing a cap on the suppliers' obligation to provide
4 performance assurance.

5
6 Q. Does PPL Electric propose independent oversight of this solicitation process?

7 A. Yes. In the first instance, the Company is requesting that the PUC review and
8 approve the proposed solicitation process. The Company anticipates that the
9 PUC would have the opportunity to oversee implementation of each solicitation
10 and evaluation of supplier responses. In addition, PPL Electric proposes that the
11 PUC authorize it to hire an independent third party to administer the solicitation
12 process. That independent third party would report directly to the PUC and
13 would coordinate its oversight activities with PUC personnel.

14
15 Q. In your opinion, is PPL Electric's proposed CBP procurement process in the
16 public interest?

17 A. Yes. First, the CBP contains many features that will support the continued
18 development of competition in Pennsylvania. PPL Electric will procure its 2010
19 POLR supply needs through six transparent competitive solicitations spread over
20 a three-year period (2007-2009) with all qualified wholesale suppliers being
21 eligible to participate. At the retail level, the Company is not proposing restrictive
22 customer switching rules and EGSs will continue to have an ability to compete to
23 supply PPL Electric's current customers. In addition, the Company is proposing

1 a comprehensive education program to encourage its customers to use energy
2 wisely, to educate them to manage their electricity costs and to facilitate
3 shopping. Finally, it is proposing to expand and enhance two existing demand-
4 side response programs, which enable customers to manage their load in
5 response to market price information.

6 Second, PPL Electric has designed a proposal that incorporates both PUC
7 and third-party oversight. The Company envisions that the PUC will work closely
8 with the third-party administrator discussed above. PPL Electric proposes that
9 the PUC monitor each step of the process, including selection of the third party
10 administrator, implementation of the RFP, evaluation of bids and final selection of
11 winning bidders.

12 Third, PPL Electric has kept its procurement proposal as simple as
13 possible. This approach recognizes that the Company will procure its POLR
14 supply under the CBP for only one year as a bridge to a fully competitive
15 statewide market. At the same time the Company is proposing to use a
16 straightforward and clearly defined RFP process, which should promote
17 competition among wholesale suppliers. In addition, the Company is not
18 proposing additional complexity such as multiple supply products or contract
19 duration periods that span more than the year 2010, or that vary within the year
20 itself.

21 Thus, I believe that the Company's CBP will result in competitive market
22 prices for its POLR customers and is an excellent "bridge" for the one-year period

1 prior to when EDCs statewide will no longer be subject to rate caps, and
2 presumably, statewide POLR regulations will govern POLR procurement.

3
4 Q. In your opinion, will the solicitation process proposed by PPL Electric produce
5 "prevailing market prices" for POLR supply?

6 A. Yes. While I am not offering a legal opinion as to the meaning of the term
7 "prevailing market prices" contained in Section 2807(e)(3) of the Electricity
8 Generation Customer Choice and Competition Act, I can state from experience
9 that at any particular point in time there are many prevailing market prices for
10 electricity representing differences in product term and definition. For example,
11 in most instances electricity products can be procured for terms measured in
12 hours, days, weeks, months, combinations of months, and years. Additionally,
13 there are a wide variety of electricity products, including capacity, load-following
14 energy, on-peak and off-peak block energy, full requirements service,
15 derivatives, swaps, etc. The prevailing market prices at any time will reflect
16 product and term definitions as described above. Moreover, to the extent that
17 various combinations of products are relied upon for service that is received over
18 time, if procured from the wholesale markets, they collectively represent a
19 service established by competitive market prices.

20 I believe that if generation supply for POLR default service is procured
21 through a competitive process, as PPL Electric proposes in this filing, then that
22 supply will be acquired at "prevailing market prices." Moreover, I note that it is
23 PPL Electric's position that longer terms do not lead to a divergence from the

1 "prevailing market prices" standard. If the price for POLR supply is tied to the
2 term of the procurement, and that supply is obtained through a competitive
3 process, then in my opinion the "prevailing market prices" standard is fully
4 satisfied.

5

6 Q. Does this conclude your direct testimony?

7 A. Yes.

8