

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held June 16, 2010

Commissioners Present:

James H. Cawley, Chairman
Tyrone J. Christy, Vice Chairman
Wayne E. Gardner
Robert F. Powelson

Petition of PPL Electric Utilities Corporation (PPL) for Approval of a Default Service Program and Procurement Plan for the Period January 1, 2011 Through May 31, 2013 (**Petition of PPL Electric Utilities for Expedited Approval to Amend the Supply Master Agreement for Allocation of Auction Revenue Rights Under the Default Service Procurement Plan**)

P-2008-2060309

OPINION AND ORDER

BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition is the Petition for Expedited Approval, filed by PPL Electric Utilities Corporation (PPL) on April 30, 2010, pursuant to Section 703(g) of the Public Utility Code (“Code”), 66 Pa. C.S. § 703(g), and Section 5.41 of the Commission’s Rules of Administrative Practice and Procedure, 52 Pa. Code § 5.41, to amend the Joint Petition for Settlement previously approved by Commission Order entered June 30, 2009, at the above-captioned Docket Number.

History of the Proceeding

By Order entered June 30, 2009, the Commission approved a Joint Petition for Settlement (Settlement) regarding PPL's Default Service Program and Procurement Plan (DSP) for the Period January 1, 2011 through May 31, 2014. PPL was directed to submit Revised Supply Master Agreements (SMAs), consistent with the terms of the June 30, 2009 Opinion and Order as an integral part of its Compliance Filing. On July 1, 2009, PPL filed its compliance tariff which satisfied the directive in our June 30, 2009 Opinion and Order.

On April 30, 2010, PPL filed the instant Petition requesting that the Commission amend the Settlement by modifying prospectively the allocation of Auction Revenue Rights (ARRs) which would permit PPL to proportionally assign these ARRs to wholesale suppliers. We note that copies of the Petition were served on the Parties to the underlying proceeding. On May 20, 2010, the OCA filed an Answer objecting to PPL's Petition. Subsequently, on June 14, 2010, the OCA agreed to withdraw its objection. Accordingly, we shall not address the OCA's May 20, 2010, Answer.

Discussion

Pursuant to PPL's Revised DSP Plan filed on November 3, 2008, without objection of the Parties, PPL eliminated any assignment of ARRs to wholesale suppliers. Prior to the Settlement however, Article 4, Section 4.1 of the POLR SMA stated:

Congestion and Congestion Management. Seller is responsible for any congestion costs incurred to supply the Specified Percentage. Because the PJM Planning Period does not correspond exactly with the supply term of this POLR SMA, Buyer, in its capacity as LSE for POLR Load during the Year 2009, will ensure that rights to CRRs for the period January 1, 2010, through May 31, 2010, obtained in conjunction with Buyer's designation as LSE for POLR Load will be provided to Seller as described herein. Buyer shall transfer or assign to Seller, Buyer's rights to CRRs for the period January 1, 2010 through May 31, 2010 to which Buyer is entitled as an LSE pursuant to the PJM Agreements, provided that such rights are related to the service being provided to the Specified Percentage. All rights and obligations associated with such CRRs will accrue to the Seller through the transfer or assignment from Buyer to Seller including the ability of Seller to request or nominate such CRRs when applicable. The Seller is responsible for nominating and obtaining CRRs for the period January 1, 2010, through December 31, 2010. Seller, as a LSE serving POLR Load, shall have the right to request and nominate CRRs provided all Transactions for the Seller's Specified Percentage of POLR Load have been executed and are in full force and effect. Effective January 1, 2011 all CRR rights will transfer back to the Buyer.

PPL DSP SMA filed August 28, 2008 at 16.

Congestion Revenue Rights or CRRs are defined as the current or any successor congestion management mechanism or mechanisms as may be employed by PJM (whether set forth in the PJM Tariff or elsewhere) for the purpose of allocating financial congestion hedges. PPL POLR SMA at 7. In PJM, CRRs are analogous to Financial Transmission Rights or FTRs. *See:* June 2008 PJM Credit and Clearing Analysis Project, Market Credit Comparison.

Section 4.1 of the Revised DSP SMA currently states:

Congestion and Congestion Management. Seller is responsible for any congestion costs incurred to supply the Specified Percentage.

Petition at ¶ 22.

The current language of Section 4.1 provides that beginning January 1, 2011, PPL will receive ARRs and collect any resulting congestion revenue. Petition ¶ 12. Accordingly, PPL will not proportionally transfer any ARRs to the participating wholesale suppliers, but instead, will retain them. *Id.*

PPL is requesting Commission approval of an Addendum to its currently effective DSP Plan SMA to reinstate the allocation of ARRs in a manner consistent with the Competitive Bridge Plan SMA that will allow PPL to proportionally assign the ARRs to participating wholesale suppliers. Petition at ¶ 13.

Specifically, PPL desires to modify Article 4, Section 4.1 of its DSP Plan SMA to state the following:

Congestion and Congestion Management. Seller is responsible for any congestion costs incurred to supply the Specified Percentage. For Transaction Confirmations issued on or after July 20, 2010, Buyer, in its capacity as LSE for Default Service load, will ensure that rights to Auction Revenue Rights (ARRs) obtained in conjunction with Buyers designation as LSE for Default Service load will be transferred or assigned to Seller as described herein. The Buyer shall transfer or assign to Seller, Buyers rights to ARRs for the period applicable to the Transaction Confirmation issued under this SMA, provided such rights are related to the service being provided to meet Seller's Specified Percentage and such rights are for the applicable term. All rights and obligations associated with such ARRs will accrue to the

Seller through the transfer or assignment from Buyer to Seller including the ability of the Seller to request or nominate such ARR's when applicable. The Seller is responsible for nominating or obtaining ARR's for the applicable period pursuant to the Transaction Confirmation(s). Seller, as the LSE serving Default Service Load, shall have the right to request and nominate ARR's provided all Transactions are for the Seller's Specified Percentage of Default Service load have been executed and are in full force and effect. Effective with the end of the applicable Transaction Confirmation period, all ARR's will transfer back to Buyer. Should the conditions above not be met, the entity recognized by PJM as having the right to make nominations will nominate such ARR's for the upcoming PJM planning period as such ARR's will be allocated to the Seller in accordance with PJM Agreements based upon Seller's Specified Percentage.

Petition at ¶ 25; Petition Addendum 1.

A PJM Auction Revenue Right (ARR) entitles the firm transmission customer or holder, to receive an allocation of revenues from PJM's annual Financial Transmission Right (FTR) auction.¹ An FTR is a financial instrument awarded to bidders in the PJM FTR Auctions that entitle the holder to a stream of revenues (or charges) based on the hourly Day Ahead congestion price differences across the path. *Id.* ARR's and FTR's do not guarantee that power will be delivered; rather, they provide financial protection to market participants in the face of variation in locational marginal prices by helping to offset potentially higher costs caused by congestion. Petition at ¶ 16.

Under PPL's load-following, full-requirements contracts, PPL, as an electric distribution company, does not face congestion risk. Wholesale suppliers are subject to and therefore must manage congestion risk as part of their POLR supply obligation. Wholesale suppliers must have direct access to and ownership of ARR's and

¹ See <http://www.pjm.com/~media/training/core-curriculum/v-arr-ftr-101/20100225-ftr-training.ashx>

FTRs to effectively manage any congestion risk within their supply portfolio designed to serve POLR load. Petition at ¶ 27.

PPL further notes that the proposed language modification to its DSP Plan SMA harmonizes its SMA with those used by Metropolitan Edison Company, Pennsylvania Electric Company and PECO Energy Company. Petition at ¶ 31.

In its Answer, the OCA states that it is not clear from PPL's filing retail customers will receive full benefit of the ARRs. Answer at 2. Additionally, the OCA states that it has served Interrogatories in order to develop a greater understanding of the proposal and its possible ramifications. *Id.* It is the OCA's position that the full benefit of ARRs should accrue to retail customers. *Id.*

Conclusion

We concur with PPL's reasoning for implementing the Addendum which modifies the allocation or ownership of ARRs established or created within its DSP Plan SMA. With PPL's SMA modification, its treatment of ARRs will be consistent with other EDCs SMA provisions. This modification will also properly assign the risk mitigation tool of ARRs to the entity subject to the risk of congestion pricing. Accordingly, we will grant PPL's Petition to Amend its prior Settlement Agreement regarding its Default Service Plan SMA pertaining to the proportional assignment of ARRs to its wholesale suppliers; **THEREFORE,**

IT IS ORDERED:

1. That the Petition of PPL Electric Utilities Corporation for Expedited Approval to Amend the Supply Master Agreement for Allocation of Auction revenue Rights under the Default Service Procurement Plan, is granted.

2. That PPL Electric Utilities Corporation shall submit an Amended Supply Master Agreement for Allocation of Auction Revenue Rights under the Default Service Procurement Plan, Article 4, Special Terms and Conditions, Section 4.1, within ten (10) days of the date of entry of this Opinion and Order.

3. That this proceeding shall be marked closed.

BY THE COMMISSION,



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: June 16, 2010

ORDER ENTERED: **June 24, 2010**