

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

Public Meeting held February 10, 2011

Commissioners Present:

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

Petition of PPL Electric Utilities Corporation for
Expedited Approval to Procure a Long-Term, 50 MW
Block of Default Supply for Residential Customers
Pursuant to the Settlement of the Default Service
Procurement Plan

P-2010-2213354
P-2008-2060309

TENTATIVE ORDER

BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration is the Petition for Expedited Approval, filed by PPL Electric Utilities Corporation (PPL) on December 2, 2010, seeking an expedited approval of a 10-year unit contingent procurement of a 50 MW block of fixed price default supply for residential customers, pursuant to the terms of the settlement of PPL's Default Service Procurement Plan (DSP Plan). PPL proposes to solicit the long-term procurement in its next DSP Plan solicitation scheduled for April 18, 2011, in order for the product to be available by June 1, 2011.

HISTORY OF THE PROCEEDING

On August 28, 2008, PPL filed with the Commission a DSP Plan to establish the terms and conditions under which PPL would obtain generation supply and provide default service to its customers for the period of January 1, 2011 through May 31, 2013.

On November 3, 2008, PPL filed an amended DSP Plan that complied with the newly-enacted Act No. 129, which contained certain requirements for the acquisition of default supply by electric distribution companies (EDCs). One of the requirements in Act No. 129 was that EDCs acting as default suppliers competitively procure Alternative Energy Credits (AECs) utilizing a prudent mix of contracts. *See* 66 Pa.C.S. § 2807(e)(3.5).

By Order entered June 30, 2009, the Commission approved a Joint Petition for Settlement (Settlement) regarding PPL's DSP Plan. *Petition of PPL Utilities Corporation for Approval of a Default Service Program and Procurement Plan for the Period January 1, 2011 Through May 31, 2014*, Docket No. P-2008-2060309, (Public Meeting Held June 18, 2009). Under the terms of the Settlement, PPL agreed to undertake a series of competitive bid processes to obtain full requirements default service supply, spot market default service supply, block energy default service supply, and AECs. A portion of the default service supply for PPL's residential customer class was to be acquired through a mix of block procurements consisting of 200 MW of one-year blocks of power, 100 MW of five-year blocks of power, and 50 MW of 10-year product. All blocks consist of energy only service, while the seller bears the costs of transmission, transmission losses, congestion management costs, and other services that are required to supply and deliver the energy to the PPL zone in PJM.

With respect to the 50 MW 10-year product that is the subject of this petition, the Settlement placed a condition that the details of the unit entitlement RFP be deferred to a collaborative and filed separately for Commission approval at a later date. *See* Settlement, ¶ 26. The instant filing fulfills this condition.

In its June 30, 2009 Order, the Commission also directed PPL to submit a DSP Plan Request for Proposal Rules (DSP Plan RFP) and a Supply Master Agreement (DSP Plan SMA) as an integral part of its Compliance Filing. PPL submitted the two documents on July 1, 2009.

In accordance with the Settlement, PPL hosted an initial collaborative meeting regarding the 10-year product. All participants to the DSP Plan proceeding were invited to participate at the meeting held on April 15, 2010. Representatives from the Office of Consumer Advocate (OCA), the Sustainable Energy Fund (SEF), ConEdison Competitive Energy Businesses (ConEdison), Constellation Energy (Constellation), and Mr. Eric Epstein were present.

Subsequently, the parties provided comments on a number of issues identified by them and PPL at the collaborative meeting. PPL prepared a preliminary proposal for the 10-year product and distributed it to the parties for review. A second collaborative meeting was held to discuss the proposal, at which limited additional feedback was provided.

Thereafter, PPL submitted the instant petition, seeking approval of a 10-year unit contingent procurement of a 50 MW block of fixed price default supply for residential customers. PPL has requested an expedited review of its petition so that the 50 MW block may be procured as part of the company's next scheduled solicitation on April 18, 2011, for deliveries beginning in June 1, 2011.

No party has objected to PPL's petition. PPL served the petition on all parties to the proceeding at docket number P-2008-2060309. In addition, notice of the Petition was filed in 40 Pa.B. 7311, on December 18, 2010. The only party that intervened in this matter was the OCA, which subsequently submitted a letter to the Commission indicating it had no objections to PPL's petition.

DISCUSSION

In order to implement the proposed 10-year unit contingent procurement of a 50 MW block of fixed price default supply for residential customers, PPL has requested that the Commission approve the proposed Long-Term Product RFP, submitted with the petition as "Appendix A," and the Long-Term Product SMA, also submitted with the petition as "Appendix B." PPL submits that the Long-Term Product RFP and the Long-Term Product SMA are based on the documents previously approved by the Commission for PPL's DSP Plan. Petition at ¶ 18.

PPL's proposed Long-Term Product RFP establishes the rules and procedures for suppliers to bid in their solicitations; provides information to potential bidders and establishes an RFP schedule; sets forth the minimum requirements for suppliers to be prequalified to bid; provides the minimum bid proposal requirements and instructions for the preparation of bidder qualifications and proposals; and explains the process to evaluate qualified proposals. Petition at ¶ 19.

Any supplier, including PPL's unregulated generation supply affiliate PPL EnergyPlus, that believes it can meet the bidder qualification requirements established in the Long-Term Product RFP and is willing to provide prices at which it will sell the Long-Term Product, may respond to any solicitation of the Long-Term Product RFP. Bid proposals will be required to include financial guarantees and bid collateral

assurance, and the qualified winning suppliers will be selected on a price-only basis. Petition at ¶¶ 20-21.

In accordance with the comments and discussions during the collaborative process, PPL proposes to issue a single solicitation on April 18, 2011, to competitively procure 50 MW of default supply through 10 tranches of 5 MW blocks at a single specified firm price for each tranche. The price will include all energy, transmission (other than Network Integration Transmission Service), transmission losses, congestion management costs, and such other services or products (but excluding capacity, ancillary services, and AECs) that are required to meet the Delivery Obligation under the Long-Term Product SMA. Petition at ¶¶ 22-24.

PPL's proposal provides that winning suppliers have a Minimum Delivery Obligation for each month for both on-peak and off-peak periods that, on average, equates to an overall annual capacity factor of 85%. PPL will submit the approved Delivery Schedule to PJM in the Day-Ahead Market. If the winning supplier fails to deliver the scheduled amounts to PJM, the winning supplier will be responsible for all PJM charges associated with failure to deliver the scheduled amounts. The difference between the Minimum Delivery Obligation, which is estimated to equate to an annual capacity factor of 85%, and the 50 MW of supply delivered at 100% capacity factor each month, will be purchased by PPL from the spot market. Petition at ¶¶ 25-29.

Considering that PPL's residential rates for default service supply will reflect the prices of the procurement of the Long-Term Product, the proposed DSP Plan appears to be consistent with the terms of the approved Settlement and the requirement under Act 129 that electric distribution companies obtain a "prudent mix" of supply contracts in order to ensure that default service is adequate, reliable, and results in the least cost to customers over time. As already noted, no interested parties or interveners have filed objections to PPL's petition.

While we find PPL's DSP Plan in compliance with the terms of the approved Settlement and the requirement under Act 129, we have determined that the Commission may need additional time to review and approve the bid results once they are presented to it. The Commission will exercise its authority under 52 Pa. Code §1.91 to waive the one business day approval process for DSP procurement purchases, as set forth in 52 Pa. Code §54.188(d), and modify the RFP to allow the Commission up to three business days for such review and approval. This procurement involves a long-term energy market with vastly different characteristics than a shorter term market of one to two-year contracts for default service power purchase, and, as a result, we do not anticipate that energy prices will be constantly changing to the same degree as they do in the shorter term market. This long-term energy market moves at a much slower pace and has very limited price discovery.

Therefore, consistent with our action in PECO's voluntary initial procurement of up to 450,000 non-solar Tier I Alternative Energy Credits (AECs) annually for the interim five-year period of its remaining generation rate cap period, the RFP should be modified to provide the Commission with up to three business days to approve the bid results once they have been submitted to the Commission. *Petition of PECO Energy Company for Approval Of (1) A Process to Procure Alternative Energy Credits during the AEPS Banking Period and (2) A Section 1307 Surcharge and Tariff to Recover AEPS Costs*, Docket P-00072260, (Order entered December 26, 2007.)

CONCLUSION

Upon review of the facts set out in the Petition, the Commission believes that it is reasonable to approve PPL's proposed Long-Term Product RFP and the proposed Long-Term Product SMA subject to the procedural modification set forth herein;

THEREFORE,

IT IS ORDERED:

1. That the Petition of PPL Electric Utilities Corporation be approved, as modified in this Tentative Order.

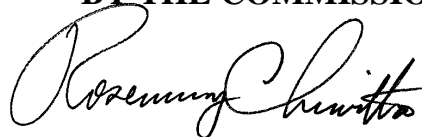
2. That the Secretary serve a copy of this Tentative Order upon PPL Electric Utilities Corporation, all electric generation suppliers licensed to do business in its service territory, the Office of Consumer Advocate, the Office of Small Business Advocate, the Office of Trial Staff, and any other party in this proceeding.

3. That an original and 8 copies of any comments referencing the docket number of the Tentative Order be submitted within 10 days of the issuance of this Tentative Order to the Pennsylvania Public Utility Commission, Attn: Secretary, P.O. Box 3265, Harrisburg, PA 17105-3265.

4. That the contact person for this rulemaking is Assistant Counsel Aspasia V. Staevska, Law Bureau (717) 425-7403, astaevska@state.pa.us.

5. That absent the filing of adverse public comment within 10 days after the issuance of this Tentative Order, it shall become final without further action by the Commission.

BY THE COMMISSION

A handwritten signature in cursive script, reading "Rosemary Chiavetta".

Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: February 10, 2011

ORDER ENTERED: February 17, 2011