PPL Electric Utilities Corporation
AEC RFP
Performance Assurance Requirement Summary

This document summarizes the performance assurance requirements of the AEC SMA for the convenience of winning suppliers in only the AEC RFP.

1. When will performance assurance be requested by PPL Electric?

On any business day, PPL Electric may request a supplier to post performance assurance for any amount by which aggregate buyer's exposure (exposure for all transactions between the supplier and PPL Electric) exceeds the unsecured credit granted to the supplier, less any performance assurance already posted. PPL Electric will only make such requests to post the performance assurance to the extent the amount of required performance assurance reaches or exceeds $50,000. Subsequent and incremental requests for performance assurance will be in $25,000 increments rounding upwards. PPL Electric will generally provide information regarding the aggregate buyer's exposure to the supplier each business day. Please see section 12.1 of the AEC SMA for more information.

2. When must performance assurance collateral be delivered to PPL Electric?

If the request for performance assurance is made by PPL Electric before 1:00 p.m. on a business day, then the supplier will have up till the following business day to deliver the performance assurance collateral if the collateral is in the form of cash; and an additional business day to deliver the performance assurance collateral if the such collateral is in the form of a letter of credit. All deadlines are extended by one business day if a request for performance assurance is made after 1:00 p.m. Please see section 12.2 of the AEC SMA for more information.

3. What is the process for the return of performance assurance collateral if there is a reduction in the credit exposure of the transaction?

On any business day (but no more frequently than weekly with respect to letters of credit, and daily with respect to cash), supplier may request that the performance assurance be reduced correspondingly to reflect the decrease in buyer exposure or an increase in supplier's unsecured credit. Please see section 12.2 of the AEC SMA for more information.

4. Will PPL Electric accept early deliveries of AECs for purposes of reducing the performance assurance requirements under the AEC SMA?

The ability to deliver AECs early is applicable to the extent that it is delivered for purposes of reducing the credit exposure under the terms of the AEC SMA. PPL Electric may accept more AECs from a supplier; however, the quantity delivered by a supplier may not exceed the amount of AECs required of the supplier in the current compliance period. While early delivery can reduce credit exposure under the AEC SMA, it will not accelerate payment. PPL Electric intends to administer the AEC SMA this way as a courtesy available to all AEC suppliers.

5. In reviewing Exhibit C of the AEC SMA I would like clarification on item 3 of the section labeled Determination of Forward Prices. The last sentence states, "If an annual quote is not available then the last available Forward Price is carried to the end of the Delivery Period". Since the delivery period for this solicitation is 5 years, it is likely that forward prices may not be available for the entire term. For instance, if only 2 years of forward prices are available, then based on this language the last forward price will be carried forward to the end of the delivery period. This could result in a mark-to-market calculation that requires a successful bidder to post collateral. Is this correct?

You are correct about the language in Exhibit C of the AEC SMA. Similar language also exists in the Block SMA and the Default Service SMA. You are also correct that forward prices may not be available for the entire delivery period. PPL plans to follow the methodology described in the Exhibit C of all the SMAs. However, for contract terms of 5 years and longer, PPL plans to limit the mark-to-market exposure to the last available forward price. For example, the forward prices for a delivery period from January 1, 2011 to December 31, 2015 may only be available through December, 2012. In this instance, the mark-to-market exposure will only be calculated to December 2012 rather than the end of the delivery period, December 2015.