BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan for the Period June 1, 2013 through May 31, 2015	: : : :	Docket No. ____________

PETITION OF PPL ELECTRIC UTILITIES CORPORATION FOR APPROVAL OF A DEFAULT SERVICE PROGRAM AND PROCUREMENT PLAN

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Dated: May 1, 2012

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Pursuant to Section 2807 of the Public Utility Code, 66 Pa. C.S. § 2807, and 52 Pa. Code §§ 54.181-54.189, PPL Electric Utilities Corporation ("PPL Electric" or the "Company") hereby requests approval of its second Default Service Program and Procurement Plan ("DSP II Program") to establish the terms and conditions under which PPL Electric will acquire and supply Default Service or provider of last resort service ("Default Service"), from June 1, 2013 through May 31, 2015 (the "DSP II Program Period"). As explained below, the DSP II Program, *inter alia*, consists of a proposal for competitive procurement of Default Service supply and related Alternative Energy Credits ("AECs") during the DSP II Program Period; an implementation plan; a proposed rate design, including a Time-of-Use ("TOU") rate for Default Service during the DSP II Program Period; an explanation of Regional Transmission Organization ("RTO") compliance and consistency; and a contingency plan for the DSP II Program.[1] The filing also contains several proposals designed to enhance retail competition in PPL Electric's service area. Copies of a *pro forma* Default Service Supply Master Agreement ("Default Service SMA") and a *pro forma* Request for Proposals ("RFP") Process and Rules are included with this Petition, and are the agreements that PPL Electric proposes to use for Default

[1] *See* 66 Pa. C.S. § 2807(e); 52 Pa. Code §§ 54.185(d)(1)-(5).

Service procurement.[2] The filing also contains *pro forma* tariff pages to implement rates under the DSP II Program. PPL Electric requests that the Pennsylvania Public Utility Commission ("PUC" or "Commission") approve the DSP II Program, as further described in this Petition, within nine months, or no later than February 1, 2013.[3]

I. INTRODUCTION AND SUMMARY OF DSP II PROGRAM

1. This Petition requests Commission approval for the terms and conditions under which PPL Electric will acquire supply and provide Default Service from June 1, 2013 through May 31, 2015. The start date for the DSP II Program coincides with the scheduled expiration of PPL Electric's Commission-approved Default Service Program and Procurement Plan, pursuant to which PPL Electric has and will continue to meet its Default Service obligations from January 1, 2011 through May 31, 2013 ("DSP I Program").[4] The DSP II Program Period is designed to match the term of the DSP II Program with the PJM Interconnection, LLC ("PJM") planning year, as well as to align with the Commission's planned "end state" determination of long-term Default Service responsibilities of Electric Distribution Companies ("EDCs") as set forth in the Commission's *Final Order re: Investigation of Pennsylvania's Retail Electricity Market Recommendations Regarding Upcoming Default Service Plans*, Docket No. I-2011-2237952, Order entered December 16, 2011 ("*December 16 RMI Order*").[5]

A. Overview of the DSP II Program

2. The Company has four primary goals with respect to the DSP II Program design. The first is to simplify Default Service procurements, while retaining the basic structure of the

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2 *See* 52 Pa. Code § 54.185(d)(6).

3 *See* 66 Pa. C.S. § 2807(e)(3.6).

4 The DSP I Program is summarized in Section II.B.3, below.

5 The Commission has issued a series of orders in its Retail Electricity Market Investigation. The Company will make reference to the individual orders later in this Petition.

very successful procurement processes used in the DSP I Program and in the predecessor Competitive Bridge Plan ("CBP"). Second, the Company seeks to implement a revised TOU rate option for Default Service for the DSP II Program Period. Third, the Company seeks to comply with applicable Commission Orders issued in the Commission's Retail Electricity Market Investigation and, in particular, develop customer referral programs consistent with those Orders. Fourth, the Company seeks to structure the DSP II Program procurements in a manner such that the program is positioned to be responsive to alternative "end state" structures for Default Service in 2015, depending upon the outcome of the ongoing Retail Electricity Market Investigation.

3. PPL Electric plans to acquire the generation supply and related services needed to meet its Default Service obligation for the DSP II Program Period through procedures similar to those previously approved by the Commission and successfully used by PPL Electric for its Default Service supply under the DSP I Program. Although not an exact copy of the DSP I Program, the DSP II Program incorporates the best practices and lessons learned from the DSP I Program to better address customer needs for the DSP II Program Period.[6] The DSP II Program also satisfies the requirements of 66 Pa. C.S. § 2807(e), as well as applicable provisions of the Commission's Default Service Regulations and Default Service Policy Statement,[7] and takes into consideration the Commission's Default Service decisions issued subsequent to its approval of the DSP I Program, in particular the Commission's ongoing Retail Electricity Market

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6 Major changes from the DSP I Program include semi-annual, rather than quarterly, procurements and rate changes; elimination of spot market purchases for Residential and Small Commercial and Industrial Customer Class procurements; elimination of the Optional Monthly Pricing Service for the Large Commercial and Industrial Customer Class; no additional block product procurements for the Residential Customer Class; revisions to the RFP and SMA documents; development of a revised TOU program; and development of new customer referral programs.

7 It is noted that the amendments to Section 2807(e) of the Public Utility Code were adopted subsequent to the Commission's issuance of its Default Service regulations and policy statement.

Investigation. The DSP II Program's procurement process, like the DSP I Program, will be administered by an independent third-party, NERA Economic Consulting ("NERA"). NERA also will monitor the results of each solicitation to ensure that they are consistent with prevailing market prices. Finally, NERA will submit reports to the Commission evaluating the solicitation process and the results of each solicitation.

4. PPL Electric proposes to obtain Default Service supply separately for the following three Customer Classes:

- Residential;[8]
- Small Commercial and Industrial (taking service at secondary voltage levels ("Small C&I");[9] and
- Large Commercial and Industrial (taking service at primary and transmission voltage levels) ("Large C&I").[10]

Through the Default Service procurement process, the Company will purchase energy, capacity, transmission (other than Non-market-based Transmission Services),[11] ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply Default Service to PPL Electric's retail customers, including AECs, for each Customer Class, and will recover the cost of obtaining these services from the customers in that Customer Class.

[8] The Residential Customer Class is comprised of customers served under current PPL Electric Rate Schedules RS, RTS and RTD.

[9] The Small C&I Customer Class is comprised of customers served under current PPL Electric Rate Schedules GS-1, GS-3 and LP-4 under 500 kW, GH-1, GH-2, IS-1, BL, SA, SM, SHS, SE, TS, SI-1, and standby service for the foregoing schedules.

[10] The Large C&I Customer Class includes customers served under current PPL Electric Rate Schedules GS-3 and LP-4 over 500 kW, ISP, LP-5, LP-6, LPEP, IST and standby service for the foregoing schedules.

[11] As stated in the Default Service SMA, the term "Non-market-based Transmission Services" includes Network Integration Transmission Services, Transmission Enhancement Costs, Expansion Cost Recovery Costs, Non-Firm Point-to-Point Transmission Service Credits, Regional Transmission Expansion Plan Costs and Generation Deactivation Charges.

5. Under the proposed DSP II Program, PPL Electric will acquire 100% of the Residential and Small C&I Customer Class Default Service supply, exclusive of supply previously committed under block contracts for Residential customers,[12] through a series of load-following supply contracts, inclusive of energy, capacity, transmission (other than Non-market-based Transmission Services), ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply Default Service to PPL Electric's retail customers, including AECs.[13] The load following supply will be obtained primarily through a series of nine and twelve-month term procurements solicited beginning in April 2013. In October 2014, procurements are scheduled for six and three-month products so that all fixed-price contracts end May 31, 2015.[14] This will position the Company for alternative "end state" Default Service structures.

6. For the Large C&I Customer Class, the Company proposes to obtain Default Service supply on a real-time hourly basis through the PJM spot market. Specifically, PPL Electric proposes to issue a single annual solicitation to obtain competitive offers from suppliers to provide the Default Service spot market supply to the Large C&I Customer Class. These annual procurements will coincide with the PJM Planning Period. Annual solicitations will be held in April for the upcoming PJM planning period. This is the same solicitation process for Large C&I Customers currently used in the DSP I Program.

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[12] The Company has 300 MW of energy and capacity committed under block contracts through August 31, 2013, 250 MW of energy and capacity committed through November 30, 2013, 200 MW committed through February 28, 2014, 150 MW committed through December 31, 2015 and 50 MW committed from January 1, 2016 through May 31, 2021.

[13] As further described herein, the Company will acquire approximately 3 MW of spot supply for the first six months of the DSP II Program Period to resolve a legacy issue related to certain contracts under the DSP I Program.

[14] Winning bidders in the twelve month term and six month term procurements also will be required to provide supply to customers in these classes who elect the TOU rate option. Default Service suppliers of TOU Load will be paid an amount equal to the generation charges billed to TOU customers, exclusive of gross receipt taxes, Company administrative charges and E-Factor amounts.

7. PPL Electric will implement the DSP II Program by issuing RFPs to obtain the Default Service products described herein from competitive wholesale power suppliers. The Company proposes to issue the RFPs consistent with the DSP II Program procurement schedule. The prices in the resulting wholesale supply agreements plus costs of acquisition and administration will form one component of the generation supply charge rates charged to each of the three Customer Classes. Customers in the Residential and Small C&I Customer classes who elect the TOU option will pay on-peak and off-peak rates calculated as a percentage adder to or discount off of their applicable generation supply charge.

8. All qualified suppliers will have an opportunity to respond to the Company's solicitations. Qualification is a straightforward process which requires, primarily, that the supplier be a member in good standing of PJM and meet certain fundamental creditworthiness criteria. However, an individual bidder cannot supply more than 85% of a Customer Class' Default Service load offered in each solicitation. PPL Electric believes that this limitation will support and encourage continued development of a competitive wholesale market.

9. The costs incurred by PPL Electric to provide Default Service to the Residential and Small C&I Customer Classes will be recovered through the Generation Supply Charge-1 ("GSC-1"), which has been revised from the GSC-1 used in the DSP I Program to reflect differences between the two programs. *Pro forma* tariff pages are attached. The GSC-1 will be separately calculated for the Residential and Small C&I Customer Classes. Costs recovered in the GSC-1 will include, among other costs, both costs incurred under the various supplier contracts and costs incurred to acquire the supply and administer the DSP II Program. The GSC-1 will be adjusted every six months to reflect the then-current Default Service supply contracts for the upcoming six-month period. It will be reconciled every six months on a rolling twelve-

month basis for over and under recoveries by Customer Class. Also, any remaining under/over collections from the DSP I Program will be included in this reconciliation.

10. The costs incurred by PPL Electric to provide Default Service to the Large C&I Customer Class will be recovered through the Generation Supply Charge-2 ("GSC-2"). Costs recovered in the GSC-2 will include PJM spot market energy, PJM capacity charges, a supplier's charge for all other services and PPL Electric's costs to acquire the supply and administer the DSP II Program. The GSC-2 charge will be reconciled on an annual basis. Also, any remaining under/over collections from the DSP I Program will be included in this reconciliation. *Pro forma* tariff pages for the GSC-2 rate are attached.

11. The DSP II Program filing also contains a revised TOU rate option for Residential and Small C&I customers. As part of the fixed-price solicitations, the Company will require winning bidders of the six- and twelve-month product to serve the Default Service Load of TOU customers, *i.e.*, Default Service customers who select the TOU rate option. TOU Default Service rates for the Residential and Small C&I Customer Classes will be fixed for a six month period and linked with each energy auction, *i.e.*, June – November and December – May supply periods, with an adder in the on-peak periods and a discount in the off-peak periods. The adder to the on-peak rates and the discount for the off-peak rates will be determined using the ratio of the historic (3 years) load weighted average hourly on- or off-peak PJM PPL zonal energy prices to the historic (3 years) load weighted average hourly PJM PPL Zonal energy prices. Suppliers of the fixed-price service who are required to serve Default Service TOU Load will be paid for Default Service provided to TOU customers based upon the amount that PPL Electric bills to TOU customers for on-peak and off-peak service, exclusive of gross receipt taxes, Company administrative charges and E-Factor amounts.

12. Finally, the DSP II Program contains three new initiatives to encourage customers to purchase generation supply from Electric Generation Suppliers ("EGSs"). The first will be a Company mailing that will contain offers from EGSs. This mailing will occur in the summer of 2013. The second will be an Opt-In Auction, which will occur in the late fall of 2013. This Opt-In Auction will be structured consistent with the Commission's recommendations contained in the *RMI – Intermediate Work Plan Final Order.*[15] The third will be a Standard Offer Program. This program also will be structured consistent with the Commission's recommendations contained in the *RMI – Intermediate Work Plan Final Order.*

B. Overview of Section 2807(e) of the Public Utility Code, Commission Regulations and Policies

13. The DSP II Program includes and/or addresses all of the elements prescribed by Section 2807(e) of the Public Utility Code, the Commission's regulations and policies for a Default Service plan. Pursuant to 52 Pa. Code § 54.185, a Default Service provider must file a Default Service program with the Commission no later than 12 months prior to the conclusion of the currently effective Default Service program.[16] As discussed in detail below, PPL Electric's DSP I Program will conclude May 31, 2013. The Commission's regulations provide that after the first Default Service program, the program term will be determined by the Commission.[17] In its *December 16 RMI Order*, the Commission directed EDCs to propose two-year Default

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15 *Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan*, Docket No. I-2011-2237952 (Order Entered March 2, 2012) ("*RMI – Intermediate Work Plan Final Order*").

16 52 Pa. Code § 54.185(a). Under subsection (b) the Default Service provider must serve copies of the Default Service program on the Pennsylvania Office of Consumer Advocate, Pennsylvania Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, EGSs registered in the service territory and the RTO or other entity in whose control area the Default Service provider is operating. PPL Electric has served a copy of this filing on the aforementioned entities. Additionally this filing will be made available on PPL Electric's web site, consistent with 52 Pa. Code § 54.185(b), and the Company will ask that notice of the filing be published in the Pennsylvania Bulletin.

17 52 Pa. Code § 54.185(c).

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Service plans in their next filing. The Company is proposing that the DSP II Program be in place for a period of two years.

14. Sections 2807(e)(3.1), (3.2), (3.4) of the Public Utility Code provide among other things, that:

- the Default Service provider shall provide electric generation supply service to customers pursuant to a Commission-approved competitive procurement plan.[18]

- The electric power acquired shall be procured through competitive procurement processes and shall include one or more of the following: (i) auctions; (ii) requests for proposal; and (iii) bilateral agreements.[19]

- The electric power procured shall include a prudent mix of the following: (i) spot market purchases; (ii) short-term contracts; and (iii) long-term purchase contracts, entered into as a result of an auction, request for proposal or bilateral contract.[20]

- The prudent mix of contracts shall be designed to ensure: (i) adequate and reliable service; (ii) the least cost to customers over time; and (iii) compliance with the requirements of Section 2807(e)(3.1).[21]

15. In addition, pursuant to 52 Pa. Code §§ 54.185(d)(1)-(6), a Default Service program must include, among other things, the following elements:[22]

> (1) A procurement plan identifying the default service provider's electric generation supply acquisition strategy for the period of service. The procurement plan should identify the means of satisfying the minimum portfolio requirements of the Alternative Energy Portfolio Standards Act (73 P.S. §§ 1648.1 – 1648.8) for the period of service.[23]
>
> (2) An implementation plan identifying the schedules and technical requirements of competitive bid solicitations and spot

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18 *See* Sections III.A, B and D, below.

19 *See* Section II.D, below.

20 *See* Sections II.B, D and E, below.

21 *See* Sections II.B, below.

22 52 Pa. Code §§ 54.185(d)(7) is inapplicable because PPL Electric does not have any generation contracts of greater than two years in effect with retail customers in its service territory.

23 *See* Sections III.A, B and D, below.

market energy purchases, consistent with § 54.186 (relating to default service procurement and implementation plans).[24]

(3) A rate design plan recovering all reasonable costs of default service, including a schedule of rates, rules and conditions of default service in the form of proposed revisions to its tariff.[25]

(4) Documentation that the program is consistent with the legal and technical requirements pertaining to the generation, sale and transmission of electricity of the RTO or other entity in whose control area the default service provider is providing service. The default service procurement plan's period of service must align with the planning period of that RTO or other entity.[26]

(5) Contingency plans to ensure the reliable provision of default service when a wholesale generation supplier fails to meet its contractual obligations.[27]

(6) Copies of agreements or forms to be used in the procurement of electric generation supply for default service customers. This includes all documents used as part of the implementation plan, including supply master agreements, request for proposals documents, credit documents and confidentiality agreements. When applicable, the default service provider shall use standardized forms and agreements that have been approved by the Commission.[28]

16. In addition to addressing each of these requirements, this Petition and the DSP II Program also address the various other guidelines established by the Commission's *RMI – Intermediate Work Plan Final Order* and the *December 16 RMI Order*.

17. An explanation of the DSP II Program and how the program satisfies the requirements of the aforementioned statutory provisions, regulations and orders is contained in Section III, below.

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[24] *See* Sections III.E, F and G, below.

[25] *See* Section III.C, below. *See* 66 Pa. C.S. § 2807(3.9) ("The default service provider shall have the right to recover on a full and current basis, pursuant to a reconcilable automatic adjustment clause under section 1307 (relating to sliding scale of rates; adjustments), all reasonable costs incurred under this section and a Commission-approved competitive procurement plan").

[26] *See* Section III.G, below.

[27] *See* Section III.H, below.

[28] *See* Section III.E and F, and Attachments A, B and C.

18. In addition to the approvals requested herein, the Company requests certain waivers pursuant to 52 Pa. Code § 54.185(f). The requested waivers are described in Section VII, below.

19. Consistent with 66 Pa. C.S. § 2807(e)(3.6), PPL Electric requests that the Commission issue an order approving the DSP II Program within nine months from the date of this filing, or no later than February 1, 2013, to provide sufficient time to implement procurement under the DSP II Program.[29]

C. Contents of this Filing and Forthcoming Direct Testimony

20. This filing contains the following items in support of the DSP II Program:

- PPL Electric's Petition
- Default Service Supply Master Agreement (Attachment A)
- Request for Proposals Process and Rules (Attachment B)
- DSP II Program Product Procurement Schedule (Attachment C)
- *Pro Forma* Tariff sections for the Generation Supply Charge-1, the Generation Supply Charge-2 and the Transmission Service Charge (Attachment D)

21. The Company anticipates filing direct testimony in support of this Petition in mid-May 2012. Direct testimony and related exhibits will be submitted by the following witnesses concerning the topics indicated below:

- Direct Testimony and Exhibits of A. Joseph Cavicchi (Development and Description of Default Service II Procurement, "End State" Optionality)
- Direct Testimony and Exhibits of Renae G. Yeager (Development and Description of RFPs and SMA, Bidder Qualifications, RTO Compliance,

[29] Pursuant to 66 Pa. C.S. § 2807(e)(3.6), the Default Service provider is required to file a plan for competitive procurement with the Commission and obtain Commission approval of the plan considering the standards in Sections 2807(3.1), (3.2), (3.3) and (3.4). Section 2807 also provides that the Commission shall hold hearings as necessary on the proposed plan, and if the Commission fails to issue a final order on the plan within nine months of the date that the plan is filed, the plan shall be deemed to be approved and the Default Service provider may implement the plan as filed.

Selection of the Independent Administrator, Service and AEPS Procurement Plans)

- Direct Testimony and Exhibits of David R. Woodruff (Time-of-Use Rates)
- Direct Testimony and Exhibits of Douglas A. Krall (Adherence to the Retail Electricity Market Investigation Orders and Customer Referral Programs)
- Direct Testimony and Exhibits of Joseph M. Kleha (Development and Description of the Generation Supply Charges, Rate Design, Cost Allocation and Tariff issues)

II. BACKGROUND INFORMATION

A. Description of the Default Service Obligation

22. On January 1, 1997, the Electricity Generation Customer Choice and Competition Act ("Customer Choice Act") became effective, adding Chapter 28 to the Public Utility Code.[30] In summary, Chapter 28 deregulated the generation of electricity, established certain caps on rates charged by EDCs,[31] allowed EDCs to recover their stranded generation costs over a transition period and created the framework for a competitive retail electric market in which customers could choose among competing EGSs. To implement these various changes, Section 2806(d) required all EDCs in Pennsylvania to file restructuring plans with the Commission.[32] In addition, and of specific relevance to this Petition, Section 2807 required each EDC to act as the Default Service provider for its non-shopping customers until the end of the EDC's transition period, and thereafter in accordance with regulations to be promulgated by the Commission.

23. The Commission adopted regulations governing the Default Service obligation in 52 Pa. Code §§ 54.181-189 (relating to Default Service) (*i.e.*, the Default Service Regulations), as required by 66 Pa. C.S. § 2807(e) (relating to the duties of electric distribution companies). The Default Service Regulations address the elements of a Default Service regulatory framework

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30 66 Pa. C.S. Chapter 28.

31 *See* 66 Pa. C.S. § 2803.

32 66 Pa. C.S. § 2806(d).

whereby an EDC is obligated to serve retail customers at the conclusion of the transition period.[33] Pursuant to the Default Service Regulations, the Default Service provider shall be the EDC in its certificated service territory unless the Commission assigns the Default Service obligation to another entity. A Default Service provider is responsible for the reliable provision of Default Service to retail customers who do not choose to receive generation services from an EGS,[34] or whose EGS has failed to deliver electric energy.

24. On October 15, 2008, then Governor Rendell signed House Bill No. 2200, subsequently identified as Act 129 of 2008 ("Act 129"),[35] which established, *inter alia*, certain new requirements for the acquisition of Default Service supply by EDCs. Among other provisions, the law amended the Customer Choice Act to require EDCs, in their role as Default Service providers, to procure supply through competitive processes utilizing a "prudent mix" of contracts.[36]

B. Prior PPL Electric Default Service Supply

1. Rate Cap Period

25. Pursuant to the statutory requirements discussed above, on April 1, 1997, PPL Electric's predecessor, Pennsylvania Power & Light Company, submitted a comprehensive restructuring plan to the Commission. After evidentiary hearings, issuance of a recommended decision, entry of a final Commission order and extensive post-order settlement discussions, the

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33 *See* 52 Pa. Code §§ 54.181 and 69.1802.

34 *See* 66 Pa. C.S. § 2803.

35 Codified in relevant part in *See* 66 Pa. C.S. § 2807(e).

36 *See* 66 Pa. C.S. § 2807(e)(3.2).

Company and almost all other active parties reached a settlement of that restructuring case.[37] In a final order entered August 27, 1998, the Commission approved the Restructuring Settlement.[38]

26. Among other things, the Restructuring Settlement extended PPL Electric's statutory generation rate cap from the end of 2005 to the end of 2009.[39] It also confirmed that PPL Electric would continue to serve as the Default Service provider for its non-shopping retail customers through December 31, 2009.[40] To meet its Default Service obligation within the rate cap constraints, PPL Electric issued a request for proposals to obtain, through a competitive bidding process, the required supply of energy and capacity. PPL EnergyPlus, LLC, ("PPL EnergyPlus") an affiliate of PPL Electric, was the winning bidder. On June 20, 2001, the parties executed a generation supply agreement ("GSA") under which PPL Electric purchased its Default Service supply requirements from PPL EnergyPlus at a price equal to the rate caps created by the Customer Choice Act and agreed to in the Restructuring Settlement. On July 13, 2001, the Commission approved the GSA.[41] By its terms, the GSA terminated on December 31, 2009, and beginning January 1, 2010, PPL Electric met its Default Service obligations with products procured pursuant to the CBP.

2. CBP

27. On August 2, 2006, PPL Electric filed the CBP that set forth a detailed proposal for how PPL Electric would obtain its Default Service supply for 2010, which was described as a "bridge" year, because PPL Electric's generation rate cap expired one year before most other

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37 *Joint Petition for Full Settlement of PPL, Inc.'s Restructuring Plan and Related Court Proceedings*, Docket No. R 00973954 ("Restructuring Settlement").

38 *Application of Pennsylvania Power & Light Company for Approval of its Restructuring Plan under Section 2806 of the Public Utility Code*, Docket No. R 00973954 ("Restructuring Order").

39 Restructuring Settlement, Section B.3.

40 *See* Restructuring Settlement, Section C.1 (*i.e.*, for the duration of the stranded cost recovery period).

41 Affiliated Interest Agreement Between PPL Electric and PPL EnergyPlus for the Supply by PPL EnergyPlus of Wholesale Capacity and Energy Sufficient to Meet 100% of PPL Electric's Obligation as a Provider of Last Resort, Docket No. G 00010886.

major Pennsylvania EDCs. After extensive review and several modifications addressing issues raised by other parties, the Commission approved a revised CBP on May 17, 2007, at Docket No. P-00062227.[42]

28. As noted in the Commission's Order, the CBP was non-precedential and applied only during 2010.[43] PPL Electric undertook a series of six solicitations over a three-year period (2007-2009) to obtain Default Service supply separately for the Residential and Small C&I Customer Classes. The Company also conducted a single procurement in 2009 to offer an optional, fixed rate service to the Large C&I Customer Class, with a default real-time hourly program. In addition to these procurement items, the CBP established the Generation Supply Charge ("GSC") under which PPL Electric recovered its costs of obtaining Default Service supply. The GSC provided for reconciliation of Default Service revenues and costs for 2010, to assure that customers pay the Company's actual cost of providing Default Service, no more and no less. In the GSC, PPL Electric also eliminated, with limited exceptions, the demand charges and block rates for generation supply. The revised CBP provided for enhancements to the then-existing Demand Side Management ("DSM") programs and commitments to increase conservation and energy efficiency, and for a three-year consumer education program. PPL Electric further committed to increase assistance for low-income customers.

3. DSP I Program

29. On August 28, 2008, PPL Electric filed the DSP I Program[44] to establish the terms and conditions under which PPL Electric would provide Default Service and obtain generation supply for that service following conclusion of the CBP. During the pendency of the DSP I

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42 Although not a filed settlement, as a result of revisions and stipulations made in response to various parties' concerns, the revised CBP that was approved by the Commission either was supported by or was not objected to by a majority of the parties to the CBP proceeding.

43 CBP Order at 14-15.

44 *See* Docket No. P-2008-2060309.

Program proceeding, Act 129 was enacted establishing, *inter alia*, certain new requirements for the acquisition of Default Service supply. Therefore, on November 3, 2008, PPL Electric filed an amended DSP I Program to comply with the requirements of Act 129.

30. On March 11, 2009, a Joint Petition for Settlement ("Settlement") was submitted to the presiding Administrative Law Judge in the DSP I Program proceeding along with multiple statements in support of the Settlement. The Settlement contained a full description of the DSP I Program, as revised and agreed to by the parties, pursuant to which PPL Electric would provide Default Service and obtain generation supply for that service for the period from January 1, 2011 through May 31, 2013. On June 30, 2009, the Commission entered a Final Order approving the Settlement and ruling upon two issues not resolved by the Settlement.[45]

31. As part of the terms of the Settlement, PPL Electric agreed to undertake a series of quarterly competitive bid processes to obtain full requirements Default Service supply, spot market Default Service supply, block energy Default Service supply and AECs. The block and AEC RFPs are conducted to acquire a portion of Default Service supply solely for Residential customers. The block supplies, totalling 350 MW,[46] do not include AECs as part of the supply provided, and AECs are purchased for that portion of supply through a separate RFP. Under the Settlement, 90% of non-block requirements for the Residential and Small C&I Classes are satisfied by full requirements contracts, with 10% met by spot market contracts. Under the full requirements and spot contracts, each supplier must provide a proportional share of AECs to fulfill PPL Electric's AEPS Act obligations. The approved full requirements and spot market

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45 *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 (Order Entered June 30, 2009).

46 This figure includes 50 MW of 10-year unit entitlement procurement.

procurements obtain supplies for periods up to two years in length. Large C&I customers receive Default Service at spot market prices.

32. Subsequently, by Order entered March 11, 2011 the Commission approved a modification to the DSP I Program to incorporate a revised method for acquiring Solar Tier I AECs.[47] The program established an RFP process for procurement of a portion of PPL Electric's full requirements solar AECs. The program also established a separate set aside program for procurement of solar AECs from small solar systems, through the use of aggregators. As a result of this revised solar AEC procurement, the Company reduced, by approximately half, the solar AECs required to be provided under full requirements contracts.[48]

33. Residential and Small C&I Customer Classes are charged a separate single charge per kWh of usage under the GSC-1 rate, as determined by the results of their separate class procurements. Costs are reconciled on a quarterly basis. Costs of procurements also are recovered through the GSC-1 rate. Large C&I customers pay a three part charge for their spot market Default Service (a capacity charge based on the PJM Reliability Pricing Model, an energy charge based on real-time hourly spot market prices and an administrative charge to recover the suppliers' and PPL Electric's costs of administration).

III. DSP II PROGRAM

A. Summary of the Proposed DSP II Program

34. PPL Electric has learned various lessons through the administration of the DSP I Program and has adopted these lessons in the DSP II Program. First, the multitude of different

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[47] *Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan For the Period January 1, 2011 Through May 31, 2013 for Approval to Modify its Procurement of Solar Alternative Energy Credits,* Docket No. P-2008-2060309 (Order Entered March 1, 2011).

[48] The solar AEC procurement process has obtained Tier I solar AECs through May 2015, and thus the amount of those AECs has been deducted in establishing the Tier I solar AECs required to be provided under the DSP II Program fixed-price procurements.

product types within DSP I Program product portfolio and the quarterly solicitations with block supply and products with 12- and 24-month terms have been somewhat inflexible and unnecessarily complex. Furthermore, the success of retail competition in the PPL Electric service territory has resulted in some Default Service products representing a very small portion of Default Service customer loads, which has caused unexpected variation in prices and instances where Default Service prices were out of step with underlying wholesale market prices.

35. The overall approach to the DSP II Program is to simplify the plan by reducing the number of products procured and also reducing the number of procurements from four times per year to twice per year, as compared to the DSP I Program. PPL Electric proposes primarily to procure 9-month and 12-month products twice per year, in April and October, with the first procurement occurring in April 2013. *See* Attachment C. Fixed-price contracts will be separately procured for Residential and Small C&I Customer Classes, and Large C&I customers will continue to be served by spot market contracts procured once a year.

36. The proposed term of contracts under DSP II Program will not extend beyond May 31, 2015, unless it is determined prior to the final procurements that the EDC will continue to be the Default Service Provider after June 1, 2015, and that fixed-price contracts will continue to be an appropriate form of Default Service product. In that event, the plan includes the optionality to procure longer term of supply products for Residential and Small C&I classes for periods beyond May 31, 2015, so as to avoid procuring all Default Service supplies at one time to be effective June 1, 2015. Specifically, the 12- and 9-month fixed-price products included in the DSP II Program procurement schedule will end prior to June 1, 2015. The October 2014 procurement for 6- and 3-month fixed-price products will ensure no fixed-price contracts extend beyond June 1, 2015. The only products extending beyond June 1, 2015, are the legacy 5-year

and 10-year block products and associated AECs acquired as part of the DSP I Program. Should the Commission determine that laddered procurement should continue beyond the end of the DSP II Program Period, the final solicitation under DSP II Program can be adjusted to purchase 12- and 9-month products (*see* Attachment C) so that Default Service can continue to be procured using bi-annual solicitations for 12-month fixed-price products on a going-forward basis. That is, should the Commission determine, prior to the last solicitation in October 2014, that the Company will continue in its role as Default Service provider beyond May 31, 2015, the DSP II Program structure will renew the prices for these supplies for Default Service every 12 months keeping Default Service prices in line with underlying wholesale electricity markets.

B. Summary of Class Structure and Procurements

1. Residential

37. PPL Electric proposes to procure one type of product in order to supply its Default Service obligation for the Residential Customer Class. The Company proposes to purchase 9- and 12-month fixed-price load following contracts, with the exception of the final solicitations, in which it will seek 6- and 3-month products, ensuring all contracts terminate prior to June 1, 2015. The supply contracts will include energy, capacity, transmission (other than Non-market-based Transmission Services), ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply Default Service to PPL Electric's retail customers, including AEPS credits.

38. PPL Electric notes that under DSP I Program, a portion of the DSP I Program's fixed-price contracts have terms that overlap into the DSP II Program Period. As a result, DSP I Program contracts will be used to meet a portion of the DSP II Program requirements through February 28, 2015.

39. PPL Electric also notes that it proposes to procure approximately 3 MW of energy through PJM's spot market, for the first six months of the DSP II Program (June through November 2013). This spot market procurement is proposed in order to resolve a legacy issue from the DSP I Program Period involving the definition of "Block Supply" in the originally-approved DSP I Default Service SMA. That definition referred to a total of 350 MW of Block Supply, without specifically referencing scheduled reductions to the Block procurements that would occur as Block contracts begin to expire at the end of May 2013, and quarterly thereafter. In order to avoid potential contract interpretation disputes under its existing fixed-price contracts, the Company will "fill in" expiring block supplies with spot supplies acquired through PJM's spot market for a six month period.[49] Once these purchases are completed, PPL Electric proposes to not procure any additional spot supply for the Residential Customer Class in the DSP II Program.

40. PPL Electric, as part of the DSP II Program, does not propose to acquire any additional block supply products. PPL Electric acquired 350 MW of block supply as part of its DSP I Program, and those block products will reduce at a rate of 50 MW every three months beginning May 31, 2013, *i.e.*, the current wholesale Block contracts will roll off, until 150 MW of block supply contracts remain as of March 1, 2014. Of the remaining block contracts, there are two contracts of 50 MW each with five year terms ending December 31, 2015, and one 50 MW unit specific product with a ten-year term ending May 31, 2021. If PPL Electric does not continue in the role of Default Service provider after May 31, 2015, appropriate provision must be made for PPL Electric to recover costs associated with the previously-approved five-year and ten-year block contracts extending beyond May 31, 2015, along with associated AEC contracts.

[49] Effective with procurements for supply deliveries beginning December 1, 2013, the Company clarified the definition of Block supplies to eliminate any uncertainty regarding the level of Block supplies under contract after May 31, 2013.

2. Small C&I

41. As is the case with the Residential Customer Class procurement, PPL Electric proposes to separately procure 100% of the required Small C&I Customer Class Default Service supply under a series of fixed price, load-following supply contracts inclusive of energy, capacity, transmission (other than Non-market-based Transmission Services), ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply Default Service to PPL Electric's retail customers, including AEPS credits. All of the proposed products will include 9- and 12-month fixed-price load following contracts with the exception of the final solicitations, which will consist of 6- and 3-month products. This will ensure that all of the contracts will terminate prior to June 2015. The Company does not propose to procure any additional spot supply through the competitive RFP process in the DSP II Program.[50]

3. Large C&I

42. PPL Electric proposes to continue the strategy used in the DSP I Program to satisfy its Large C&I Customer Class Default Service obligation, *i.e.*, it will acquire supply via the spot market. Specifically, the Company will provide Default Service on a real-time hourly basis through the PJM spot market. PPL Electric will issue a single annual solicitation, wherein the Company will request competitive offers from suppliers to provide Default Service spot market supply. The first solicitation will take place in April 2013, with a subsequent solicitation to be conducted in April of the following year. This spot-market service supply will include energy, capacity, transmission (other than Non-market-based Transmission Services), ancillary services, transmission and distribution losses, congestion management costs, and such other

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[50] Under DSP I Program, the Company did not procure block supplies for the Small C&I class, and no block supply procurements are proposed for DSP II Program.

services or products that are required to supply Default Service to PPL Electric's retail customers, including AEPS credits. Competitive suppliers will make offers in response to the solicitation, and the successful suppliers' charges will be included in the calculation of generation supply charges.

43. The Company proposes to eliminate procurements for the Optional Monthly Pricing Service ("OMPS") and to eliminate this rate option for the Large C&I Customer Class. The OMPS was established in the settlement of DSP I, and was designed to provide a monthly fixed price service option for Large C&I customers. The provision of OMPS was contingent upon PPL Electric receiving bids from wholesale suppliers to provide the service. In every procurement to date under the DSP I Program, no supplier has bid to provide OMPS service, and the service has never been available. It is clear that no supplier is willing to undertake the risk of providing OMPS. This service therefore should be discontinued.

4. AEPS Procurement

44. The Company will procure certain AEPS credits to meet its obligation under the AEPS Act as a component of its fixed-price and spot-market Default Service supply contracts. The seller must provide its proportional share of AEPS credits to fulfill PPL Electric's AEPS obligation, in accordance with the terms of the SMA. Additionally, the SMA requires the seller to complete its transfer of AEPS credits into PPL Electric's Generation Attribute Tracking System ("GATS") account(s) in the amount necessary to fulfill the seller's AEPS obligation, pursuant to the schedule set forth in the SMA.

45. The Company previously has entered into contracts to procure AECs for block contracts. However, PPL Electric must still acquire Tier I non-solar and Tier II AECs to cover the period from June 1, 2013 through May 31, 2015 for the 10-year long-term product obligation

during the DSP II Program Period.[51] Because PPL Electric only needs to acquire additional AECs to cover a 50 MW obligation, PPL Electric proposes to solicit at least 3 pricing offers from AEC brokers in both June of 2013 and June of 2014 for Tier I non-solar and Tier II credits required to cover this long-term contract obligation. The Company will accept the least cost offer and will document the entire process, including the brokers contacted and price offerings by AEC vintage. PPL Electric proposes that the AEC transaction occur through PJM GATS.

46. PPL Electric proposes to recover the costs of these AECs using the same mechanism currently used for AEC costs, *i.e.*, through the GSC-1. The two purchases of Tier I non-solar and Tier II AECs to cover the 50 MW long-term supply product (in June of 2013 and 2014) will be completed to ensure that no substantial AEC banking takes place, and that cost recovery takes place on a current basis for those AEC purchases by compliance period. Based on current market conditions, the Company estimates the total costs for Tier I Non-Solar and Tier II AECs to be procured through the separate solicitation to be approximately $79,000.[52]

47. The Company is proposing to use the broker market for AECs mentioned above because the quantity of credits required is very small (covering only 50 MW of load, and including only Tier I Non-Solar and Tier II AECs). The Company believes that a competitive RFP solicitation would be unnecessarily expensive given the small number of credits required and could result in poor participation. Furthermore, by obtaining multiple pricing offers from

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[51] Under the separate solar procurement process adopted as a modification to the DSP I Program, the Company already has contracted for Tier I solar AECs to cover the 10-year block product for the term of DSP II Program.

[52] The Company notes that additional AECs may need to be procured in the June 2013 solicitation for the 2012/2013 compliance period due to the fact that the current procurement plan does not contain all AECs needed for the ten-year long term product and recognizing certain limitations of the current bank of credits. Appropriate vintages will need to be procured to ensure AEPS compliance and for this reason, these estimated costs may increase, concurrent with the quantity of additional credits procured.

AEC brokers, a competitive offer is still obtained and AEPS obligations are met in a less complicated and more cost-effective manner.

5. PPL Electric Administrative Costs

48. The Company's administrative costs related to this proceeding, costs incurred prior to June 1, 2013 related to procurement of supply and other costs related to the DSP II Program will be included in the GSC-1 and the GSC-2, as applicable and amortized ratably over the 24-month term of the DSP II Program. The costs to be included in the GSC-1 and the GSC-2 are discussed in detail below.

49. Furthermore, as the Company has explained in an ongoing Complaint proceeding at Docket Nos. C-2011-2245906 and M-2011-2243137, PPL Electric currently recovers a cash working capital ("CWC") allowance for its Default Service costs through its GSC-1 reconciliation methodology. On April 4, 2012, the Commission issued the Recommended Decision ("R.D.") of Administrative Law Judge Susan D. Colwell, wherein the ALJ found that the accounting method PPL Electric used for reconciliation of the GSC-1 was not appropriate for Section 1307(e) purposes. PPL Electric has filed Exceptions to this R.D. However, if the R.D. is accepted by the Commission, PPL Electric will no longer recover its CWC allowance through the GSC-1 reconciliation methodology. Therefore, PPL Electric is making a provisional claim for CWC as part of the administrative costs to be recovered in this case. The calculation of that claim will be presented in Mr. Kleha's direct testimony.

6. DSP II Program Procurements Represent a Prudent Mix of Supplies

50. The various procurements proposed for the different customer classes represent a prudent mix of supplies, based upon considerations of the existing contractual commitments, the status of retail competition for the Company's customers, ongoing plans to support retail competition and the goal of providing reliable supply at stable rates over time. The DSP II

Program procurements for Residential and Small C&I Customer Classes should better reflect market pricing because PPL Electric will purchase a larger percentage of the overall portfolio with a shorter contract term, *i.e.*, 9- or 12-month terms, every 6-months as opposed to the smaller percentage of the portfolio with longer contract terms, *i.e.*, 12- or 24-months, which is currently purchased every three months under the DSP I Program. The new purchase schedule also will better account for seasonal changes in energy prices. Mr. Cavicchi will provide further support for the Company's position that the procurement mix is prudent.

C. Rate Design

1. Residential and Small C&I Customer Classes - Fixed Rate Option

51. The Company will charge flat Default Service rates (*i.e.*, a single charge per kWh) calculated separately for the Residential and Small C&I Customer Classes under the GSC-1 rate fixed rate option. These rates will not include demand charges or declining energy rates.

52. Costs, including costs under the various supplier contracts and costs incurred to procure and administer the DSP II Program contracts for the Residential and Small C&I Customer Classes, will be recovered through the GSC-1. The GSC-1 will be separately calculated for the Residential and Small C&I Customer Classes. The GSC-1 will be recalculated every six months, beginning June 1, 2013. The GSC-1 will be adjusted every six months to reflect the then-current Default Service supply contracts for the upcoming six-month period.

2. Residential and Small C&I - TOU Rate Option

53. As a Default Service provider, PPL Electric is required by Act 129 to offer a TOU rate option to its Default Service customers. In 2010, PPL Electric offered a Commission-approved TOU program to Residential and Small C&I customers that contained an on-peak rate that was higher than the fixed price Default Service rate and an off-peak TOU rate that was lower than the fixed price Default Service rate. PPL Electric could not reconcile all over/under

collections under its 2010 TOU program. Therefore, PPL Electric proposed a new TOU program for 2011.

54. Under PPL Electric's 2011 TOU program, which also was approved by the Commission, TOU Default Service rates are set independently of fixed price Default Service rates. This structure was designed to provide more transparent and current market price signals to TOU customers. However, in practice, this approach has proven unworkable and has caused a number of serious problems, including a significant undercollection due to unpredictable spot market price increases, significant customer enrollment when both on-peak and off-peak prices are below the fixed price Default Service rate, and rapid and massive customer exits from the TOU program when on-peak and off-peak rates are above the fixed price Default Service rate. Many of these problems could have been avoided if PPL Electric had been permitted to require TOU customers to remain in the TOU program for an extended period of time. However, the Commission's regulations do not allow this result. It is clear that the Company's 2011 TOU program is not working as intended.

55. Therefore, on September 26, 2011, the Company proposed a new 2012 TOU program to address the problems with its current 2011 TOU program. The proposed 2012 TOU program will be in effect for only a short time period, until May 31, 2013. After that date, the Company proposes to implement the new TOU program that is part of this Default Service filing. The proposed 2012 TOU plan provides that customers will pay a percentage charge or premium over the fixed price Default Service rate in on-peak periods and will receive a percentage discount off of the fixed price Default Service rate in off-peak periods. This methodology maintains an appropriate relationship between the TOU Default Service rate option and the fixed price Default Service rate option, and should provide the appropriate incentive for customers to

shift load from on-peak to off-peak periods. A Commission decision on the pending proposed 2012 TOU plan is expected approximately by September 2012.

56. One issue raised by several intervenors in the pending TOU proceeding is whether the TOU rate option should be bid out to suppliers. PPL Electric indicated that, while there was not adequate time to develop such a proposal in that case, the Company would consider the proposal in this Default Service filing. After review, the Company has determined that the best approach is to require that certain winning bidders of the fixed price Default Service obligation provide load following supply for both fixed price and TOU customers in the Residential Customer Class and the Small C&I Customer Class. Linking the fixed price product and the TOU product should reduce the potential for a failure of the TOU procurement, *i.e.*, no bidder participation or submission of unreasonably high bids. Basing the price for the TOU rate option on the current GSC should reduce the potential for a repeat of the rate disruptions discussed above.

57. After further examining the best manner of providing a TOU rate option on a long-term basis, the Company has proposed to require winning bidders of the 6- and 12-month fixed-price solicitations to provide supply to meet the Default Service load of TOU customers, for a six-month period beginning each June and December in addition to their tranches of load to serve fixed price customers. These winning suppliers will be proportionately responsible for a portion of all loads of customers on the TOU rate option. Suppliers will be compensated based on the amount that PPL Electric bills to the assigned TOU customers for generation costs, exclusive of gross receipt taxes, company administrative costs and E-Factor amounts, on a *pro rata* basis for all TOU billings.

58. Specifically, the rates for Residential and Small C&I TOU customers will be based on the respective GSC-1 rates for the subsequent 6 month period, by customer class, with an adder in the on-peak periods and a discount in the off-peak periods. The on-peak rate will include a premium to the Generation Supply (GS-Factor) component of the GSC for energy used during peak periods, and the off-peak rate will reflect a discount to the Generation Supply (GS-Factor) component of the GSC for energy used during off-peak periods. On-peak and off-peak rates will be established separately for Residential and Small C&I Customer Classes on a fixed cent per kWh basis. The Company has proposed that on-peak hours for the TOU rate option run from noon to 7 p.m. Monday through Friday, excluding Saturday, Sunday and PJM holidays[53] for Residential TOU customers; and from 7 a.m. to 7 p.m. Monday through Friday, excluding Saturday, Sunday and PJM holidays for Small C&I TOU customers. Off-peak hours are those hours which are not on-peak. TOU Rates for the Residential and Small C&I Customer Classes will be fixed for a 6-month period. Specifically, the adder to the on-peak rates and the discount for the off-peak rates will be determined using the ratio of the historic (3 years) load weighted average hourly on- or off-peak PJM PPL zonal energy prices to the historic (3 years) load weighted average hourly PJM PPL Zonal energy prices.

59. PPL Electric proposes that customers must affirmatively elect to participate in the new TOU program. No customers will be grandfathered from the existing TOU program. In other words, there will be no carry over of customers from the former program and customers will be notified that they must affirmatively choose to be part of the new TOU program proposed in the DSP II Program. There is no cap on the number of customers who can participate in the TOU program proposed in the DSP II Program.

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[53] The PJM holidays generally include: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, the Day after Thanksgiving, and Christmas.

60. The Company believes that its TOU proposal will be successful because the defined periods applicable to each RFP will streamline the bidding process and the evaluation process. Moreover, there is the potential for more bidders in a well defined process. In addition, combining the TOU program as part of the fixed-price RFP is less costly than soliciting a separate RFP solely to secure TOU supply.

3. Residential and Small C&I - Reconciliation

61. PPL Electric proposes to reset the reconciliation component of the GSC-1 every six months, based upon a rolling reconciliation of over/under collections calculated over a 12-month period. PPL Electric proposes to include the 12-month rolling reconciliation in each rate adjustment, with the exception that the last rate to be set December 1, 2014 under the DSP II Program will include a reconciliation calculated on a six-month period, in order to minimize any over/under collections remaining after May 31, 2015.[54] The six-month reconciliation will be done separately for the Residential and Small C&I customers, and reconciliation will include TOU and fixed price over/under collections.

62. The reconciliation approach proposed by the Company is expected to mitigate the potential impact of any over/under collections on the overall rate because the amounts will be spread over a 12-month forecast of Default Service kWh sales.

63. On August 25, 2011, PPL Electric filed with the Commission the Amended "*Petition of PPL Electric Utilities Corporation for Approval to Implement a Reconciliation Rider for Default Supply Service*" at Docket No. P-2011-2256365. Therein, PPL Electric seeks Commission approval to implement two new Section 1307(e) cost recovery mechanisms to: (1) refund or recover the experienced net over or under collection balances related to transmission

[54] If the Commission continues PPL Electric's obligation as Default Service provider and decides that the six and three-month contracts should be bid as twelve and nine-month contracts layered beyond May 31, 2015, the reconciliation component of the December 31, 2014 filing can continue as a rolling twelve-month period.

service and generation supply charges; and (2) provide a better methodology for refunding or recovering future over or under collection balances. PPL Electric experienced significant over and under collections related to its transmission service and generation supply service charges, and PPL Electric has experienced significant levels of shopping within its service territory. These over and under collection balances and high shopping levels have caused significant volatility and uncertainty in PPL Electric's Default Service rates and the Price to Compare ("PTC"), and this volatility is not directly related to the market price of electricity.

64. To help remedy and prevent similar issues from occurring in the future, PPL Electric seeks to implement a Reconciliation Rider ("RR") to refine its existing Default Service recovery mechanisms to refund or recover net over and under collection balances arising after the effective date of the RR. PPL Electric also seeks to implement a one-time Competitive Transition Rider ("CTR") to provide a temporary, non-bypassable, reconcilable Section 1307(e) cost recovery mechanism that will provide a fresh start by refunding or recovering any remaining net historic over or under collection balances related to transmission service and generation supply service that were incurred prior to the effective date of the RR. These proposals, among others, are designed to help alleviate the significant volatility and uncertainty in PPL Electric's Default Service rates and the PTC, while at the same time ensuring that PPL Electric fully recovers its reasonable costs related to providing Default Service.

65. A Recommended Decision was issued by Secretarial Letter dated April 4, 2012, at Docket No. P-2011-2256365. PPL Electric and various other parties filed exceptions to the Recommended Decision on April 24, 2012, and reply exceptions are due May 4, 2012. When the Commission issues a final determination regarding, *inter alia*, the RR and the CTR at Docket No. P-2011-2256365, PPL Electric will submit revised *pro forma* tariff pages in this proceeding.

4. PPL Electric Green Power Program

66. PPL Electric is proposing not to extend the PPL Electric Green Power Program, which became effective on August 11, 2009 and is scheduled to terminate on May 31, 2013. The Green Power Program was implemented to provide Residential and Small C&I customers with an option to pay a fee, in addition to their monthly bill, of $2.50 per Green Power Block. The fees of all participating customers were used to purchase Tier I Wind and Tier II Hydro AECs, which then were retired in the Pennsylvania Voluntary AEC Market. Only approximately 150 customers are currently participating in the program. Moreover, the contract between Community Energy, Inc. (the supplier of the AECs in this program) and PPL Electric will terminate on May 31, 2013. In addition, PPL Electric believes that this type of optional service should be offered by competitive market participants, not by a Default Service provider. For these reasons, PPL Electric is proposing to allow the rate option to terminate as of May 31, 2013, consistent with the applicable provisions of its retail tariff.

5. Hourly Priced Default Service for Small C&I Customers with Load Over 100 kW

67. In the *December 16 RMI Order*, the Commission reconsidered its prior recommendation to have all EDCs consider the expansion of hourly-priced Default Service in their upcoming Default Service filings and postponed that requirement until interval metering or smart meters are installed for this customer class. However, the Commission noted that PPL Electric already has this interval metering capability and directed the Company to file testimony in its Default Service case setting forth the cost to convert its billing system to allow hourly priced service for all Default Service customers larger than 100 kW. *December 16 RMI Order* at n. 11. PPL Electric will submit testimony in this proceeding regarding the cost to convert its billing system to allow for hourly priced service for all Default Service customers with load over

100 kW. PPL Electric anticipates that it will implement an hourly priced service for Small and Large C&I customers with load over than 100 kW, but requests approval to delay implementation until June 1, 2015 in order to minimize the impact on the currently effective default supply contracts.[55] By delaying implementation until June 1, 2015, no existing Default Service contracts will be impacted. The details of PPL Electric's proposal to implement an hourly priced service on June 1, 2015 will be addressed in the Company's forthcoming petition for approval to modify its Smart Meter Technology Procurement and Installation Plan and to extend its grace period which will be filed in May 2012.

6. Large C&I Customer Class - Rates

68. Customers in the Large C&I Customer Class will continue to pay the following three charges for Default Service under the GSC-2:

- An energy charge per kWh based on the real-time hourly spot-market price and the customer's actual hourly energy use.
- A capacity charge per kW based on the PJM Reliability Pricing Model ("RPM") price for capacity and the customer's peak load contribution.
- An energy charge per kWh to recover all supplier charges and PPL Electric's cost of administration, both prospective costs and an amortization of previously incurred costs over the term of the DSP II Program.[56]

69. The GSC-2 rate will be revised annually, effective June 1 on thirty days advance notice, to reflect changes in costs.

7. Large C&I Customer Class - Reconciliation

70. As noted above, the costs incurred by PPL Electric to provide Default Service to the Large C&I Customer Class will be recovered through the GSC-2. Costs recovered in the

[55] As explained previously, supply contracts for the Small C&I customer class procured under DSP I Program continue through February 2015, and contracts under DSP II Program procurements will continue through May 31, 2015.

[56] The energy charge per kWh to recover all supplier charges and PPL Electric's cost of administration, shall be reconciled every 12 months.

GSC-2 will include PJM spot market energy, PJM capacity charges, an administrative charge for all other services and PPL Electric's costs to acquire the supply and administer the DSP II Program. The GSC-2 charge will be reconciled on an annual basis. Also, any remaining under/over collections from the DSP I Program will be included in this reconciliation.

D. RFP Process

71. PPL Electric will implement the DSP II Program by holding solicitations pursuant to an RFP to obtain the Default Service products described above from competitive wholesale power suppliers. Separate bids will be solicited for the Residential, Small C&I and Large C&I Customer Classes. The Company proposes to hold solicitations consistent with the schedule presented in Attachment C.

72. PPL Electric based the *pro forma* RFP and the *pro forma* SMA on the documents approved by the Commission in the DSP I Program proceeding. The RFP and the SMA incorporate considerable experience obtained in other procurement proceedings and represent a transparent, well-defined and objective approach for PPL Electric's DSP II Program.

73. PPL Electric requests that the Commission approve the results of each competitive solicitation. As stated in the RFP, the results for each solicitation will be presented to the Commission within one business day of the bid proposal due date for that solicitation. At that time, the Commission will have one business day to review those results and render a final decision. The Commission may either accept or reject all of the winning bids presented for a customer group in their entirety.[57] After receiving Commission approval of the solicitation results, PPL Electric will then execute transaction confirmations with the winning suppliers. The

[57] *See* RFP Process and Rules Section 1.1.21.

prices in the resulting wholesale supply agreements will form the basis of the rates charged to each of the customer classes. This is the same process used in the DSP I Program.

74. Each solicitation will be designed to procure a *pro rata* portion of the estimated Default Service load for each customer class. The portion of total Default Service supply included in each solicitation has been established so that, over the course of the DSP II Program, each solicitation will procure a specific number of tranches of supply based on product quantity percentage.

75. For both the Residential and Small C&I Customer Classes, each tranche will be a fixed percentage of the customer class' Default Service load.[58] The RFP tranche percentages are estimated to produce approximately 100 MW of peak load per tranche based on current PPL Electric forecasts and the customer class' 2012-2013 projected peak load contribution with PJM, including both default and shopping load. The actual MW size of each tranche will depend on the Company's actual Default Service load at the time of delivery. Supply must be load following.

76. As the RFP and the SMA describe in detail, each winning supplier must provide all products and services required by the Company to fulfill its obligations as Default Service provider. These products and services include energy, capacity, transmission (other than Non-market-based Transmission Services), ancillary services, transmission and distribution losses, congestion management costs, and such other services or products that are required to supply Default Service to PPL Electric's retail customers, including AECs. As a result, each supplier will become the load-serving entity ("LSE") in PJM for its share of PPL Electric's Default

[58] Suppliers assigned to provide supply for TOU Load must satisfy that load in addition to their fix priced tranche percentage. Suppliers assigned TOU Load will be paid their *pro rata* share of the actual generation charges to TOU customers for on-peak and off-peak billed usage, exclusive of gross receipt taxes, company administrative costs and E-Factor amounts.

Service load. PPL Electric, however, will remain the Default Service supplier for its retail customers.

77. All qualified suppliers, including the Company's affiliates, will have an opportunity to respond to PPL Electric's RFPs. Qualification is straightforward and requires primarily that the supplier be a member of PJM in good standing and meet certain fundamental credit-worthiness criteria. However, an individual bidder cannot supply more than 85% of the Default Service load for a customer class offered in each solicitation. This limitation will encourage continued development of the competitive wholesale market by ensuring that all qualified competitors will have a true opportunity to be a winning supplier.

78. As has been required under the CBP and DSP I Program, PPL Electric proposes that suppliers selected to serve any portion of PPL Electric's Default Service load be required to post performance assurance. Such assurance is required to enable PPL Electric to recover costs arising from a supplier default. Depending upon its credit rating, a supplier will be extended an unsecured credit amount, and the required performance assurance will be a calculated amount in excess of any unsecured credit. The Company proposes that the performance assurance will be recalculated every business day based upon forward prices for energy and capacity to be delivered under the contract.

79. PPL Electric has hired NERA as an independent third-party to administer and evaluate each solicitation. Moreover, the Commission will have a full opportunity to monitor and oversee the entire DSP II Program. In summary, PPL Electric proposes to carry-out its DSP II Program procurement process generally using the same successful approach it has used to implement the DSP I Program and the CBP.

E. Supply Master Agreements and RFP Rules

80. Included with this Petition is a proposed SMA and proposed RFP Process and Rules ("RFP Rules"). The SMA is very similar to the supply master agreement approved by the Commission in the DSP I Program proceeding. The Company has updated the SMA consistent with this Petition. The revisions are both ministerial and substantive. Because the Company will be procuring fewer product types, the Company has eliminated the multiple SMAs used in the DSP I Program, and will undertake all procurements pursuant to a single form of SMA. Other substantive changes include, *inter alia*, including TOU load, updating the credit sections, adding a TOU Exhibit, removing the "Sample PJM Invoice" Exhibit, and updating the "Transaction Confirmation Example" Exhibit.

81. The RFP Rules are similar to the rules approved by the Commission in the DSP I Program proceeding. The Company has updated the RFP Rules consistent with this Petition. As with the SMA, the substantive changes include, *inter alia*, including TOU load, updating the Contingency Plan and updating the Auction Load Cap Rules.

F. Third-Party Manager

82. PPL Electric has retained NERA as the independent third-party to administer each procurement, analyze the results of the solicitations for each customer class, select the supplier(s) that will provide services at the lowest cost and submit all necessary reports to the Commission. NERA has successfully administered the DSP I Program procurements to date, and based on this track record, the Company proposes to continue to retain NERA to administer the DSP II Program.[59]

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59 In addition NERA is the administrator for other Default Service programs in Pennsylvania and elsewhere, and has substantial expertise in this arena.

83. The Company believes that the use of NERA as a third-party manager should result in lower costs for customers. The provision of this service internally by PPL Electric would require substantial new resources. The use of NERA as a third-party provider will avoid these costs and will provide the expertise of an experienced independent third-party manager. A similar administrative service has been successfully utilized by other Pennsylvania EDCs and for several years as part of New Jersey's basic generation service auctions.

G. RTO Compliance and Consistency

84. 52 Pa. Code § 54.185(d)(4) requires Default Service plans to include documentation that the program is consistent with the requirements regarding the generation, sale and transmission of electricity of the RTO in the control area where the Default Service provider is providing service. PPL Electric's DSP II Program fully meets this requirement. In addition to proposing a plan that is in alignment with PJM's planning period, the SMA and the RFP Rules require that both PPL Electric and any bidder in the procurement process must be in compliance with PJM requirements. For example, the *pro forma* SMA recognizes PJM authority and assures that each party is in compliance with PJM's tariff, operating agreement, reliability agreement and business practices. Additionally, Article 4 of the RFP Rules document requires that an applicant must certify that it is a member of PJM and qualified as a market buyer and market seller in good standing that is able to secure generation or otherwise obtain and deliver electricity in PJM through compliance with all applicable requirements of PJM to fulfill a full requirements obligation. Moreover, an applicant must certify that it has been authorized by Federal Energy Regulatory Commission ("FERC") to make sales of energy, capacity and ancillary services at market-based rates.

H. Contingency Planning

85. 52 Pa. Code § 54.185(d)(5) requires that Default Service plans include contingency plans to ensure the reliable provision of Default Service if a wholesale generation supplier fails to meet its contractual obligations. The DSP II Program meets these requirements. If the Commission rejects all bids for a given product, in any solicitation, or if some tranches of a given product, in a particular solicitation do not receive bids, the Company will expeditiously seek guidance and approval from the Commission to address this short fall in procurement of Default Service supply. However, to the extent that unfilled tranches remain at the commencement of delivery for a given product, the Company will obtain Default Service supply through the spot market administered by PJM. Specifically, PPL Electric will supply the unserved load by purchasing energy and all other necessary services through the PJM-administered markets, including, but not limited to, the PJM energy, capacity, and ancillary services markets, any other service required by PJM to serve such unserved load, and any AEPS requirements. PPL Electric proposes to recover all the costs of such purchases from Default Service customers in the retail rates charged for the service for which the purchases are made.

86. In the event a supplier defaults, PPL Electric will offer full requirements supply assignment to other winning bidders for the same product consistent with the step-up process described in the Default Service SMA. If this assignment is not successful, PPL Electric will offer full requirements supply assignment to all Default Service suppliers consistent with the Default Service SMA, even if a Default Service supplier does not serve tranches for that product. These assignments will be offered at the original bid price in the event of default(s), or at the average price from the last successful bid for that product in the event of insufficient bids.

IV. RETAIL ELECTRICITY MARKET INVESTIGATION – CUSTOMER REFERRAL PROGRAMS

87. The *RMI – Intermediate Work Plan Final Order* identifies four programs that are to be adopted to encourage customers to shop. The first program provides for two customer education mailings to be undertaken in 2012. These mailings are to be sent to residential and small business customers. The second is a new/moving customer referral program for residential and small business customers, to be implemented by the fourth quarter of 2012. The third is a Standard Offer Customer Referral Program ("Standard Offer Program") to be marketed to residential Default Service customers, but available for all residential customers (shopping and non-shopping), with a standard 7% discount off the then-current PTC. The Standard Offer Program is intended to be an ongoing program. The fourth program is a Retail Opt-in Auction to be marketed to residential Default Service customers, but available for all residential customers. Customers participating in the auction will receive a $50 cash payment from the EGS who acquires the customer in the auction. The customer also will receive a minimum 5% discount off the then-current PTC. The actual amount of the discount will be determined through the auction process.

88. PPL Electric supports the Commission's customer referral initiatives in the *RMI – Intermediate Work Plan Final Order*, and proposes to adopt these four initiatives, and a fifth initiative detailed herein – the Customer Referral Mailing. As the Commission well appreciates, the success of these programs will depend, in part, on rolling out the programs with defined timing, so as to avoid customer confusion that could hinder, rather than help, the development of a robust retail competitive market.

89. With the foregoing in mind, the Company has developed a timeline to roll out its five initiatives over the period from mid-2012 through mid-2014. The five initiatives, and their roll-out schedule, are as follows:

1. Undertake the customer education mailing in 2012, as directed by the Commission.

2. Implement the New/Moving Customer program scripts and a New Customer Welcome Package in the 3rd or 4th quarter of 2012.[60]

3. Undertake a Customer Referral Mailing in the 2nd or 3rd quarter of 2013.

4. Undertake the Opt-In Auction in November of 2013.

5. Initiate the Ongoing Standard Offer Program in mid-2014.

90. There are three reasons for the proposed timing of the Opt-In Auction and the Standard Offer Program. First, the Company has several fixed-price contracts under its current DSP I Program that do not expire until November 2013. These contracts were executed prior to the Commission's initiation of its Retail Electricity Market Investigation and the proposal to undertake an Opt-In Auction. The Company does not propose to implement any program that actively shifts customers from Default Service to shopping prior to November 2013, to avoid affecting winning wholesale suppliers under existing DSP I Program contracts that were entered into prior to the initiation of the Commission's Retail Electricity Market Investigation.

91. Second, the Company believes that the Opt-In Auction should precede the Standard Offer Program, because the Opt-In Auction will be a one-time program, whereas the Standard Offer Program will be an ongoing program. If the Standard Offer Program were to precede the Opt-In Auction Program, then there could be substantial customer confusion from

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60 Pursuant to the Commission's directives, the customer education mailing and New/Moving Customer Programs will be undertaken prior to any final order in this proceeding, and thus are not part of this filing.

simultaneous operation of both programs. Alternatively, it would be inefficient, and also confusing to customers, to start the Standard Offer Program, pause the program to run the Opt-In Auction, and then restart the Standard Offer Program after the Opt-In Auction was concluded.

92. Third, the Company cannot complete the programming needed to undertake the Standard Offer Program in 2013. Implementation of that program therefore cannot begin until 2014.

93. To avoid a gap in customer education/referrals, the Company has proposed a new Customer Referral Mailing in 2013. This mailing, which is anticipated to be similar to the mailing used by the First Energy Companies, will contain single 5" x 8" pages, containing offer proposals from any EGS willing to participate and pay its share of the cost of the mailing. Further details of this proposal are set forth below. The Company notes that the proposed mailing is not contemplated by the *RMI – Intermediate Work Plan Final Order*. Accordingly, this proposal is being made contingent upon the Commission's acceptance of the Company's proposals for the timing of the Opt-In Auction and Standard Offer Program, as well as the related cost recovery proposals.

A. Customer Referral Mailing

94. As part of the DSP II Program, the Company proposes to conduct a one-time customer referral mailing to all Residential Default Service customers. Any EGS licensed to provide service in the PPL Electric service territory may participate in the mailing by providing a standard 5" x 8" size offering to Residential customers. PPL Electric will include, with the EGS offers, a letter describing the contents of the mailing. The total cost per mailing will be determined in advance, and the cost will be evenly divided among participating EGSs. EGSs will be notified of the costs and must execute a binding program agreement form, accepting responsibility to pay for their portion of the costs of the program before the mailing is sent to

customers. The cost of the program may vary based upon the number of participating EGSs, but the Company estimates a minimum program cost of approximately $600,000.

B. Opt-In Auction

95. As part of the DSP II Program, PPL Electric proposes to implement an Opt-In Auction in 2013 that will provide for participating EGSs to offer to Residential customers a 6-month, fixed price product, at a minimum 5% discount off the then-current PTC at the time of the auction. Customers participating in the auction also will receive a $50 cash payment from the EGS who acquires the customer in the auction. The bonus would be issued to the customer after the customer has received electric generation service from the EGS for three consecutive billing cycles. PPL Electric would not be responsible for EGS compliance with the terms of their contracts under the Opt-In Auction once the program term begins. More details of the proposed Opt-In Auction will be provided in the Company's direct testimony. A proposed RFP for conducting the auction will be submitted with that testimony.

96. PPL Electric proposes to offer participation in the Opt-In Auction to all non-shopping Residential customers, with participation by non-shopping customers capped at 50%. Under the Commission's *RMI – Intermediate Work Plan Final Order*, the capped residential customer base is equal to 50% of non-shopping (Default Service) customers.[61] Shopping customers will be permitted to participate without first moving to the Company's Default Service. However, the participation of shopping customers will not impact the cap, noted above. PPL Electric will send two mailings to all non-shopping customers, the first customer mailing will inform customers about the upcoming Opt-in Auction Program, the second customer mailing will follow the auction and will include the resulting price and instructions on how to

[61] At this time, the capped residential customer base is equal to approximately 300,000 customers. However, this number is likely to vary at the time the auction is undertaken.

participate. Residential customers interested in participating will be required to make their election within 30 days after the auction.[62] Customers will be accepted on a first-come, first-served basis until the capped number of customers is met. The price offered to customers will be the highest of the winning bids, but in no event may the price reflect less than a 5% discount off the then-current PTC – setting the "clearing price."

97. Additionally, participating customers will receive a $50 cash bonus from the EGS assigned the customer. PPL Electric will not be responsible for ensuring EGSs remit the $50 bonus payment to customers. Customers will receive the Opt-In Auction rate on their next monthly meter read following election to participate in the program and that rate will continue for a term of 6-months. Consistent with the Company's switching rules, customers may exit their Opt-In Auction program at any time, without penalty other than forfeiting their right to receive a $50 cash bonus from the EGS if they exit in the first three months. Customers will not automatically revert to Default Service at the end of the contract term. At the end of the contract term, customers will be notified of their options consistent with any customer that is shopping and the regulations that an EGS must follow to provide notice.

98. The auction would be open to all EGSs licensed to provide service in the PPL Electric service territory. Under this proposal, suppliers will bid on tranches, representing a percentage of participating residential customers. PPL Electric proposes to bid 10 tranches, with each tranche equal to 10% of the capped residential customer base plus any participating shopping customers. To ensure a diverse bidding process, a supplier may only win a maximum of 50% of the offered tranches, *i.e.*, 5 of the 10 tranches. PPL Electric will issue a cost estimate for the program prior to the auction. Participating EGSs must sign a binding bid agreement prior

[62] Customers will be assigned to winning suppliers at the time they elect to participate in December 2013 (*i.e.*, 30 day enrollment period).

to the auction, agreeing to pay a portion of the auction costs up front, based upon the number of EGS participants. For example, if the estimated cost of the program is $1 million and 10 EGSs participate, then each EGS must pay $100,000 ($1 million / 10 participants = $100,000 per participant). If only two suppliers elect to participate, these suppliers will be notified of this result and be advised that the cost of the auction would be spread to them. At that time, these EGSs may elect to not participate in the auction. If these EGSs opt out of the auction under this provision, the auction would be canceled for lack of EGS participation. In addition, participating EGSs must agree to pay the costs associated with a post-auction customer mailing and any true-up costs associated with the administration of the auction in the event that they are the winning bidder. Following the conclusion of the auction process (*i.e.* early to mid January), winning bidders will be required to pay the aforementioned costs and such costs will be allocated evenly among the winning bidders. If the auction is not fully subscribed, that is, if there are insufficient bids to take all 10 tranches, the program will not proceed, and the fee paid upfront by the participating EGSs will not be refunded.

99. PPL Electric proposes to conduct the auction in November 2013 using a sealed-bid auction format. NERA, an independent monitor, will conduct and review the Opt-In Auction process, and will submit the auction report to the Commission. PPL Electric's Load Analysis group will assign customers randomly and evenly across the tranches secured by winning EGSs. PPL Electric will enroll those customers on behalf of the winning EGS to expedite the process which will also serve to notify the EGS. EGSs will be responsible for contacting those customers that have been assigned to them.

C. Standard Offer Program

100. As part of the DSP II Program, the Company proposes to implement a Standard Offer Program which would be available to residential customers with a standard 7% discount

off the then-current PTC for a term of six months. The Standard Offer Program would run on a monthly basis until May 31, 2015 and interested EGSs would actively elect to continue to participate on a monthly basis. In the event the PTC changes, any new offers by an EGS must change to reflect a 7% discount off of the new/current PTC. If no EGSs elect to participate for a particular month, the program would not be offered until such time when at least one EGS chooses to participate.

101. A customer may choose to receive service from a particular EGS participating during that month. Customers who do not choose an EGS will be randomly assigned to an EGS for the Standard Offer Program.[63] A customer may exit a Standard Offer contract at any time, without penalty, either to select another EGS or return to Default Service. At the end of the term of the Standard Offer contract, customers will be notified of their options to renew consistent with any customer that is shopping and the regulations an EGS must follow to provide notice.

102. The costs (operation, maintenance and administrative) of implementing and administering the Standard Offer Program will be recovered from the participating EGSs and the Company will publish estimated costs of the program (inclusive of training and other incremental costs).[64] All participating EGSs must sign a binding program agreement form, accepting responsibility to pay a *pro rata* share of the program costs based upon the number of participating EGSs and the months they participate, *e.g.*, if one EGS participates in all 12 months, but another only participates in six months, the first EGS will pay a higher share of the costs of the program. Final program costs will be calculated at the end of the program year, and costs will be divided among the EGSs, as noted above.

[63] This is consistent with the *RMI – Intermediate Work Plan Final Order*.

[64] Capital investment to implement the Standard Offer Program will be included in the Company's rate base and recovered in base rates.

V. ADDITIONAL REQUESTED RULING PURSUANT TO 66 PA. C.S. § 2102

103. In addition to approving all aspects of the DSP II Program and the requested waivers, PPL Electric respectfully requests that the Commission approve the SMA as an affiliated interest agreement under 66 Pa. C.S. § 2102 and include such approval in its final order. Under 52 Pa. Code § 54.186(b)(5), an affiliated supplier may participate in a Default Service provider's competitive bid solicitations for generation service. Therefore, PPL Electric's unregulated affiliates will be permitted to participate in the Company's Default Service supply solicitations. If one of those affiliates is the successful bidder for one or more tranches of Default Service supply, PPL Electric would enter into a SMA with that affiliate. It would not be practical or efficient, in light of the procurement schedule noted above, for the Commission to review the SMA under 66 Pa. C.S. § 2102 at that time. Moreover, rejection or significant modification of the agreement after a solicitation has concluded, and winning suppliers have been selected, could significantly disrupt the Company's Default Service procurement process. The Company notes that the CBP and DSP I Program Default Service Supply Master Agreements were approved by the Commission under 66 Pa. C.S. § 2102(b) in advance of execution of contracts with PPL Electric's affiliate.

VI. CUSTOMER NOTICE

104. The Company will provide extensive notice of this filing. First, PPL Electric has served copies of the filing on the Pennsylvania Office of Consumer Advocate, Pennsylvania Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, EGSs registered in the service territory and PJM as required by the Commission's regulations at 52 Pa. Code § 54.185(b). Second, on the date of filing this Petition, the Company will issue a

press release to major newspapers, radio and television stations serving its service area.[65] Third, shortly thereafter, PPL Electric will publish a notice describing the DSP II Program and comment procedures in major newspapers serving its service territory.[66] That notice will inform customers about this filing, explain where to obtain copies, and describe the procedure for filing comments or complaints with the Commission. Fourth, as noted above and consistent with 52 Pa. Code § 54.185(b), the filing will be posted on PPL Electric's web site at www.pplelectric.com. Fifth, the Company requests that the Commission publish notice of this filing in the Pennsylvania Bulletin, and that a reasonable deadline for intervention be set as part of that notice. PPL Electric believes that these various communications initiatives will provide all interested parties with full notice of the Company's proposals and an opportunity to participate in any Commission proceeding addressing those proposals. However, if the Commission concludes that additional notice would be appropriate, the Company will provide such additional notice as the Commission may direct.

VII. WAIVERS

105. Pursuant to 52 Pa. Code § 54.185(f), a Default Service provider "shall include requests for waivers from the provisions of this subchapter in their Default Service program filings."[67] Consistent with the Commissions regulations, PPL Electric requests a waiver of a limited number of the Commission's regulations as identified below.

106. With regard to customer class divisions, the Commission's regulations and policy statement provide that Default Service providers should divide customers into three groups based

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[65] *Id.*

[66] *See* 52 Pa. Code § 54.188(e)(1) referencing 52 Pa. Code § 53.68.

[67] *See also* 52 Pa. Code § 1.91 (2008).

upon peak loads from 0-25 kW, 25-500 kW or above 500 kW.[68] However, the regulations and policy statement also provide that Default Service providers may propose alternative divisions of customers by maximum registered peak load to preserve existing customer classes.[69] The rate schedule designations in PPL Electric's tariff are primarily based upon the nature of the service (*e.g.*, residential or commercial) and the voltage at which that service is provided. The Company's tariffs, with limited exceptions, are not based on registered peak demand.[70] Thus, a requirement to divide all customers by maximum registered peak demand for Default Service purposes would create several problems for the Company and potentially its customers. First, such an approach would create a situation where two customers served under the same rate schedule would be classified differently for purposes of purchasing Default Service supply.[71] Second, as a customer's peak load changes, that customer may have to be re-assigned to a different customer class for Default Service purposes. Both circumstances could create customer confusion and dissatisfaction, particularly because a customer assigned to the Large C&I Customer Class could only purchase Default Service supply on an hourly basis. For that reason, PPL Electric proposes to use its current rate schedule designations as a basis for identifying customer classes in the DSP II Program. The Company currently is using that approach in the DSP I Program, and it is working well. Accordingly, PPL Electric respectfully requests a waiver of this provision of the Commission's regulations.

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68 52 Pa. Code §§ 54.187, 69.1805.

69 *Id.*

70 The Company notes that certain customers that have a peak demand of 500 kW or greater, receive service under Rate Schedule LP-4 and certain customers who have a peak demand of less than 500 kW also receive service under Rate Schedule LP-4. With this filing the Company is not seeking to revise the 500 kW customer split in Rate Schedule LP-4. Furthermore, as discussed in Section C.5, above, PPL Electric anticipates implementing an hourly priced service for Small and Large C&I customers with load over 100 kW, on June 1, 2015.

71 While such a situation exists for certain customers with a peak demand over 500 kW, such a situation may not be appropriate at this time for customers with less peak demand.

107. If the Commission determines that any additional waivers are required to allow the proposed DSP II Program to go into effect, PPL Electric respectfully requests that the Commission grant such waivers.

VIII. PROPOSAL IS IN THE PUBLIC INTEREST

108. PPL Electric believes that the proposed DSP II Program is in the public interest because it contains many features that support the continued development of competition in Pennsylvania. The Company will procure contracts for its Default Service supply needs through transparent competitive solicitations with all qualified wholesale suppliers being eligible to participate. The proposed DSP II Program adopts each of the Commission's recommendations in the Retail Electricity Market Investigation which are designed to improve competition in the retail electric market, and under the DSP II Program, EGSs will continue to have an ability to compete to supply all of PPL Electric's retail customers.

109. The DSP II Program, consistent with 66 Pa. C.S. § 2807(3.7), will obtain supply at the least cost, and provide adequate and reliable service to customers via a prudent mix of contracts.[72] Specifically, the DSP II Program proposes to obtain (or continue to obtain) supply through the use of short and long term contracts and spot market purchases. The proposed DSP II Program satisfies "least cost" requirement by regularly holding transparent solicitations in which wholesale suppliers can compete with one another to be the source of Default Service supply. Over time this approach will produce Default Service prices that are least cost given the underlying energy market conditions. Furthermore, by using the spot market to price Default Service for Large C&I customers, the proposed program insures that these customers will not incur the risks of high costs that could result if short- and long-term products were purchased and

[72] *See* Section III.B, above.

customers shopped in large numbers leaving the Company with excess supply that would need to be sold into the wholesale market at a possible loss.

110. The DSP II Program also includes prudent steps to obtain supply contracts.[73] Additionally, PPL Electric has designed its proposal to incorporate both third-party administration and Commission oversight. PPL Electric anticipates that the independent third-party procurement manager will work closely with the Commission and that the Commission will monitor each step of the process, including implementation of each RFP, the evaluation of bids and final selection of winning bidders.

111. Moreover, PPL Electric has developed a proposed DSP II Program that is straight-forward and places the Company on a procurement schedule that is designed to align with the Commission's planned "end state" determination of long-term Default Service responsibilities of EDCs. Furthermore, PPL Electric is proposing a proven RFP process, which will continue to promote competition among wholesale suppliers.

112. The DSP II Program procurement and rate design reflects a careful and appropriate balance of customer and competitive interests. Default Service supply for Residential and Small C&I customers will include fixed-price procurement, and customer rates will change every six months. Through this process, customers will be exposed to changing market conditions and prices, but in a way that reduces unnecessary rate volatility. Large C&I customers will be more fully exposed to market prices through the exclusive procurement of spot market products.

113. 66 Pa. C.S. § 2807(e)(3.7) also requires that the Commission make a specific finding, *inter alia*, that "[n]either the default service provider nor its affiliated interest has

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[73] *See* Sections III.D and E, above (discussing the RFP process).

withheld from the market any generation supply in a manner that violates Federal law." Under the various FERC codes of conduct, PPL Electric is precluded from discussing any market-related issues with its affiliates that own generation. However, PPL Electric is not aware of any public documents issued by those affiliates (*e.g.*, SEC filings), orders of the FERC or decisions by relevant federal and state courts that indicate that its affiliates have withheld generation supply from the market in violation of federal law.

IX. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Public Utility Commission approve the Default Service Program and Procurement Plan for the Period June 1, 2013 through May 31, 2015, as set forth in this Petition and the attachments hereto, to establish the terms and conditions under which PPL Electric will obtain supply for its Provider of Last Resort obligation, approve recovery of all costs of obtaining that supply, and grant the requested waivers explained above to implement the DSP II Program. PPL Electric respectfully requests that the Commission enter its final order approving the DSP II Program within nine months or no later than February 1, 2013.

Respectfully submitted,

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Dated: May 1, 2012

Attorneys for PPL Electric Utilities Corporation

VERIFICATION

I, Dennis A. Urban, Jr. being the Senior Director-Rates and Regulatory Affairs, at PPL Electric Utilities Corporation, hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief and that I expect that PPL Electric Utilities Corporation will be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: 4/30/2012

Dennis A. Urban, Jr.

Dennis A. Urban, Jr.