

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

Public Meeting held June 16, 2010

Commissioners Present:

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

Pennsylvania Public Utility Commission
v.
PPL Electric Utilities Corporation

Docket Number:
R-2010-2170296

ORDER

BY THE COMMISSION:

On April 15, 2010, PPL Electric Utilities Corporation ("PPL" or "the Company") filed Supplement No. 85 to Tariff Electric-Pa. P.U.C No. 201 ("Supplement No. 85") to become effective June 14, 2010. The Company subsequently filed to extend the effective date to June 17, 2010. Supplement No. 85 proposes to establish an Optional Monthly Pricing Service for Large Commercial and Industrial ("Large C&I") customers. This filing was made pursuant to the Joint Petition for Settlement of PPL's Default Service Plan ("DSP Settlement") in which the Company committed to file an optional monthly or quarterly-priced load-following service applicable to its Large C&I customers. The Commission approved the DSP Settlement in an Order entered on June 30, 2009, at Docket No. P-2008-2060309.

Background

On August 28, 2008, PPL filed a Petition for Approval of a Default Service Program and Procurement Plan for the Period January 1, 2011, through May 31, 2013, to

establish the terms and conditions under which the Company would provide Provider of Last Resort ("POLR" or "default") service and obtain generation supply for that service beginning January 1, 2011. On March 11, 2009, the parties to that proceeding entered into the DSP Settlement, establishing terms and conditions for providing POLR service for the period January 1, 2011, through May 31, 2013, and resolving other issues.

The DSP Settlement established the Large C&I class¹ as a separate customer class for POLR procurement, and further established that the default service procurement for this class would be a real-time hourly-priced service. In accordance with this arrangement, PPL will issue a single annual solicitation in which it will request competitive offers from suppliers to provide default service spot market supply for Large C&I customers. PPL will pay winning bidders a price equal to the sum of the PPL Zonal real-time hourly spot-market prices, the PPL Zonal capacity charge, and their winning bid price. In exchange, the winning bidders are required to provide all components of default supply necessary for PPL to satisfy its POLR obligations to Large C&I customers. The DSP Settlement also provided for the Company to file an optional monthly or quarterly fixed-price, load-following service for Large C&I customers. Specifically, Paragraph No. 40 of the DSP Settlement provides as follows:

PPL Electric's hourly default service proposal is accepted as filed. PPL Electric will convene a separate collaborative with interested parties to develop and file an optional monthly or quarterly load following service for Large C&I customers. As part of the collaborative, the parties will in good faith consider, among other things, designs for the monthly or quarterly option that avoid any impediments to or restrictions on switching and that achieve resulting rates for Large C&I customers that are reasonable, while ensuring that PPL Electric will recover, on a full and current basis, the reasonable cost incurred to provide the product. PPL Electric

¹ The Large C&I class includes the following rate schedules (with two exceptions noted below) receiving 60 hertz service: Rate Schedules LP-4, IS-P(R), LP-5, LP-6, LPEP,2 and IS-T(R), and standby service for these rate schedules. The two exceptions under the DSP Settlement are; (1) to exclude Rate Schedule LP-4 customers with less than 500 kW of peak demand from the Large C&I class; and (2) to include Rate Schedule GS-3 customers with 500 kW or greater peak demand in the Large C&I class.

will consider input from interested parties, but will file a proposal that is acceptable to PPL Electric. Such filing will be made with the Commission on or before June 1, 2009.² All parties reserve their rights to object to the terms of such proposal and to propose alternate provisions. The parties agree that the only issue to be resolved in that proceeding will be the provision of optional monthly or quarterly default service to Large C&I customers.

In accordance with the provisions of the DSP Settlement, PPL held a series of meetings and discussions with interested parties, including representatives of Large C&I customers' interests such as the PP&L Industrial Customer Alliance ("PPLICA"), marketer interests, including, but not limited to the Retail Energy Supply Association ("RESA") and Richards Energy Group, Inc. ("Richards"), and various wholesale suppliers. During these meetings and discussions, a number of alternative proposals for the design of this optional service were considered and discussed. PPL states that the proposal set forth in Supplement No. 85 reflects a general concurrence of the participants to these discussions as a reasonable design of the optional service. However, PPL notes that no parties were asked to join in this filing, and all parties retain their rights, as provided in the Settlement, to object to the proposal.

PPL's Optional Monthly Pricing Service

The following is a summary of the provisions of PPL's Large C&I Customer Optional Monthly Pricing Service as proposed in Supplement No. 85, and as set forth in the Company's Statement of Reasons accompanying its filing:

- a. **Eligibility** - All Large C&I Customers, as that term is defined above and in the Settlement, taking 60 hertz service effective January 1, 2011, will be eligible for the Optional Monthly Pricing Service. Eligible customers must affirmatively elect the Optional Monthly Pricing Service as discussed below. If a customer does not

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Presumably, this date was meant to read "June 1, 2010."

elect the Optional Monthly Pricing Service or does not shop with an EGS, the customer will receive the Hourly Default Service.

- b. **Price** - The price will change on the first of every month. The monthly price will be set on a cents per kWh basis. The monthly prices will be determined by a competitive solicitation held quarterly, plus an adder for recovery of costs incurred to undertake the solicitations. Due to the transition from a calendar year to a PJM year for solicitation and pricing purposes, the first solicitation will establish monthly prices for a five-month period (January - May, 2011). Participating customers also will be responsible for all other charges contained in their applicable rate schedule.
- c. **Product** - The product to be solicited will be a load-following, full-requirements service, including, without limitation, energy, capacity, transmission (excluding Network Integration Transmission Service), ancillary services, transmission and distribution losses, congestion management costs, Alternative Energy Portfolio Standard requirements and such other services or products that are required by PPL Electric to supply the Optional Monthly Pricing Service to customers electing the service.
- d. **Solicitation Process** - Each solicitation will be conducted quarterly, to be carried out at the same time as solicitations for the full-requirements products for Residential and Small C&I classes as provided by the Settlement. The initial solicitation will be undertaken in October 2010. In each solicitation, bidders will be required to provide separate prices for each month in the upcoming quarter. For each RFP Bidder, the Company will calculate a single average bid price, based upon a simple average of the monthly offer prices, for each number of tranches up to the total tranches offered. The winning bids will be selected based upon the combination of individually averaged bids with the lowest combination price. Service will be solicited in 100 MW tranches using the same approach for

soliciting full-requirements, load-following service for other default service groups. Winning bidders will be paid their original, unaveraged prices for each month of the solicitation period. If tranches are not fully subscribed in any solicitation, the service will not be made available for that quarter.

- e. **Time to Elect Service and Switching Provisions** - A customer may elect the service, effective with the next billing cycle beginning 15 days or later from the date of election. Following election of the Optional Monthly Pricing Service, the customer will remain on the Optional Monthly Pricing Service, unless that service becomes unavailable, or until another service option is elected and goes into effect. Customers may switch from the Optional Monthly Pricing Service to service from an Electric Generation Supplier ("EGS") at any time in accordance with the Commission's switching regulations and PPL Electric's tariff provisions related to changing service options. An eligible customer served by an EGS or served on Hourly Default Service may elect the Optional Monthly Pricing Service, in accordance with switching rules. A customer on the Optional Monthly Pricing Service will not be permitted to switch to the Hourly Default Service until first shopping with an EGS for at least one month; provided, however, that if the Optional Monthly Pricing Service is unavailable because tranches were not fully subscribed, customers on the Optional Monthly Pricing Service, who do not elect an EGS, will be switched to the Hourly Default Service. Thereafter, when the Optional Monthly Pricing Service again becomes available, customers will be required to affirmatively select the service.
- f. **Recovery of Solicitation Costs** - The costs incurred by PPL Electric to solicit and procure the Optional Monthly Pricing Service and the Hourly Default Service will be fully recovered from all customers in the Large C&I class who take the Optional Monthly Pricing Service or the Hourly Default Service through a pro rata charge per kWh. PPL Electric's cost recovery for the Optional Monthly Pricing Service is fully reconcilable.

PPL asserts that its proposed Optional Monthly Pricing Service meets Large C&I customers' desire for an optional fixed-price service from the Company as an alternative to the hourly-priced default service. As PPL explains, the monthly price provides an option for customers who do not want the volatility of hourly default service rates, or who may have lost or are unable to procure fixed service from an EGS. In addition, PPL states that customers indicated a desire for a service that is simple to elect, does not require nomination of service quantities, and that does not restrict ability to select other energy supply products. PPL asserts that the latter point also is important to EGSs, who do not want customers committed to long-term service arrangements with the Company.

PPL states that in designing the optional service, it took into account the DSP Settlement condition that the service be a load-following, full-requirements product, which simplifies pricing, and substantially eliminates the risk of over/undercollections that would arise if block and spot products were acquired to serve an undefined load. PPL asserts that this is particularly a concern for the Large C&I customer market, where substantial shopping is expected, but load swings from a small number of customers could result in actual usage that is substantially different from projections. At the same time, PPL contends that monthly pricing and solicitation in multiple tranches somewhat moderates and spreads the risk of such swings among multiple bidders, as compared to a price that is fixed for a full quarter, and a solicitation that chooses only a single winning bidder.

PPL explains that the provisions for switching between the Hourly Default Service and the Optional Monthly Pricing Service reflect a compromise of competing concerns. On the one hand, Large C&I customers proposed that they be able to switch from the Hourly Default Service to the Optional Monthly Pricing due to a concern that they might be placed on the Hourly Default Service as a "default" from an EGS after the 15-day monthly window to elect the Optional Monthly Pricing Service, or because they

failed to consider the optional service initially. On the other hand, PPL argues that it would not be fair to bidders providing supply to either the Hourly Default Service or the Optional Monthly Pricing Service for customers to be able to freely switch between the two products. Therefore, under PPL's proposal, once a customer elects the Optional Monthly Pricing Service, it may only switch to the Hourly Default Service if it first shops with an EGS for at least one month, unless the customer is switched to Hourly Default Service in the event the Optional Monthly Pricing Service is unavailable in any quarter.

Finally, PPL notes that it will incur costs to undertake the solicitations for both the Hourly Default Service and the Optional Monthly Pricing Service. PPL states that it is unknown to what extent customers will elect these two services, and within the limits of switching provisions described above, customers may move between the two services. Therefore, to avoid the potential for customers making a service choice based upon the relative effect upon rates resulting from solicitation costs, and to provide for full recovery of costs as provided by law and the DSP Settlement, PPL is proposing to recover the costs of solicitations for both Hourly Default Service and Optional Monthly Pricing Service through a pro rata component of both services' rates.

In conclusion, PPL contends that its proposed Optional Monthly Pricing Service is in full compliance with the requirements of the DSP Settlement, reflects a general consensus of the meetings held with stakeholders, and provides the Company's large commercial and industrial customers with another option for purchasing generation supply in 2011. Thus, PPL requests that the Commission approve its proposal and permit it to become effective on June 14, 2010.

Disposition

PPL's proposed Optional Monthly Pricing Service provides another option for Large C&I customers who, for various reasons as discussed above, may prefer not to be served under the Company's hourly default service rates. The service appears to meet the requirements set forth in the DSP Settlement, and to strike a reasonable balance

between the interests of customers who would be served under it, and suppliers who would bid on and provide the product. Moreover, we note that while the DSP Settlement provided that all parties would have the right to object to the terms of PPL's proposal and to propose alternate provisions, none of them have done so in this proceeding. For these reasons we find the rates, terms and conditions contained in PPL's Optional Monthly Pricing Service to be just, reasonable and within the public interest, and we will approve Supplement No. 85 as filed; **THEREFORE,**

IT IS ORDERED:

1. That the Optional Monthly Pricing Service for Large C&I customers proposed by PPL Electric Utilities Corporation in its Supplement No. 85 to Tariff Electric-Pa. P.U.C No. 201 is hereby approved as filed.
2. That a copy of this Order be served upon all parties to the Joint Petition for Settlement approved in PPL Electric Utilities Corporation's Default Service Plan proceeding at Docket No. P-2008-2060309.
3. That the proceeding at Docket No. R-2008-2170296 be marked closed.

BY THE COMMISSION,



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: June 16, 2010

ORDER ENTERED: June 16, 2010