

**Provider of Last Resort (POLR) Roundtable
Docket No. M-00041792**

**Comments of
PPL Electric Utilities Corporation**

I. Introduction

On March 4, 2004, the Pennsylvania Public Utility Commission (“PUC” or the “Commission”) established a Provider of Last Resort (“POLR”) Roundtable to provide a forum for the discussion of issues related to POLR service in Pennsylvania. On March 18, 2004, the Commission issued a meeting schedule and issues list for the POLR Roundtable. PPL Electric Utilities Corporation (“PPL” or the “Company”) is scheduled to participate in the April 21, 2004 meeting and, pursuant to the Commission’s schedule, its written comments are due on April 14, 2004.

The Company appreciates this opportunity to participate in the POLR Roundtable. Resolution of issues related to POLR service in Pennsylvania, especially after the transition periods end, is critical to maintaining high quality electric utility service to customers throughout the Commonwealth.

In this regard, PPL Electric has identified three principle issues that must be addressed. First, what entity provides POLR service? PPL Electric recommends that only the incumbent Electric Distribution Company (“EDC”) provide POLR service. Second, how does the POLR obtain supply? PPL Electric recommends that the POLR obtain supply through a statewide reverse auction process. Third, how should POLR service be priced to customers? PPL Electric recommends that POLR rates include an automatic adjustment clause which is reconciled on an annual basis. Each of these issues and the Company’s recommended approach is discussed in more detail below.

2. Comments

- I. **Scope of POLR Service:** “The commission shall promulgate regulations to define the electric distribution company’s obligation to connect and deliver and acquire electricity.” 66Pa.C.S. Section 2807(e)(2)

Please address the nature and scope of the POLR obligation in regards to each of the following topics. Further, parties may suggest priorities and policy goals for the Commission in regards to these topics.

- **Connection and Delivery: Including local transmission, distribution, interconnection, and metering.** These are among the duties assigned to EDCs under Section 2807 of the Electricity Generation Customer Choice and Competition Act (“Customer Choice Act”), 66 Pa. C.S. Section 2807(a) through (d).
- **Generation Acquisition/Supply Obligation:** During the period that an EDC collects either a Competitive Transition Charge (“CTC”) or an Intangible Transition Charge (“ITC”), it continues to have the “full obligation to serve” which includes “the production or acquisition of electric energy for customers.” 66 Pa. C.S. Section 2807(e)(2). At the end of the transition period, the Customer Choice Act provides that the POLR supplier will be either the EDC or Commission-approved alternative supplier. For the reasons set forth below, PPL Electric believes that this obligation should remain with the EDC.
- **Reliability:** Reliability actually consists of four component parts.
 1. Clearly the EDC is responsible for the component of reliability that is related to the adequacy and operation of the distribution system. Section 2807 (a) of the Competition Act, 66 Pa. C.S. Section 2807(a), requires: “Each electric distribution company shall maintain the integrity of the distribution system at least in conformity with the National Electric Safety Code and such other standards practiced by the industry in a manner sufficient to provide safe and reliable service to all customers connected to the system consistent with this title and the Commission’s regulations.”

2. The Regional Transmission Organization (“RTO”) is responsible for the reliability of the transmission system under its control. Issues such as congestion management and control of line loadings within appropriate limits are functions performed by the RTO. If conditions warrant, the RTO may direct the EDC to take specific remedial actions, but the EDC does not control this aspect of reliability.
 3. The RTO also is responsible for assuring that there is sufficient generating capacity available to meet system loads. If there is not sufficient capacity, the RTO initiates various emergency procedures that may include the interruption of supply to customers. Although a capacity deficiency may have nothing to do with the supply contracted for by the POLR, the POLR’s customers may be affected. As discussed below, PPL Electric believes that the structure of POLR supply can contribute to capacity-related reliability.
 4. The POLR is responsible for contracting for sufficient supply to serve the needs of its customers. If the contracted-for supply fails to materialize, the POLR will be forced to obtain supply from other providers or from the spot market, presuming there is sufficient capacity available to meet the region’s demand.
- **Retail Market Support Functions: All activities currently required of electric distribution companies to support the function of competitive markets, including Demand Side Response and the maintenance of customer lists.** “Retail Market Support Functions” include the following:
 1. Maintaining EDI platforms and billing protocols for the purpose of facilitating customer switches, transmitting usage, billing options, and remittance to Electric Generation Suppliers (“EGSs”). These functions are integral to billing functions that are the duty of the EDC under the Commission’s regulations and, accordingly, PPL Electric believes they should remain the responsibility of the EDC. Under appropriate circumstances, these functions could be obtained by the EDC from other

providers (for example, some EDCs currently contract for EDI), but the EDC must continue to be responsible for how these functions are carried out.

2. Maintaining information (such as load profiles) and systems necessary for the scheduling and reconciliation of energy supplies. These functions currently are performed by EDCs (or contracted for by EDCs) and should remain the responsibility of EDCs in their role as POLRs.
3. Other administrative duties as determined by regulation or order – including maintaining customer lists and disclosure elections, providing Price to Compare information, and providing customer education materials – should remain the responsibility of the EDC as the POLR. PPL Electric believes that one of the benefits of having the EDC perform the POLR function is that it avoids the consumer confusion and administrative complexity that arise from the sharing of these functions.

PPL Electric does not believe that Demand Side Response (“DSR”) is a “retail market support function” but, rather, a pricing option for POLR service. DSR is discussed below under the heading “Environmental and Conservation.”

- **Customer Care Functions: All retail customer care obligations currently assigned to electric distribution companies, including those found at Chapter 56 of the regulations.** PPL Electric believes that customer care functions, especially those functions defined under Chapter 56, are the responsibility of EDCs and should remain the responsibility of the EDCs in their role as POLRs.
- **Environmental and Conservation: Including any potential Renewable Portfolio Standard requirements and Demand Side Response.** EDCs should retain responsibility for environmental issues which relate to the distribution system and generators should have the responsibility for ensuring that their facilities meet environmental requirements. The more complex issue is whether generation supply provided to an end-use customer should exhibit certain environmental or conservation

attributes, and whether that supply will make available opportunities or incentives for the customer to exercise environmental or conservation preferences. Renewable Portfolio Standards (“RPS”) and DSR both fit into this latter grouping.

1. RPS

As typically applied, an RPS requires generation suppliers to assure that a certain percentage of their supply is obtained from renewable sources. Generation from renewable sources generally is more costly, and as a result, the cost of supply probably will increase from what it would otherwise be. This gives rise to several observations:

- The POLR, if required to meet an RPS, must be able to recover any additional costs associated with RPS.
- RPS requirements must apply to all suppliers. If RPS applies only to POLR, it could result in customers shopping to avoid higher priced POLR supply and, as a result, environmental benefits would not be achieved.
- RPS could be accommodated in POLR supply through either requiring conforming bids to include the appropriate percentage of renewable energy or by bidding separately for renewable energy in an amount consistent with the target percentage. When bid sources are combined, the higher priced renewables portion probably will cause the total price to increase.

2. DSR

PPL Electric believes that a DSR market price signal is an important element of a viable competitive generation market. PPL Electric further believes that this can be accomplished within existing jurisdictional structures by having the entities that serve retail load, both EGSs and POLRs, offer demand response programs to their end-use customers. The reduction in demand that results from individual customers’ response to price will be seen in the wholesale market as a change in the load servers’ aggregate demand. PPL Electric believes that such programs are a natural extension of EGSs’ participation in the market and their need to manage risks. POLRs, on the other hand, participate in generation markets by obligation rather than choice and

must be fully compensated for all risks associated with that obligation. PPL Electric further believes that it is important to view separately the infrastructure that enables DSR and the impact of DSR on generation markets and pricing. Specifically, infrastructure such as metering and billing systems support DSR programs offered by both EGSs and POLRs. That infrastructure is provided by the EDC and should be viewed as distribution facilities and the associated costs should be recovered accordingly. An end-use customer's response to the market affects his generation purchases and should be reflected in the generation component of his bill.

- **EDC Participation: Should the nature of POLR obligation be uniform for all existing EDCs?** The duties and protections associated with POLR service should be uniform, however, the pricing and terms of POLR service could be different among EDCs. Differences may, in fact, be necessary if POLR are required to offer DSR programs. Those programs may need to be different in order to reflect the different capabilities of each EDCs infrastructure supporting DSR.

II. Qualifications for POLR: A POLR may be either an “electric distribution company or commission-approved alternative supplier.” 66 Pa. C.S. Section 2807(e)(3) Please address the financial and other qualification standards for the POLR provider:

A. Reserved for Incumbent EDC

- **What should the requirements be for an EDC to qualify as a POLR provider?**
PPL Electric believes that the incumbent EDC should be the POLR. In its role as POLR, the EDC must be in full compliance with all of the requirements that it must satisfy as a utility regulated by the PUC. It does not appear necessary to impose any requirements on the EDC.
- **What are the risk and benefits of reserving this role to the incumbent EDC?**
The incumbent EDC should be identified as the POLR for the following four reasons. First, this approach would minimize customer confusion and disruption. The

incumbent EDC has been the POLR throughout the transition period. Customers know the identity of the POLR and are comfortable dealing with it. Under the Customer Choice Act, customers can choose to purchase supply from an EGS rather than the POLR at any time. However, customers who have elected to remain with their incumbent EDC for POLR service should not be arbitrarily assigned to another entity.

Second, as a practical matter, the incumbent EDC will remain the “last resort” POLR. If another entity is identified as the POLR and that entity fails to meet its POLR responsibilities, the incumbent EDC will be required to step into the role of POLR to protect the affected customers. In fact, this series of events already has occurred in the context of Competitive Default Supplier (“CDS”) service. Given this reality, it makes sense to identify the incumbent EDC as the POLR in the first instance.

Third, the administrative burdens associated with identifying another entity as the POLR are enormous. A quick review of the issues identified by the Commission in this area reveals the scope of such an undertaking. What requirements must the entity meet? How would the non-EDC POLR be selected? How would competing proposals be evaluated? How would customers be assigned to the POLR? What happens if the non-EDC POLR defaults? Identification of the incumbent EDC as the POLR eliminates all of these issues and ensures that the regulated entity with decades of experience in this area will provide POLR service to all of the customers in its service area.

Fourth, and finally, identifying a non-EDC as the POLR risks “stranding” the EDC’s investment and personnel in the metering, billing and customer care functions. If the non-EDC POLR assumes these functions, there is no need for the EDC to retain those facilities and personnel. Conversely if, as discussed above, the EDC is likely to become the “last resort” POLR, then it must retain facilities and personnel needed to perform those functions in the future even if they are not being used currently.

Identification of the incumbent EDC as the POLR avoids this problem.

- **Do any EDCs wish to be relieved from this obligation?**

PPL Electric believes that EDCs should not be relieved from their POLR obligation.

B. Alternative Suppliers that may serve as POLR

- **What should the requirements be for a non-EDC to qualify as a POLR provider?**

As discussed above, PPL Electric believes that only the incumbent EDC should be the POLR. However, if the Commission elects to identify other entities as the POLR, then the requirements for a non-EDC to be the POLR should be the same as the requirements for the incumbent EDC.

- **What should the process be for an alternative supplier to qualify?**

As discussed above, PPL Electric believes only the incumbent EDC should be the POLR. Therefore, no process is necessary for an alternative supplier to qualify to serve as POLR.

- **Are there any unreasonable barriers to this role, regulatory or otherwise, that the Commission should address?**

As discussed above, PPL Electric believes that only the incumbent EDC should be the POLR.

III. POLR Service Models

Please comment upon the form POLR Service should take. Please consider the following models and associated issues:

The questions throughout this section could be read as addressing procedures and standards for choosing the entity to provide POLR service. Alternatively, the questions could be read as addressing procedures and standards for the POLR to obtain the supply necessary to meet POLR customer demand. Because PPL Electric believes the incumbent EDC should be the POLR, it has responded to these questions based on the second interpretation.

A. Direct Assignment to EDC or Alternative Supplier – The Commission selects the POLR from applications of one or more EDCs and/or alternative suppliers.

- **What process should be used for reviewing assignment proposals?**

The EDC should be assigned to provide the POLR service.

- **What should be the standard for evaluating POLR proposals as to “the prevailing market price” of generation supply?**

The prevailing market price should be used to evaluate proposals for obtaining POLR supply, but it should not be the sole standard for evaluating those proposals. The supply proposals do not necessarily have to be the lowest cost method of serving customers. In fact, the POLR supply proposals should provide incentive for EGSs to compete to provide supply to the EDC’s customers.

- **What should be the standard of evaluating the POLR proposals as to the procurement strategy for their generation supply? For example, should there be limits or minimum requirements on self-generation, spot market purchases bilateral contracts, etc?**

The following procurement strategy is being offered by PPL Electric for consideration.

- The state will conduct a reverse auction (similar to the New Jersey model) on a semi-annual basis. By conducting an auction every six months, the POLRs have the flexibility to seek supply annually or every six months. This approach may provide price stability to the POLR customers. In addition, the wholesale markets are not disrupted by having the entire POLR load auctioned on an annual basis.
- For each auction, the POLRs will indicate the amount of supply desired and the term (start and end dates). The terms for supply may be as short as monthly, or as long as 10 years. The POLRs can take a portfolio approach to

procuring supply by varying the terms and amount of supply. This will provide price stability to the POLR customers.

- The auctions could provide the following options to the POLR:
 - ◆ Pricing: The POLR can seek flat annual pricing, seasonal pricing (Summer, Winter, Shoulder periods), variable pricing, such as, time of use, indexed, inclining or declining block structure. The pricing should be for full requirements supply.
 - ◆ Ability to auction Active Load Management (“ALM”) programs, such as interruptible programs
 - ◆ Ability to auction DSR programs

The only specific limitations should be the amount of spot market purchases procured to supply the POLR load and the maximum amount of POLR load, in terms of megawatts or percent of total load, that any one generation supplier can serve. Ideally, a very high percentage of the POLR supply should be procured with asset-backed generation. Depending on market conditions, varying terms of supply contracts, up to 10-year terms, should be considered to provide price stability and to reduce the amount of supply that must be procured each year. Longer terms have the advantage of providing a reasonably assured stream of revenues that would facilitate the construction of new capacity and, thereby, contribute to reliability.

- **If this model is used, should the EDC be required to make use of competitive processes, such as wholesale energy auctions, for example, to obtain generation supply?**

Yes, a competitive, arms-length process that includes visible price discovery should be conducted to procure the POLR supply. The best approach appears to be an open auction administered by the state. As discussed below, New Jersey currently uses a state-wide reverse auction process.
- **How could this model impact the competitive retail market and customer choice, and if negative, what steps should be taken to mitigate any such effects?**

Because POLR supply would be competitively procured, it is possible that this procurement approach could impact the competitive retail market, positively or negatively. If the cost of POLR supply is equal to the market price, then it is unlikely that an EGS would be able to “beat that price.” However, it is more likely that the competitively procured price of supply will be higher than the market price because the POLR must take into account the possibility that some customers will shop and some will return to POLR service; it is likely that this risk of switching will increase the price of supply.

- **How would this model vary depending on the identity of the (EDC vs. Alternative provider)?**

This model would not vary because PPL Electric recommends that only the incumbent EDC be identified as the POLR and that POLR supply be obtained through a state-wide auction process.

B. Competitive Assignment – The POLR is determined as the result of a competitive process which is open to incumbent EDCs and/or alternative suppliers.

As discussed above, PPL Electric believes that only the incumbent EDC should be identified as the POLR.

C. Other POLR Service Models

- **Please discuss existing models in states with similar regulatory frameworks that have been successful, with emphasis on rate, reliability, consumer protections, and administrative efficiency.**

New Jersey: The POLR model for New Jersey is a state-wide reverse auction for over 20,000 MW of POLR load. Initially, the auctions have been for one-year supply; however, recent auctions have included terms of up to three years.

Maryland: The Maryland utilities are in the process of issuing requests for proposals for full-requirements supply to meet the standard offer service. The total load

obligation for all the utilities is 6,200 megawatts. Each utility issues an RFP that is reviewed and approved by the state public service commission. The utilities recently completed RFPs for one, two and three year terms for POLR supply, which will result in residential bills increasing about 16%.

Maine: In Maine, the state utility commission solicits suppliers to provide standard offer service through a competitive bid process. In January 2004, the commission accepted proposals for six-month and one-year terms of supply for medium and large commercial and industrial customers of Central Maine Power and Bangor Hydro-Electric. Residential and small commercial customers have standard offer rates in effect through February 2005.

In all of these states, the first year of the transition from rate caps resulted in increases to customer's bills of more than 10%.

In New Jersey and Maryland, the large commercial and industrial customers who take POLR service will pay a market capacity charge plus Locational Marginal Price ("LMP") for the energy plus an adder of \$0.005/kWh. This switch from rate caps to real-time price has resulted in significant number of these customers seeking supply from alternative suppliers.

In Maine, the industrial and commercial customers to take POLR supply continue to receive a fixed price for energy and capacity.

- **Please identify any relevant POLR service models that have not been attempted that are worthy of consideration.**

The models used in New Jersey, Maryland and Maine have been effective in securing supply for POLR customers; however, the models typically address only the short-term supply needs of those customers. New Jersey has run its reverse auction several times seeking supply for one year or less. It was only in the most recent auction that a three-year term was proposed. There can be inherent problems with seeking only

short-term supply. From the customers' perspective, this approach does not provide price stability because the auction price can vary greatly from year-to-year depending upon market conditions. From the wholesale market perspective, the annual terms do not provide any longer-term incentives to build new generation to meet future demand. The annual term can influence the wholesale markets, because New Jersey seeks supply for about 20,000 megawatts of load every year. If all the utilities limit the supply term to one year, then the wholesale market may become disrupted and/or distorted.

An alternative model for obtaining POLR supply is to use a layering technique that seeks supply for varying terms, which could be as long as 10 years. The layering technique would seek supply for one-year, two-year, three-year, and longer terms, some as long as 10 years. This approach is not short-term oriented and provides incentive for longer term structures that could provide price stability to POLR customers and could minimize any adverse impacts on the market. The layering technique could even stagger the beginning and ending dates of supply to provide the best prices.

- **Please identify any models that you deem a failure, and why.**

PPL Electric is not aware of any POLR models that it would term "failures."

IV. Terms and Conditions of POLR Service: A POLR shall treat a shopping customer who returns to POLR service "exactly as it would any new applicant for energy service." 66 Pa. C.S. 2807(e)(4)

Please comment on the following items:

- A. Length of POLR Service term: Is there a recommended length? Must it be uniform across service territories?**

There is no recommended term for POLR service. Possible terms for POLR service are: monthly, one year, two years, and three years. If a customer is seeking an alternative

supplier, then monthly POLR service may be appropriate. The one-year term would still permit the customer to seek an alternative supplier. The two-year and three-year terms would not permit the customer to seek an alternative supplier due to the longer term supply requirements that provide price stability to the customer. Each term would, of course, have its own pricing structure and restrictions reflective of procurement risk and customer flexibility.

The term does not need to be uniform across service territories.

B. Customer Migration: How should the Commission address issues surrounding customer switching, and what is the effect of the statutory language of Section 2807(4)?

A shopping customer who returns to POLR service will be treated the same as any new applicant for energy service. However, the returning customer may increase the costs to provide POLR service and the increased costs should be recovered by the POLR.

C. Customer Rate Classes and Design

- **What should they be?**

In general, all rate schedules should be provided with POLR service. However, the POLR should offer choices to customers that will allow the customer to choose the rate design most appropriate for its circumstances. Providing rate options, especially prior to the end of the transition period, should lessen the impact to customers as a result of the end of the rate cap.

The POLR rates could follow the existing rate structure currently offered by the EDC or new rate structures could be developed. For PPL Electric, the current rate structure is declining block. Several alternative rate designs may include: fixed or flat pricing for an annual term, seasonal pricing (summer, winter, and shoulder periods), time-of-use, inclining block structures, and real-time price.

- **Fixed Rates – Available to all, none or some?**

Fixed rates should be available to all customer classes, residential, commercial, and industrial.

For further clarification, the term “fixed rates” would mean a flat price, such as 5.0 cents per kWh. Fixed rates can be monthly, annual, or seasonal (summer, winter or shoulder periods).

However, the fixed rate may be the highest cost option for a POLR customer.

- **Variable Rates – Available to all, none or some. If available, what kinds?**

In general, EGSs, rather than the POLR, should offer variable rates. However, if variable rates are offered by the POLR, then should be available to large commercial and industrial customers. The variable rates should reflect how customers use energy, such as load factor or maximum demand. Variable rates offered to commercial and industrial customers might include: declining or inclining block structure, time-of-use, indexed, seasonal, and real-time price.

Some residential customers may be interested in variable rates that could include time-of-use or real-time pricing.

D. Miscellaneous

- **Termination – May alternative suppliers terminate service to customers for non-payment where it is acting as the POLR?**

PPL Electric believes that only EDCs should provide POLR service. Accordingly, non-payment issues regarding POLR service would be addressed in accordance with existing Commission regulations including Chapter 56.

- **Information Disclosure – What changes to Commission regulations are needed?**

PPL Electric does not believe that the development of POLR regulations that assign all POLR obligations to the EDC will require any changes to the Commission’s Customer Information Disclosure rules.

- **Universal Service / Customer Assistance – How is this incorporated?**

PPL Electric believes that, with EDCs serving as the POLRs, existing rules and practices regarding universal service and customer assistance can be retained.

V. Full Recovery of Reasonable Costs: A POLR shall recover fully all reasonable costs for its POLR related service. 66Pa.C.S. Section 2807(e)(3)

- **POLR Cost Categories: Categories for consideration include energy, capacity, congestion, transmission, balancing, scheduling, administrative, bad debt, ancillary, POLR assignment process costs. Others?**

All of the costs set forth above are associated with providing POLR service and should be fully recovered by the POLR.

- **Cost Category Definitions**

Definitions of the various cost categories should reflect industry practice and regulation requirements. The Commission should not develop special or unique definitions of these terms for the purpose of POLR cost recovery.

- **Standards and mechanisms for evaluating cost recovery.**

All costs found to be reasonable and prudent should be recovered on a full and current basis by the POLR.

- **Universal Service and Energy Conservation costs: If these are part of POLR obligation, does the statutory language of Sections 2804(4) and 2804(9), regarding the mechanisms for recovering such costs, present any problems / issues?**

Universal Service and Energy Conservation are valid costs of POLR service. These programs benefit many customers seeking assistance to pay their electric bills or conserve energy. The POLRs provide Universal Service and Energy Conservation programs by obligation rather than choice and should be compensated for these costs. The appropriate cost recovery mechanism would be to include these as components of the Distribution charge paid by all customers in the franchise territory.

- **How can the Commission prevent the POLR rate from disrupting the competitive retail market?**

The POLR rates need to be priced so that the competitive retail market can exist. If the POLR rates are set at or below market prices, then EGSs will not be able to beat the POLR price. To encourage customers to shop in the competitive retail market, the POLR rates need to be high enough to attract competitive EGSs to the market. If the costs to provide POLR service, as defined above, change, then the POLR rates need to be adjusted to reflect the new costs.

VI. Adjustment and Reconciliation of POLR Rates

- ### **A. POLR Rate Adjustment – Please address whether a POLR provider can request adjustment in its rates, and if so, the following issues.**

The POLR should be permitted to establish an automatic adjustment clause under Section 1307 of the Code, 66 Pa. C.S. Section 1307, to enable it to recover its costs of obtaining POLR supply. The clause should be recomputed and reconciled on an annual basis and adjusted on an interim basis if the charge in effect would result in a material over-collection of POLR supply costs. All POLR customers would pay this charge. However, if a shopping customer returned to POLR service and then left POLR service after less than twelve months, that customer would be required to pay the Generation Rate Adjustment (“GRA”) charges. Those GRA charges would be based upon the LMP in PJM. All changes in the POLR supply adjustment clause described above would be subject to review and approval by the Commission.

- **Grounds for Adjustment**
See above.
- **Frequency of Requests**
See above.

- **Procedure for requests and standards of Commission review.**

See above.

B. Reconciliation of POLR rates – Please address whether the POLR rate should be reconciled at the conclusion of the term of a POLR service plan, and if so, the following issues:

- **Grounds for Reconciliation – Is it automatic or triggered at certain levels?**

POLR rates should be reconciled on an annual basis.

- **Reconciliation Process and Outcome – Should there be limits on transfers resulting from over or under-collections?**

There should not be limits because those limits could result in an over-collection or under-collection of POLR supply costs.

VII. Default of POLR Service Provider

The questions in this section can be read as addressing the default of the POLR provider or the default of the entity providing POLR supply (energy, capacity, etc.). In the case where the entity providing the POLR supply defaults, then the terms and conditions in the supply agreement should protect the POLR provider and the POLR customers. The Commission, in approving the supply agreements, should ensure sufficient protections to the POLR provider and customers. The answers to the following issues will be based on the default of the POLR provider.

- **Default Risk: What is the risk for potential default by alternative suppliers and EDCs?**

If, as PPL Electric recommends, the incumbent EDC is identified as the POLR, risk of default by the POLR should be extremely low. However, there is a risk that one or more of the entities providing supply to the POLR may default. Several of the issues raised by this possibility are discussed below.

- **Preventing Default: What extra steps, if any should be taken to avoid this, especially where alternative provider is the POLR?**

Two steps should be taken to avoid, or reduce the possibility of, default by an entity providing supply to the POLR. First, the supplier should be required to comply with all applicable requirements of PJM (e.g., creditworthiness, bonding). Second, if the state runs an auction to obtain supply to meet POLR load requirements, it should promulgate any additional requirements it deems necessary. Third, all of these requirements should be strictly enforced.

- **Reacting to Default: What process should be followed in the event of default to ensure continued provision of service? Who is the replacement provider and what costs should be recovered?**

If an entity providing supply to the POLR defaults, the POLR should be explicitly authorized to obtain replacement supply from other sources, including the spot market. The POLR should be permitted to recover from its POLR customers all of the costs it incurs to obtain this replacement supply.

VIII. Implementing POLR Rules / Transition Issues

- **Timing and Phase-in: Given the staggered schedule for the expiration of generation rate caps, should the Commission issue POLR regulations, issue interim guidelines that would be effective until the conclusion of every transition period, or address POLR plans on an EDC by EDC basis?**

The Commission should issue POLR regulations addressing fundamental POLR issues in the near future. This approach will help to alleviate concerns in the financial community and elsewhere regarding the uncertainties of future POLR obligations. Those regulations can be implemented on an EDC-by-EDC basis as their respective transition periods end.

- **Market Power: What are the potentials for market power concentration as well as market abuse and should they be addressed by the Commission in the implementation of POLR service?**

Conducting an open auction for POLR supply should be sufficient to alleviate market power concerns.

- **Consumer Education: What efforts should the Commission or others undertake in regards to POLR prior to implementation of regulations?**

It is essential that the consumers be fully informed and educated on how POLR rates may change at the end of the transition period. It is important that such an education effort occur close to the time that customers will experience such changes.

Using customer education at the time of electric utility, restructuring as a model, this education effort could be coordinated by the Commission on a state-wide basis, with supplemental programs offered by each EDC.

- **Existing / Pending POLR Plans: How should the Commission address POLR plans that may be in operation at the time regulations go into effect?**

Existing plans should be addressed on an EDC-by-EDC basis. The Commission should review these plans in a way that does not create new stranded costs.

- **Other Commission Action: To what extent do existing tariffs, orders, regulations need to be changed, withdrawn, etc. as a part of any POLR rulemaking.**

PPL Electric is not currently aware of existing orders or regulations that must be revised if the EDCs continue in the role of POLR. EDC tariffs must be revised to reflect the new generation rates that will be in effect after the generation rate caps expire.