

Provider of Last Resort (“POLR”) Roundtable
Docket No. M-00041792
Reply Comments of
PPL Electric Utilities Corporation

A. 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. On April 14, 2004, PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) provided to the Commission both written responses to each issue on the Commission’s issues list and written testimony that was ultimately presented at the April 21, 2004 session of the Roundtable. At this time, and in accordance with the Commission’s schedule, PPL Electric respectfully submits reply comments in this matter.

At the outset, the Company reiterates its appreciation for the opportunity to participate in the POLR Roundtable and for the opportunity to file reply comments. Company personnel attended each of the Roundtable sessions and the Company commends the Commission for the scope and breadth of this effort. PPL Electric continues to believe that resolution of issues related to POLR service in Pennsylvania, especially after the transition period ends, is critical to maintaining high quality electric utility service to customers throughout the Commonwealth.

In its initial comments, the Company identified three principle issues regarding POLR service that must be addressed and offered recommendations regarding each of the issues. The reply comments that follow are organized in the same manner.

B. Reply Comments

1. What entity should provide POLR service?

In its initial comments, PPL Electric recommended that only incumbent Electric Distribution Companies (“EDCs”) provide POLR service. The Company was pleased to learn that this also was the view of most commentors. The few parties that indicated that an entity other than the EDC could provide POLR service did not, in the Company’s view, demonstrate any benefits that would result from having a non-EDC POLR provider. The Company reiterates that having an entity other than the incumbent EDC provide POLR service will result in significant customer confusion and disruption, as well as increased costs to the EDC.

2. How should the POLR obtain supply?

In its initial comments, PPL Electric recommended that the POLR obtain supply through a statewide reverse auction process. The Company also recommended that auctions be conducted annually and that they include tranches of supply covering different lengths of time (for example, one year, two years, three years, etc.) and that the tranches overlap each other. The Company also recommended that a significant portion of supply should be for long terms in order to create reasonably assured revenue streams that would facilitate the construction of new generating plants and, thereby, contribute to long-term reliability. Long-term supply could be for ten years or more. PPL Electric continues to believe that this approach of staggered starts, a portfolio of terms, and the inclusion of long-term supply will result in pricing that is relatively stable, yet reflective of the market.

The Company notes that while many commentors recommended auctions and overlapping tranches of varying lengths, very few recommended tranches that PPL Electric would consider long-term (ten years or more). PPL Electric continues to believe that long-term supply arrangements can provide

reliability and economic benefits to the wholesale market that ultimately will benefit retail end-use customers and, therefore, should be part of the POLR supply portfolio. However, after reviewing the comments of a number of other parties, PPL Electric now believes that auctions may not be the best way to obtain long-term supply. Individual tranches may be too small to create revenue streams adequate to support investment in new generation. Associated long-term risks, for both the supplier and the POLR, may be better addressed through contracts instead of through a bid price. Accordingly, PPL Electric now believes that, while auctions may be appropriate for shorter term supply tranches, the Commission should permit EDCs arranging POLR supply the flexibility to pursue a variety of means, including bilateral contracts, to obtain long-term POLR supply. Consistent with having this flexibility, PPL Electric believes that it would be appropriate for the EDC serving as POLR to submit a transition plan describing its proposed procurement plan and the rate structures to be offered.

3. How should POLR service be priced to customers?

PPL Electric agrees that a POLR shall recover fully all reasonable costs for its POLR related service (66 Pa. C.S. Section 2807(e)(3)). The reasonable costs should include energy, capacity, congestion, transmission, balancing, scheduling, administrative, bad debt, ancillary, and any future costs that may be deemed appropriate to provide POLR service.

In its initial comments, PPL Electric recommended that POLR rates include an automatic adjustment clause which would be reconciled on an annual basis. With such a clause in place, PPL Electric believes that it is possible to offer smaller customers a limited number of alternative POLR rate structures that will bring market pricing to customers in terms that best suit their needs. These alternative structures could include fixed price and term, seasonal, and time-of-use structures. PPL Electric does not intend for these rates to compete with those of EGSs, but, rather, to be rates that set the price to compare for several different types of service. PPL Electric believes that such an approach is an important part of educating small electricity

consumers about usage and pricing issues in the post-rate cap world. PPL Electric agrees with the commentators who state that larger, more sophisticated customers should be better able to deal with the volatility of electricity markets.

C. Conclusion

PPL Electric respectfully recommends that the Commission develop POLR regulations consistent with the Company's initial comments and reply comments. The Company further recommends that the Commission issue those draft regulations as a Notice of Proposed Rulemaking and provide all stakeholders an opportunity to comment.