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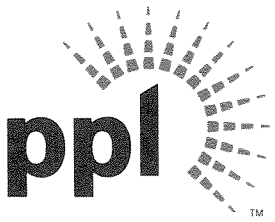

FEDERAL EXPRESS

March 23, 2007

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, Pennsylvania 17120

Re: Rulemaking Re EDCs' Obligation to Serve
Docket No. L-00040169
Default Service and Retail Electric Markets
Docket No. M-00072009

Dear Mr. McNulty:

Enclosed for filing are an original and fifteen (15) copies of PPL Electric Utilities Corporation's ("PPL Electric") reply comments in the above-captioned proceedings. Copies of the enclosed reply comments have been submitted via electronic mail to Shane M. Rooney.

Pursuant to 52 Pa. Code § 1.11, the enclosed document is to be deemed filed on March 23, 2007, which is the date it was deposited with an overnight express delivery service as shown on the delivery receipt attached to the mailing envelope.

In addition, please date and time-stamp the enclosed extra copy of this letter and return it to me in the envelope provided.

If you have any questions regarding the enclosed comments, please call.

Very truly yours,

Paul E. Russell

Enclosures

cc: Shane M. Rooney, Esquire

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Rulemaking Re Electric Distribution Companies' Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2)	:	Docket No. L-00040169
Default Service and Retail Electric Markets	:	Docket No. L-00070183

Reply
Comments of
PPL Electric Utilities Corporation
to Final Rulemaking Order and
Policy Statement

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

1. Introduction

In February 2007, the Pennsylvania Public Utility Commission (PUC or the Commission) entered two orders addressing Provider of Last Resort (POLR) issues in Pennsylvania: (1) Rulemaking Re Electric Distribution Companies' Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant To 66 Pa. C.S. § 2807(e)(2); Docket No. L-00040169; Advance Notice of Final Rulemaking Order entered February 9, 2007 (Rulemaking); and (2) Default Service and Retail Electric Markets; Docket No. M-00072009; Proposed Policy Statement entered February 9, 2007 (Policy Statement).

Comments to the Rulemaking and the Policy Statement were filed by a number of parties on March 2, 2007. Reply comments are due on March 23, 2007.

In this filing, PPL Electric provides its reply comments to the Rulemaking and Policy Statement. As indicated in PPL Electric's initial comments, the Company agrees with a majority of the Commission's proposals in this proceeding. Other parties, however, have filed comments disagreeing with portions of the Rulemaking and/or Policy Statement. In these Reply Comments, PPL Electric responds to the major arguments raised by these other parties. To facilitate review by the Commission and other stakeholders, the following reply comments, which address both the Rulemaking and the Policy Statement, track the organization of the Commission's Rulemaking.

2. Reply Comments

§ 54.181. Purpose.

PPL Electric does not have any reply comments to this section.

§ 54.183. Default Service Provider

The Commission's recommendation that the incumbent Electric Distribution Company (EDC) should be designated as the Default Service Provider (DSP) prompted comments from the Office of Consumer Advocate (OCA), the National Energy Marketers Association (NEMA), Direct Energy and Strategic Energy.

The OCA agrees with the Commission that the incumbent EDC should be the DSP (pages 33-35) because, as a practical matter, the EDC always will be required to step in if other entities default and the EDC will continue to have the

obligation to connect all customers and deliver supply through its facilities. However, if an alternative DSP, other than the EDC, becomes the DSP, the OCA recommends the Commission add language requiring the alternative DSP to apply for a certificate of public convenience. PPL Electric strongly supports the Commission's approach and the OCA's comments regarding this important issue.

Comments from NEMA (pages 6-7) recommend that ultimately default service should be rendered by a competitive supplier. NEMA suggests the Commission consider other factors, such as consumer migration levels, the number of competitive suppliers doing business in the service territory, and the varieties of competitive offerings available in the marketplace to determine whether the DSP should be provided by a competitive supplier. Direct Energy also recommends that the DSP should ultimately be provided by a competitive supplier (pages 15-16). Direct Energy suggests that an EGS can serve as the DSP under any other conditions that are deemed reasonable and approved by the Commission.

Strategic Energy expands on the comments from NEMA and Direct Energy to suggest that more than one competitive supplier should be allowed to serve as the DSP (pages 10-11). Strategic Energy submits that a competitive supplier should be allowed to petition the Commission to assume only a portion of the EGS's default service obligation, such as the commercial and industrial customers.

PPL Electric disagrees with these recommendations from NEMA, Direct Energy and Strategic Energy. The Customer Choice Act provides that the DSP will be either the EDC or Commission-approved alternative supplier. The Commission should not approve an alternative default service provider unless the incumbent EDC

is unable to fulfill that obligation. For the reasons set forth below, PPL believes this obligation should remain with the incumbent EDC.

First, this approach would minimize customer confusion and disruption. The incumbent EDC was the customers' utility before restructuring and has been the customers' DSP throughout the Transition Period. Customers know the identity of the DSP and are comfortable dealing with it. Under the Customer Choice Act, customers can choose to purchase supply from an EGS rather than the default service provider at any time. However, customers who have elected to remain with their incumbent EDC for default service should continue with the incumbent EDC.

Second, as a practical matter, the incumbent EDC will remain the "last resort" default service provider. If another entity is identified as the DSP and that entity fails to meet its responsibilities, the incumbent EDC will be required to step into the role of DSP to protect the affected customers. In fact, this series of events already has occurred in the context of Competitive Discount Supplier (CDS) service in the PECO Energy service territory. Given this reality, it makes sense to retain the incumbent EDC as the DSP and approve an alternative supplier only if the EDC cannot meet its obligations as DSP.

Third, the administrative burdens associated with approving another entity as the DSP are substantial. First, the Commission would be required to evaluate proposals from entities seeking to provide default service in an EDC service territory. Second, the issue of requiring the alternative DSP to apply for a certificate of public convenience has been addressed by the OCA with a recommendation that an alternative DSP be required to obtain a certificate of public convenience. Third, it

is not clear what happens if the alternative DSP fails to provide default service in an EDC service territory. Retaining the incumbent EDC as the DSP eliminates all of these issues and ensures that the regulated entity with decades of experience in this area will provide default service to all of the customers in its service area.

Fourth, approving an alternative supplier as the DSP risks "stranding" the EDC's investment and personnel in the metering, billing and customer care functions. If the alternative DSP 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" default service provider, 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 default service provider avoids this problem.

§ 54.184. Default Service Provider Obligations.

PPL Electric does not have any reply comments to this section.

§ 54.185. Default Service Programs and Periods of Service.

Section 54.185(b) of the proposed regulations requires the DSP to file a default service program no later than fifteen months prior to the conclusion of the currently effective default service plan or Commission approved generation rate cap for that particular EDC service territory. The OSBA recommends that the Commission include language which makes clear when the regulations for default service programs will take effect and how, if at all, they will apply to pending cases (pages 3-4). The OSBA's preference is that the regulations apply for the first time to

default service programs for the period beginning January 1, 2011, at which time each EDC's rate cap will have expired no later than December 31, 2010. PPL Electric prefers to have the regulations become effective as soon as practical with minimal impact on pending cases. For instance, in PPL Electric's Competitive Bridge Plan (CBP), filed at Docket No. P-00062227, the Company requested a ruling that, if the Commission's regulations become effective before January 1, 2011, PPL Electric will be granted a waiver of those regulations to the extent necessary to honor any agreements previously entered into under the CBP.

§ 54.186. Default Service Procurement and Implementation Plans.

In this section the Commission is proposing that a DSP's procurement plan must also meet the default service obligation at the "lowest reasonable long-term costs". This proposed requirement prompted comments from the OSBA and the OCA.

The OSBA believes the reference to "long-term costs" is intended to recognize that long-term contracts may be part of the default service portfolio (pages 4-5). However, if the long-term contracts are acquired through a competitive procurement process then, by definition, they will meet the "prevailing market price" standard. Therefore, the OSBA believes the "long-term cost" standard is unnecessary and recommends either deleting the "lowest reasonable long-term cost" requirement or adding language to clarify the circumstances under which the "long-term cost" is relevant to the approval or disapproval of a default service plan. PPL Electric agrees with the OSBA's first proposal and, in its initial comments, the

Company recommended the Commission delete the "lowest reasonable long-term cost" standard from the proposed regulations.

Conversely, the OCA supports the proposed regulation that the DSP's portfolio of resources meet the default service obligation at the "lowest reasonable long-term costs" (pages 4, 9-10). The OCA believes a DSP will need to plan its portfolio of supply on a long-term basis, and on an on-going basis to meet the standard of providing long-term reasonable cost of supply, which is inconsistent with the proposed regulation that limits a default service plant to two or three years. Consequently, the OCA recommends that the term of a default service plan should be three to five years to better allow the DSP to satisfy the "lowest reasonable long-term cost" standard.

As discussed above and in the Company's initial comments, PPL Electric recommends the Commission eliminate the proposed "lowest reasonable long-term cost" standard for the following four reasons. First, the Commission has not included a definition of this "lowest reasonable long-term costs" requirement or criteria to determine if it has been met. Second, evaluation of whether this criterion has been satisfied almost certainly will require an after-the-fact review of the procurement plan. PPL Electric believes such a review would not be appropriate. As indicated in the Company's initial comments, the Commission should approve each DSP's default service program with no possibility of an after-the-fact review of that program. Third, this requirement improperly adds a criterion for evaluating default service prices not found in the Competition Act. Fourth, and finally, this requirement adds another consideration to the goals of the procurement plan set forth in

§ 69.1805 of the Policy Statement, i.e., (1) development of a competitive retail supply market, and (2) a prudent mix of arrangements to minimize the risk of over-reliance on any particular source. It will be extremely difficult, if not impossible, for a DSP to weigh all of these different goals and requirements in developing its procurement plan.

Section 54.186(b) of the proposed regulations identifies the standards to which a DSP's procurement plan must adhere. A change from prior draft regulations is language associated with the procurement of generation supply, which now states that generation supply should be acquired either through competitive bid solicitation process, spot market energy purchases, or a combination of both.

The OCA recommends the procurement process should allow a DSP to enter into bilateral contracts for supply with non-affiliates without having to engage in an RFP or auction process (pages 11-12). Bilateral contracts may be necessary for alternative energy resources, reliability resources, or for small EDC's with limited load obligations. The OCA believes bilateral contracts are an integral part of the competitive wholesale markets and are not inherently anti-competitive.

The Industrial Energy Consumers of Pennsylvania (IECPA) also recommend allowing the use of bilateral contracts, specifically with affiliates (page 18). IECPA believes affiliate bilateral contracts should be an option for the DSP since the Commission and FERC have processes to review affiliate transactions, providing the necessary safeguards for the default service customers.

PPL Electric is not opposed to the use of bilateral contracts, with affiliates or non-affiliates. The Company believes that a significant portion of supply

will be provided under bilateral contracts. However, to meet the "prevailing market price" test, those contracts must be the result of a fair and transparent competitive process. As indicated in its initial comments, the Company believes that a statewide descending clock auction is the preferred competitive bid process for bilateral contracts or any other supply contracts and will result in the most competitive bids at the "prevailing market price."

The Commission's addition of spot market energy purchases to the procurement plan prompted comments from the OCA, Constellation NewEnergy Inc and Constellation Energy Commodities Group, Inc. (Constellation), and Hess Corporation (Hess).

The OCA believes spot market energy purchases should be part of the portfolio procured by the DSP, however, the portion of the portfolio that is tied to the spot market should be a relatively modest amount (page 25). If the spot market energy purchases are relatively modest, the OCA believes any quarterly adjustment to the PTC will also be modest.

Constellation believes spot market purchases by the DSP are an inefficient way to achieve default service for customers (pages 12-14). If the DSP is required to make spot market energy purchases, Constellation believes the DSP will be required to retain experts to not only manage the spot market energy purchases, but also manage the ancillary services, capacity, and renewable markets. As a result, Constellation is recommending the Commission reconsider the requirement of spot market energy purchases in the DSP's supply portfolio, or in the alternative,

specifically limit the amount of default service load that may be acquired through spot market purchases.

Hess provided still another opinion on the use of spot market energy purchases in the DSP's portfolio (pages 5-6). Hess recommends that the regulations should require a gradual shift of the portfolio blend to spot market prices over a three-year timeframe for the customer group whose maximum peak demand is between 25 kW and 500 kW (Hess recommends lowering the upper threshold to 300 kW). Hess believes this approach will transition the customer group off the long-term generation rate caps and promote customer education through the gradual exposure to an orderly acclimation to more market-reflective price signals.

As stated in the Company's initial comments, PPL Electric believes spot market purchases will have a role in most procurement plans and the Commission should not eliminate this requirement. However, the Company has some concerns with spot market energy purchases, including the risks inherent in that market. The DSP will need to manage those risks by either establishing a trading operation or obtaining this service from the competitive markets. The Company is also concerned that spot market purchases can create potentially large energy rate adjustments for default service customers. The Commission should be aware of these concerns when reviewing default service plans and may want to consider strictly limiting a DSP's reliance on spot market purchases.

§ 54.187. Default Service Rate Design and the Recovery of Reasonable Costs.

Paragraph (a) of this section states that the default service rate schedule "shall be designed to recover fully all reasonable costs incurred by the DSP."

The OSBA believes reconciliation of all reasonable default service costs should be required otherwise it will result in either an over-collection or under-collection by the DSP (page 11). If there is an over-collection, the DSP will be enriched at the expense of the default service customers. An under-collection of default service costs will result in the default service rate being below the market price and will undercut the ability of EGSs to compete. With reconciliation, default service customers will be assured that they are paying no more than the cost of competitively bid contracts and spot market purchases.

The OCA is not opposed to reconciliation, but would prefer annual adjustments to the PTC instead of quarterly adjustments, thereby providing some rate stability to default service customers (pages 66-67). If quarterly adjustments are used, the OCA recommends reconciliation should be conducted over a rolling 12-month period.

Constellation Energy recommends the Commission affirm and clarify that the interim price adjustments to the PTC will be made only for reconciliation purposes, meaning to account for new supply mix blended into a DSP's default service load and in order to reconcile default service costs and revenues (page 10). Any changes in published or estimated market prices for energy should not be included in the reconciliation.

Direct Energy (pages 13-14), Hess (pages 9-10), NEMA (page 4), RESA (pages 10-11), and Strategic Energy (pages 8-9) recommend the Commission reconsider allowing the DSP to reconcile the costs of providing default service.

For the reasons set forth in its initial comments, PPL Electric agrees with the OCA and OSBA on this issue and disagrees with the marketers. PPL Electric believes that the Commission's proposed approach is required in Section 2807(e)(3) of the Competition Act, which specifically mandates that the DSP shall recover fully all reasonable costs. The only way to ensure full cost recovery as required by the Competition Act and the Commission's statement cited above is the use of an automatic adjustment clause with a reconciliation mechanism. Accordingly, PPL Electric supports the Commission's statements in paragraphs (e) and (f) of this section that a DSP may recover its costs through an automatic energy adjustment clause. However, the Company believes that such a clause also must include a reconciliation mechanism.

§ 54.188. Commission Review of Default Service Programs and Rates.

PPL Electric does not have any reply comments to this section.

§ 54.189. Default Service Customers.

PPL Electric does not have any reply comments to this section.

3. Conclusion

As stated above, PPL Electric agrees with the majority of the Commission's proposals in this proceeding. However, as discussed in its initial comments and the foregoing reply comments, the Company believes that several modifications and clarifications would be appropriate. Accordingly, PPL Electric respectfully requests that the Commission modify its proposed regulations consistent with the Company's initial comments and reply comments.

Respectfully submitted,

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Two North Ninth Street
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(610) 774-4254

Dated: March 23, 2007
at Allentown, Pennsylvania