POST & SCHELL PC
ATTORNEYS AT LAW

17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Main Fax
www.postschell.com

Michael W. Hassell

mhassell@postschell.com
717-612-6029 Direct
717-731-1985 Direct Fax
File #: 157102

January 9, 2017

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: PPL Electric Utilities Corporation Time-of-Use Program
Docket Nos. M-2016-2578051, P-2016-2526627 & P-2013-2389572
Comments of PPL Electric Utilities Corporation

Dear Secretary Chiavetta:

Enclosed please find the Comments of PPL Electric Utilities Corporation to the Development of a Time-of-Use Plan. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

Michael W. Hassell

MWH/skr
Enclosure

cc: James A. Mullins (*via e-mail*)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA E-MAIL AND FIRST CLASS MAIL

David T. Evrard
Aron J. Beatty
Christy M. Appleby
Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101-1923

Gina L. Miller
Bureau of Investigation & Enforcement
400 North Street, 2nd Floor West
P.O. Box 3265
Harrisburg, PA 17105-3265

Steven C. Gray
Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Mark S. Stewart
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101

Todd S. Stewart
William E. Lehman
Hawke McKeon & Sniscak LLP
100 N. 10th Street
Harrisburg, PA 17101

Pamela Polacek
Adeolu A. Bakare
Alessandra L. Hylander
McNees, Wallace & Nurick
P.O. Box 1166
100 Pine Street
Harrisburg, PA 17108-1166

Kenneth L. Mickens
The Sustainable Energy Fund of Central Eastern Pennsylvania
316 Yorkshire Drive
Harrisburg, PA 17111

Patrick M. Cicero
Elizabeth R. Marx
Joline Price
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101

Charles E. Thomas III
Thomas, Niesen & Thomas, LLC
212 Locust Street, Suite 600
Harrisburg, PA 17101

H. Rachel Smith
Asst. General Counsel
Exelon Business Services Corp.
100 Constellation Way, Suite 500C
Baltimore, MD 21202

Daniel Cleafield
Deanne M. O'Dell
Sarah C. Stoner
Eckert Seamans Cherin & Mellott, LLC
213 Market St., 8th Floor
Harrisburg, PA 17101

Thomas J. Sniscak
Judith D. Cassel
Hawke McKeon & Sniscak LLP
100 N. 10th Street
Harrisburg, PA 17101

Scott T. Wyland
Isaac P. Wakefield
Salzmann Hughes, P.C.
354 Alexander Spring Road, Suite 1
Carlisle, PA 17015

Amy M. Klodowski
FirstEnergy Solutions Corp.
800 Cabin Hill Drive
Greensburg, PA 15601

David P. Zambito Esquire
Cozen O'Connor
17 North Second Street, Suite 1410
Harrisburg, PA 17101

Date: January 9, 2017

Michael W. Hassell

Michael W. Hassell

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation for Approval of a New Pilot Time-of-Use Program	:	Docket No. P-2013-2389572
Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan for the Period June 1, 2017 through May 31, 2021	:	Docket No. P-2016-2526627 Docket No. M-2016-2578051

COMMENTS OF PPL ELECTRIC UTILITIES CORPORATION TO THE DEVELOPMENT OF A TIME-OF-USE PLAN

Kimberly A. Klock (Pa. Bar I.D. 89716)
PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101
Phone: 610-774-5696
Fax: 610-774-6726
E-mail: kklock@pplweb.com

David B. MacGregor (Pa. Bar I.D. 28804)
Michael W. Hassell (Pa. Bar I.D. 34851)
Christopher T. Wright (Pa. Bar I.D. 203412)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: dmacgregor@postschell.com
E-mail: cwright@postschell.com

Dated: January 9, 2017

Counsel for PPL Electric Utilities Corporation

I. INTRODUCTION

By Secretarial Letter dated December 2, 2016, the Pennsylvania Public Utility Commission ("Commission") requested comments addressing the nature, scope, and issues associated with the development of a Time-of-Use ("TOU") program. In the Secretarial Letter, the Commission invited interested parties to provide comments on a proposed draft TOU design. The Commission also invited interested parties to provide comments on alternative TOU designs. The stated goal is the development of a TOU program that is consistent with Act 129 and the Pennsylvania Commonwealth Court's Order in *The Dauphin County Industrial Development Authority v. Pa. PUC*, 123 A.3d 1124 (Pa. Cmwlth. 2015) ("*DCIDA Order*"). Comments are to be submitted by January 9, 2017. PPL Electric Utilities Corporation ("PPL Electric") herein submits these Comments for the Commission's consideration.

Both the Commission and PPL Electric have spent significant time and effort in trying to develop and implement a lawful and successful TOU program. PPL Electric applauds the Commission's continued efforts to provide greater guidance and clarity on the implementation of a lawful and successful TOU program. PPL Electric appreciates that the Commission has initiated a statewide proceeding to solicit comments and input on the development of a TOU program. PPL Electric believes that its history and experience with trying to develop a TOU program that is successful and complies with the requirements of Act 129 will provide the Commission with a valuable perspective on the design of a TOU program.

PPL Electric offers the following comments for the Commission's consideration to provide further guidance and clarity. As explained below, PPL Electric is concerned that the Commission's draft TOU design may run afoul of the *DCIDA Order* which appears to direct that only Default Service Providers ("DSP") may provide a TOU service under Act 129. PPL Electric also is concerned that no entities will participate in the TOU auction due to the risk of substantial swings in customer interest in a TOU product, depending upon the relative price differentials between an annual TOU price structure that is not linked to the utility's Price-to-Compare ("PTC"). As a result, PPL Electric believes the contingency mechanism likely will become the TOU Program. Therefore, particular detail must be placed upon the terms of the contingency TOU, and its effects upon other default service customers.

II. BACKGROUND

Section 2807(f)(5) of the Public Utility Code requires, among other things, that default service providers must offer to sell power at TOU rates to all customers that have been provided with smart meter technology. 66 Pa.C.S. § 2807(f)(5). TOU rate are an alternative to receiving a fixed-price rate for default service. TOU rates are lower during "off-peak" hours, such as nighttime, early morning and weekends, and higher during "on-peak" hours when electric demand is greatest. *Id.* The underlying objective of the TOU rates is to encourage customers to shift their electric usage from on-peak periods when wholesale demand and prices are high to off-peak periods when wholesale demand and prices are lower. Shifting electric usage to off peak periods not only reduces costs paid by the TOU customers, it can reduce the costs paid by all customers by reducing the overall wholesale price of electricity.

PPL Electric has made numerous filings with the Commission in an effort to implement a lawful and successful TOU program. However, despite various design modifications, all of these prior TOU filings either were rejected by the Commission or proved unworkable. Among the serious problems encountered were: a significant under-collection due to unexpected increases in spot market prices, significant customer enrollment when both on-peak and off-peak prices were below the fixed-price default service rate, rapid and massive customer exits from the TOU program when on-peak and off-peak rates were above the fixed-price default service rate, and net metering concerns that have resulted in charges to regular default service customers to pay for excess generation from customer-generators.

Given the lack of success of PPL Electric's prior TOU programs, the Commission directed in 2011 that the TOU rates should be "frozen" until a successor program was approved.[1] On January 24, 2013, the Commission entered an order encouraging PPL Electric to implement a competitive retail bid process in order to use electric generation suppliers ("EGSs") to meet the TOU rate requirement.[2]

On August 23, 2013, PPL Electric filed a petition requesting Commission approval of a new TOU pilot program to replace the "frozen" TOU rates. Consistent with the Commission's Jan. 24, 2013 Order, PPL Electric proposed to utilize EGSs under the TOU pilot program to fulfill its obligation to offer a TOU rate option to its default service customers as set forth in Section 2807(f)(5) of the Public Utility Code. On September 11, 2014, the Commission entered an Opinion and Order approving PPL Electric's proposed TOU pilot.[3] Subsequently, as part of the Company's Default Service Proceeding III ("DSP") for the 2015-2017 period, the

[1] The TOU rates were "frozen" in September 1, 2011, pursuant to Commission Order entered August 25, 2011 at Docket No. R-2011-2264771, and subsequent orders entered August 30, 2012 at Docket No. R-2011-2269771 and entered May 23, 2013 at Docket No. P-2012-2302074. The "frozen" TOU rates (on- and off-peak) were substantially higher than the price-to-compare ("PTC") for each applicable rate class. On May 1, 2012, PPL Electric submitted a new TOU proposal as part of its DSP II Program to replace the "frozen" TOU rates. The Commission rejected this TOU proposal and ordered the Company to submit a new TOU rate proposal. *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 Nos. P-2012-2302074, et al. (order entered May 23, 2013).

[2] *Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan*, Docket No. P-2012-2302074, Slip Op. at 116, 194 (Order entered January 24, 2013).

[3] *Petition of PPL Electric Utilities Corporation for Approval of a New Pilot Time-of-Use Program A case stemming from: Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program for the Period June 1, 2013 through May 31, 2015*, P-2013-2389572, 2014 Pa. PUC LEXIS 690; 316 P.U.R.4th 167 (Pa. PUC Sept. 11, 2014).

Commission approved the continuation of the TOU pilot without modification. A detailed history of PPL Electric's TOU program is provided in the Commission's September 11, 2014 Opinion and Order.

Under the terms of the prior TOU program, PPL Electric relies on EGSs to provide energy to customers at TOU rates. However, in the *DCIDA Order*, the Commonwealth Court rejected PPL Electric's TOU program, holding that the plain language of Section 2807(f)(5) of the Public Utility Code, 66 Pa.C.S. § 2807(f)(5), requires the default service provider to offer TOU rates to customers, and that the default service provider cannot satisfy this obligation by transferring it to EGSs. The Commonwealth Court therefore reversed and remanded PPL Electric's TOU program to the Commission for further proceedings.

By Secretarial Letter dated December 2, 2016, the Commission initiated a remand proceeding as required by the *DCIDA Order*. Recognizing that the holding in the DCIDA Order is not limited to PPL Electric's TOU program and could also potentially impact current and future TOU programs offered by other default service providers, the Commission initiated a statewide proceeding to solicit comments and input on the development of a successful and lawful TOU design. Specifically, the Commission sought comments on a proposed draft TOU design, as well as comments on alternative TOU designs.

III. COMMENTS

A. LAWFULNESS OF THE COMMISSION'S PROPOSED TOU DESIGN

In the December 2, 2016 Secretarial Letter, the Commission has proposed a draft TOU design. PPL Electric appreciates the Commission's efforts and initiative to develop an initial draft TOU design. However, PPL Electric questions whether the Commission's proposed draft TOU design complies with the holding of the *DCIDA Order*.

In the *DCIDA Order*, the Commonwealth Court determined that the plain language of Section 2807(f)(5) of the Public Utility Code, 66 Pa.C.S. § 2807(f)(5), requires the default service provider to offer TOU rates to customers, and that the default service provider cannot satisfy this obligation by transferring it to EGSs. Thus, according to the Commonwealth Court, default service providers are not permitted to use EGSs to provide TOU rates to customers.

It appears that the Commission's proposed TOU design would rely on EGSs to offer TOU service and rates. While the draft TOU design refers to a contract with a "vendor," the proposal appears to place the responsibility for providing TOU service and rates upon an EGS. Specifically, the Commission's proposal would have an EDC hold annual auctions to contract with a single supply vendor; however, the vendor must be an EGS. Further the selected EGS must contract with the EDC to be the TOU vendor for a one-year period. It appears that under the draft TOU design, the EDC will not be offering TOU rates to customers but, instead, will contract with an EGS to provide TOU rates to customers.[4] This conclusion is further supported by (i) the requirement that the vendor (EGS) must "[a]gree to waive early termination fees in its provision as a TOU vendor," which is an EGS shopping contract issue, and (ii) the requirement that "[a]ny existing Commission-approved limitations on customer shopping shall apply to this TOU product option." If the EDC were contracting with the vendor to provide supply to the EDC to serve the TOU customer, it would not be necessary to limit eligible vendors to EGSs, or to reference any shopping conditions in the vendor qualifications.

Based on the foregoing, it appears that the Commission's proposed TOU design will continue to rely on EGSs to provide TOU service and rates to customers. PPL Electric submits

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[4] Indeed, it appears that, at most, EDCs would only be required to (i) conduct the auction to select an EGS to provide the TOU program, (ii) market the TOU program, and (iii) enroll customers in the EGS provided TOU program.

that, as currently proposed, the draft TOU design may be contrary to the *DCIDA Order*, which held that the default service provider cannot rely on EGSs to provide the TOU program. As a result, PPL Electric does not support the draft TOU design as currently proposed.

PPL Electric believes that this legality issue could be avoided if the vendor were to contract with PPL Electric to provide supply for PPL Electric to serve TOU customers. If the vendor sells energy to PPL Electric at the stated auction prices, and PPL Electric then provides energy to TOU customers at the auction prices, there would be no issue that the default service provider is offering the TOU service. If this change were made, there would be no reason to limit the eligibility to solely EGSs. This would not resolve all of PPL Electric's concerns with the proposed auction and pricing process contained in the Commission's proposal, but this modification would eliminate the fundamental legal issue. Further comments to the Commission's proposal are provided next.

B. COMMENTS ON THE COMMISSION'S PROPOSED TOU DESIGN

As explained above, PPL Electric is concerned that the draft TOU design may be contrary to the *DCIDA Order* and, therefore, should not be adopted. However, in the event the Commission concludes that the draft TOU design is lawful and complies with the *DCIDA Order*, or should be modified to have the vendor comply with the *DCIDA Order* as explained previously, PPL Electric offers the following comments for the Commission's consideration in developing a TOU program and contingency plan.

1. Comments on Proposed TOU Design

a. Annual Auctions

In the draft TOU design, the Commission proposes that an EDC will hold annual auctions to contract with a single supply vendor. The vendor's responsibility will be to supply the electricity commodity within the design framework of the TOU program. Auctions will be ranked based on the lowest off-peak price bid. The lowest off-peak price bidder will win the vendor contract for the ensuing 12-month period beginning June 1st. The on-peak price will be 1.5 times the off-peak price.

PPL Electric has a number of concerns with the proposed process for establishing TOU rates using an annual auction process. First, to establish a single set of on-peak and off-peak TOU prices for a full year is contrary to most TOU pricing models that establish at least two TOU periods – a summer period and a winter period. These two periods recognize the pricing and customer usage differentials generally seen during summer and winter periods between on-peak and off-peak periods.

Establishing TOU prices for an entire year through an auction process also has the potential to recreate a problem that PPL Electric has faced with prior failed TOU programs – a disconnect of TOU prices from the PTC. When TOU on-peak and off-peak prices are set without relation to the PTC, there is a risk that both the on-peak and the off-peak prices will be either above the PTC or below the PTC at the same time. If both the on-peak and off-peak TOU prices are below the PTC, customers would have the incentive to switch to TOU service to save money, without any change to their daily use of electricity. This could result in a large shift of customers to TOU service, which could be beyond the capability of the TOU vendor to predict or provide. For example, under a prior PPL Electric TOU program, the Company experienced swings in TOU prices in comparison to the PTC, when TOU prices were set based upon spot market prices and not in relation to the PTC. This risk could discourage TOU vendor participation in an auction, or could result in a vendor's default.

Conversely, if both the on-peak and off-peak TOU rates are above the PTC, there is no incentive for customers to remain on TOU service, as they would pay more than the PTC regardless of any shift in energy usage. This could result in a large number of customers leaving TOU service or few customers electing TOU service initially. Again, this risk could discourage vendor participation in the TOU auction process.

The table below shows both instances described above, as witnessed by PPL Electric in 2011 when setting a TOU rate disconnected from the PTC in effect. During the January through May 2011 period, the Residential PTC was greater than both the on-peak and off-peak TOU rates put into effect. As such, a customer on the TOU rates would save on their bills regardless of whether they shifted or reduced their on-peak usage. Conversely, for the June through August 2011 period, the PTC was below both the on-peak and off-peak TOU rates put into effect. Customers on the TOU rate during this period would pay more on their bills regardless of how much usage they shifted from peak to off-peak periods.

RESIDENTIAL CUSTOMER GROUP – TOU RATE HISTORY			
Period	Price to Compare In Effect	On-Peak TOU Rate	Off-Peak TOU Rate
January-May 2011	9.270	7.470	6.034
June-August 2011*	8.774	11.651	9.928

**The June-August 2011 TOU rate was frozen per PUC Order.*

A single set of TOU rates in effect for an entire year increases the risk that TOU rates could be both above or both below the PTC. While potential bidders in the TOU auction could take the then-current PTC into account when preparing bids, they would have no way to know how the PTC might subsequently change. PPL Electric's PTC changes semi-annually, and there are other EDCs that have quarterly PTCs. This is a further risk that could discourage vendor participation in the TOU auction.

PPL Electric recommends that any auction process to select a vendor to deliver energy at TOU rates provide that the off-peak price must be below the then-effective PTC, and the on-peak price must be above the PTC. PPL Electric further recommends that if an auction process is to be used to select a vendor, the auction should be held after new PTC prices are announced. Later, PPL Electric provides further comment on the product design.

b. Vendor Eligibility

Under the Commission's proposed TOU design, eligible vendors will need to meet the following criteria:

- Be a Commission licensed Electric Generation Supplier
- Be bill-ready capable
- Provide load-weighted net-metering service as a TOU vendor
- Agree to waive early termination fees in its provision as a TOU vendor
- Contract as the EDC's TOU vendor for the one–year period commencing June 1st and continuing through May 31st

Based upon prior concerns, PPL Electric recommends that the vendor eligibility requirements be revised to include any entity authorized to sell energy to PPL Electric at wholesale rates. This would require the vendor to be qualified to sell energy on PJM Interconnection LLC. However, if the Commission concludes that the vendor is to be an EGS providing TOU as a shopping product, it should also prohibit the EGS from imposing sign-up fees. If a fee were charged to a customer for signing up for TOU service, it would distort the auction process, as there would not be an accurate measurement of the lowest price bidder.

The Commission also proposes that, similar to fixed rate default service auctions with wholesale electric suppliers, EDCs may design additional requirements for potential vendor EGSs to become eligible auction participants, including, but not be limited to, financial integrity and operational qualifications. PPL Electric notes that it currently has a standard form for EGSs to complete to participate in the current TOU program, and would use a similar form if EGSs are to be vendors under the Commission's proposal. A copy of that standard form is attached to these comments as Appendix A.

c. TOU Product Design

Under the Commission's proposed TOU design, the TOU product will entail an on-peak period from 2 p.m. to 6 p.m. year round, except during weekends and holidays where there will be no on-peak hours. The on-peak price will be 1.5 times the off-peak price. The TOU rate option will be available to all default service procurement class customers who are not eligible for the EDC's spot-market only default service portfolio.

The Commission's TOU proposal appears to envision a single TOU product for all eligible customers. PPL Electric is concerned that this approach fails to recognize the differences between residential and small commercial and industrial ("Small C&I") customers.[5] In PPL Electric's experience, residential and Small C&I customers do not exhibit the same on-peak and off-peak load characteristics throughout a year. Attached as Appendix B to these comments is a graph showing the annual load curves of Residential and Small C&I customers. As that graph shows, the Commission's proposed 2-6 p.m. on-peak period is not a good match to the on-peak periods of either Residential or Small C&I customers on PPL Electric's system. Other EDCs may experience different load curves for their residential and non-residential customer classes. Therefore, the selection of a year round on-peak period of 2 p.m. to 6 p.m. may not accurately incentivize customers from both classes to shift load to true off-peak periods.

Further, under PPL Electric's Default Service Program, the two customer classes have different PTCs. Currently, the Residential PTC is 7.439¢/kWh and the Small C&I PTC is 7.197¢/kWh; however, PPL Electric's PTC history has shown larger gaps such as during the

[5] Large commercial and industrial customers, who are defined in PPL Electric's Default Service rates as customers over 100 MW peak load, receive a spot market priced service and are not eligible for TOU service.

June through November 2016 period where the Residential PTC was 7.491¢/kWh and the Small C&I PTC was 6.664¢/kWh. As explained previously, PPL Electric is concerned that if TOU rates do not correlate to the PTC, the risk of customers swinging on and off TOU will discourage bidder participation in the TOU auction. Therefore, PPL Electric recommends that separate TOU pricing be set for Residential and Small C&I classes, with separate on-peak and off-peak periods appropriate to the load curve of each class by individual utility.

PPL Electric is also concerned that there is no basis for the 1.5 times multiplier to derive the on-peak price. If the on-peak/off-peak pricing differential is not reasonably related to market price differentials for the on-peak and off-peak periods, but is instead set by a pre-established multiplier, customer load shifting to save money may not produce equivalent cost reductions for the vendor. As a result, the resulting risk may drive up off-peak bid prices in the auction and may further discourage bidder participation.

The Commission further proposes that any existing Commission-approved limitations on customer shopping shall apply to this TOU product option as shall all consumer protections contained in the Commission's regulations. PPL Electric's current TOU program does not allow Customer Assistance Program ("CAP") customers to participate in the TOU. PPL Electric supports continuation of this restriction.

Under PPL Electric's CAP, the cost of CAP is borne by all non-CAP residential customers. This includes CAP credits, which are the difference between a CAP customer's actual bill and the asked-to-pay amount. A properly designed TOU program seeks to encourage customers to shift load from on-peak to off-peak periods. This is often facilitated with devices to automatically turn on and off electric devices, or with timers on heating and cooling systems to increase or decrease temperatures. Low income customers may not have the means to afford such devices. If a CAP customer fails to adjust their usage, their energy costs may increase compared to fixed rate alternatives, resulting in an increase to CAP credits. This will increase the cost of CAP to non-CAP residential customers. Therefore, PPL Electric would propose to continue the restriction that CAP customers not be eligible for TOU.

The Commission's proposal requires that the primary TOU product design be available to net metering customers. PPL Electric believes that the *DCIDA Order* requires that TOU service be offered to all eligible customers, including net metering customers. The Commission directs that the third party vendor must provide load-weighted net metering service, although it is unclear what the pricing for excess generation sold back to the vendor will be. This is an additional risk that would need to be taken into account by bidders in an auction, and may further discourage bidders. Also, the *DCIDA Order* stated that net metering service is to be provided by the default service provider, and thus it is unclear whether the responsibility can be placed upon an EGS.

As PPL Electric understands the Commission's TOU proposal, the risk of differences between TOU revenues and the cost of energy to serve the TOU customers would be borne by the TOU vendor. If PPL Electric misinterprets the Commission's proposal, and if there is an intent that the EDC bear any difference between TOU revenues and costs, then the Commission must allow reconciliation and recovery of any difference across all customer classes eligible for TOU through the E-factor built into Default Service rates. PPL Electric will further explain the need for reconciliation in these Comments concerning the Commission's proposed contingency mechanism.

d. Marketing and Enrollment

Under the draft TOU design, the EDC will be in charge of the main marketing of the program, which will include targeted mailings and a dedicated website. The vendor may also market the program so long as its marketing complies with all pertinent Commission Orders and Regulations.

The development of targeted mailings and a dedicated website may entail substantial expense and could take considerable time. If the Commission accepts PPL Electric's recommendation that any auction be undertaken after the PTC is published, it will take one or two weeks to print mailings, and depending on the size of the targeted mailings and batch mailings, customer may not receive targeted mailings until just before or potentially after the new TOU rates become effective. The Commission must also provide a mechanism for recovery of these costs. Because it is impossible to predict how many customers might elect a TOU option, PPL Electric recommends that costs be recovered through a mechanism applicable to all eligible customers.

PPL Electric supports appropriate customer communications and promotion concerning TOU. If customers do not adequately appreciate the benefits and risks of TOU pricing, the program will likely fail, either due to unreasonable customer expectations or customer refusal to participate. Furthermore, if the vendor is to be permitted to market the program, its messages will need to be reviewed and approved by the EDC, which is in charge of the main marketing. This is critical to avoid mixed messages and customer confusion.

Finally, the Commission's proposal provides that both the EDC and the supply vendor shall be capable of enrolling a customer in the TOU program. PPL Electric is concerned this will result in confusion in the enrollment process. If the EGS is providing this TOU service, enrollment should be undertaken by the EGS, which is providing a shopping service under the Commission's proposal. In any event, enrollment should be done by a single entity to avoid duplication.

e. Vendor Default

The Commission's TOU proposal also does not address what would occur if the selected EGS vendor defaults. If the contingency plan goes into effect, then TOU rates will change under the Commission's designs, because the primary proposal and the contingency proposal are designed differently. If the EDC assumes responsibility to continue TOU service at the vendor's contract rates, then non-TOU default service customers may bear the cost of TOU rates that are unrelated to the PTC. PPL Electric recommends that the contingency plan should go into effect in the event of EGS default, in which case all customers should be returned to default service until customers affirmatively select the new TOU rates.

2. Comments on Proposed TOU Contingency Plan

In the December 2, 2016 Secretarial Letter, the Commission also proposed a TOU contingency plan in the event the Commission's proposed TOU design fails or is otherwise unsuccessful. Specifically, if the EDC fails to obtain any bids under the proposed TOU design, it shall apply a contingency on-peak/off-peak multiplier application to its Price-to-Compare (PTC) for the ensuing 12-month period beginning June 1st. The multiplier for off-peak periods will be the PTC x 0.82 and the multiplier for the on-peak period will be the PTC x 1.28.[6] Similar to the Commission's draft TOU design, the on-peak period for the proposed TOU contingency will be from 2 p.m. to 6 p.m. year round, except during weekends and holidays where there will be no on-peak hours.

PPL Electric supports linking TOU on-peak and off-peak rates to the prevailing PTC. This design resolves several concerns about the Commission's primary proposal that PPL

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[6] PPL Electric observes that these multipliers reflect a 1.56 times differential between on-peak and off-peak prices, compared to a 1.5 times differential for the Commission's primary proposal. As explained in these comments, PPL Electric does not support the use of these fixed multipliers.

Electric has expressed above. First, by ensuring that on-peak rates are above the PTC and off-peak rates are below the PTC, the design reduces, but at the stated multipliers does not eliminate, the risk that customers will swing on and off the rate to achieve savings, or to avoid increased charges, entirely unrelated to changes in load shape. Second, by linking the TOU rates to customers' PTC, the contingency proposal recognizes that residential and Small C&I customers should have different TOU rates, reflective of their unique load characteristics.

The contingency proposal does not identify how the EDC will procure energy to serve the TOU load. Because the TOU rates are fixed percentages above and below the PTC, the Company assumes that supply would come from wholesale supply contracts procured for the respective customer classes as part of the Company's general default service plan procurement process. However, regardless of the specific supply source, there must be a reconciliation mechanism that is part of the contingency program. Reconciliation of default service costs is mandated under 66 Pa.C.S. § 2807(e)(3.9). The Commission has previously determined for PPL Electric that over/undercollections incurred in providing TOU default service are to be reconciled across the entire respective customer class, and not limited to a separate TOU only reconciliation. *Pa.P.U.C. v. PPL Electric Utilities Corporation*, Docket No. R-2011-2264771, *et al.*, 2012 Pa. PUC LEXIS 1383 (August 30, 2012). It is critical that this approach continue. Customers are free to shift between TOU default service and fixed rate default service. As PPL Electric's past experience has shown, customers can quickly exit TOU service in the face of a large TOU-specific undercollection, leaving few customers to pay the undercollection. Similarly, a large overcollection in a TOU-specific reconciliation could encourage customers to shift to TOU service for artificial reasons. To maintain the same multipliers, it is thus critical that reconciliations be made on a customer class basis, and not be structured as TOU specific.

PPL Electric encourages the Commission to consider whether the .82 and 1.28 times multipliers are appropriate for all EDCs and all customer classes. PPL Electric believes that a properly designed TOU should be approximately revenue neutral at a normal customer load curve. If the multipliers are unbalanced, there is a risk that customers who elect TOU may receive substantial savings without any change to their usage curve. In that event, other non-TOU default service customers would be subsidizing rate savings, without benefit of load shifts from higher cost (on-peak) to lower cost (off-peak) periods.

The concern that fixed .82 and 1.28 multipliers will create artificial savings is demonstrated by application of the proposed multipliers to current PTCs. Using PPL Electric's actual PTCs that were effective for the period January 1, 2016 through December 1, 2016, if an average Residential default service customer were to sign up for the TOU program and not shift or reduce any usage, the customer would save an estimated $11.90 per month. Similarly, a Small C&I customer would save an estimated $10.50 per month with no change to their load curve. Thus, customers would be encouraged to sign up for the rate without any need to alter their usage profile.

Thus, the proposed multipliers will not serve the purpose of encouraging load shifts from TOU, but will encourage customer sign ups to save money by doing nothing. The result will be to shift cost recovery, without reducing costs, from customers who elect the TOU to those who do not elect the TOU.

PPL Electric recommends that any fixed multipliers used to set TOU rates in the contingency plan be designed to be revenue neutral at the average load curve for the class. Only in this manner can the TOU program encourage appropriate load shifting. Moreover, PPL

Electric recommends that the multipliers consider experienced on-peak and off-peak price differentials.

Under the Commission's proposed TOU contingency plan, any net-metered customers enrolled in the contingency TOU rate shall be reimbursed on a load-weighted basis. PPL Electric believes that the load-weighting for end-of-year compensation to be paid for excess kilowatt hours received from a customer-generator should be derived from a weighted average of the on-peak and off-peak hours and rates. This compensation methodology was approved by the Commission in *Dauphin County Industrial Development Authority v. PPL Electric Utilities Corporation*, Docket No. C-2014-2450483 (Order entered August 20, 2015). This compensates all customer-generators equivalently, regardless of when they generate excess energy, and thus would not favor one form of customer-generation over another. The end-of-year compensation for excess generation should not be designed to provide a windfall at the expense of other default service customers, who pay for the excess energy.

Finally, PPL Electric requests the Commission take into consideration the time it will take to implement the contingency plan should the Commission's primary proposal fail – such as, completing IT changes, preparing and filing tariff changes, and developing and implementing appropriate customer communications. If the auction is held after the current PTC is posted, as recommended by PPL Electric, the contingency plan TOU rates likely will not be available when the new PTC goes into effect.

C. PPL'S RECOMMENDED TOU DESIGN

In the December 2, 2016 Secretarial Letter, the Commission further invited interested parties to submit comments on alternative designs that may more efficiently foster TOU participation while satisfying the requirements under Act 129 and the *DCIDA Order*. Specifically, PPL Electric recommends the Commission consider a TOU program based on market driven prices that does not rely upon EGSs. Under this alternative, default service providers will offer a separate TOU rate option to Residential and Small C&I customers that elect to participate in the TOU rate option.

Under PPL Electric's alternative TOU design, there will be two periods – a summer period and a non-summer period. The summer period will run from June 1 through September `30 each year. The remainder of the year will be the non-summer period. During the non-summer period, there will be no on-peak or off-peak hours, and the customer will be charged the applicable PTC. During the summer period, the on-peak hours for residential customers will be from 3-8 p.m., Monday through Friday, excluding weekends and PJM-designated holidays and from 12 p.m.-5 p.m. Monday through Friday, excluding weekends and PJM-designated holidays for Small C&I customers. (See Appendix B to these Comments.). All other summer hours will be off-peak hours. This program will run year-round, without any gaps in service or availability to customers. The benefit of this approach for PPL Electric is that it avoids resetting the TOU rates multiple times during the year. This approach also avoids the need to reset the on-peak and off-peak periods for different seasons (summer/winter). Furthermore, system peaks are set during the summer months, with PJM ICAP values set during the period of June 1st through September 30th; so setting a TOU program coinciding with the PJM system peak is also appropriate.

The on-peak rate will be set equal to the PTC in effect as of June 1 plus an adder of 50%. The off-peak rate will be equal to the PTC in effect as of June 1, less a deduction of 9.5%. The price differential between on-peak and off-peak prices reflects the price differential experienced in the market. Additionally, the on-peak and off-peak rates are revenue neutral. The summer on-peak and off-peak rates will be updated each year based upon the PTC in effect at that time and to account for any updates to the spot market price differential over the previous three year period.

Under this alternative TOU design, default service providers will procure supply to serve TOU customers as part of the default supply procurements for the respective customer classes. Supply for the TOU load would come from wholesale supply contracts procured through the EDCs default service competitively bid process. That is, wholesale suppliers will be required to supply load for both the fixed-price and TOU customer load. However, the wholesale suppliers will not bid, or be paid separately, for supply that is used to serve TOU customers. Rather, wholesale suppliers would continue to be paid their contract rate.

The TOU rate will be recovered from participating TOU customers. The difference between the TOU rate recovered from TOU customers and the amount paid to wholesale suppliers, *i.e.*, any resulting net over/undercollection resulting from TOU service, will be recovered/refunded through the generation supply charge applicable to the respective customer classes (Residential or Small C&I).

The TOU rate option under PPL Electric's alternative TOU design will be available to only to Residential and Small C&I customers. Customers enrolled in an EDC's Customer Assistance Program will be excluded from participation in the proposed TOU rate option under PPL Electric's alternative TOU design, for reasons explained previously in these Comments. Although Large C&I customers will be excluded from participation in the proposed TOU rate option under PPL Electric's alternative TOU design, these customers effectively already have real time rates through the spot market Default Service supply rates applicable to this customer class, which satisfies the statutory mandate that all customers have either a TOU or real-time rate option.

Under PPL Electric's alternative TOU design, net metering customers also will be eligible for TOU service. The end-of-year compensation to be paid for excess kilowatt hours received from a customer-generator will be derived from a weighted average of the on-peak, off-peak and non-summer hours and rates. This is consistent with the compensation that was paid to customer-generators with both a TOU and net metering option under the TOU mechanism in effect prior to the current TOU option provided by EGSs. PPL Electric notes that this compensation methodology was approved by the Commission in *Dauphin County Industrial Development Authority v. PPL Electric Utilities Corporation*, Docket No. C-2014-2450483 (Order entered August 20, 2015).

IV. CONCLUSION

PPL Electric appreciates the opportunity to provide these Comments to the Commission's Secretarial Letter concerning a revised Time-of-Use Program.

Respectfully submitted,

Michael W Hassell

David B. MacGregor (Pa. Bar I.D. 28804)
Michael W. Hassell (Pa. Bar I.D. 34851)
Christopher T. Wright (Pa. Bar I.D. 203412)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-612-6029
Fax: 717-731-1985
E-mail: dmacgregor@postschell.com
E-mail: cwright@postschell.com

Kimberly A. Klock (Pa. Bar I.D. 89716)
PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101
Phone: 610-774-5696
Fax: 610-774-6726
E-mail: kklock@pplweb.com

Dated: January 9, 2017

Counsel for PPL Electric Utilities Corporation

Appendix A

PILOT TIME-OF-USE PROGRAM BINDING PARTICIPATION FORM

In order to be included in PPL Electric Utilities Corporation's ("PPL Electric") Pilot Time-of-Use ("TOU") Program as an Electric Generation Supplier ("EGS") participant, ______________________________ ("EGS Participant") agrees to be bound by the terms and conditions set forth in this Binding Participation Form, which shall constitute a firm offer to supply service in accordance with the Pilot TOU Program approved by the Pennsylvania Public Utility Commission's ("PUC" or "Commission") at Docket No. P-2012-2302074, and applicable Pennsylvania Law and regulations.

1. The EGS Participant hereby agrees as follows:

1.1 The EGS Participant acknowledges and understands that the term of this Binding Participation Form with PPL Electric is effective from the date the Binding Participation Form is fully executed through May 31, 2015. During the term of this Binding Participation Form, EGS Participant must offer a TOU rate option based upon the terms of this Binding Participation Form and consistent with the information contained in the quarterly TOU Summary Report discussed in Section 1.11, below.

1.2 The EGS Participant will define the on- and off-peak hours, and the on- and off-peak rates that it will offer to customers as part of its TOU rate option under the TOU Program. The TOU rate options offered by the EGS participant shall consist of a rate that varies during different time periods, but not as frequently as each hour, and includes off-peak and on-peak periods, with rates during the on-peak periods which are higher than rates during the off-peak periods.

1.3 In addition to the above requirements the EGS Participant will also implement the following rules:

(a) The EGS Participant will define and abide by the on- and off-peak hours and the on- and off-peak rates it initially reports to the Company at the initiation of the TOU Program, and in quarterly reports submitted thereafter (the "TOU Summary Report"), as discussed in Section 1.11 below;

(b) The EGS Participant will define the term of the contract between EGS and customer, which may not be less than 3 calendar months, coinciding with quarterly changes in PPL Electric's price-to-compare ("PTC");

(c) The EGS Participant will issue notice to customers participating in the Pilot TOU Program that there is no early termination penalty or fees to any TOU customer who leaves the TOU rate option offered by the EGS Participant as part of the Pilot TOU Program at any time during the term of the contract; and,

(d) In accordance with the provisions of 52 PA code Chapter 54 (or its successor provisions), prior to the termination of the contract with a customer under the Pilot TOU Program, the EGS Participant will notify the customer regarding the conclusion of the contract, and its offer concerning the terms and conditions for continuation of service. Once notified about the conclusion of the contract customers can elect to enter into another TOU rate option with that EGS, shop with a different EGS, or return to default service.

1.4 The EGS Participant will issue notice to customers enrolled in its TOU rate option if the EGS Participant is no longer participating in the PPL Electric Pilot TOU Program and/or the TOU rate option that the customer is enrolled in is no longer part of the PPL Electric Pilot TOU Program.

1.5 The EGS Participant must be licensed as an EGS by the PUC with authority to provide service to Residential and/or Small Commercial and Industrial ("C&I") customers in PPL Electric's service territory. The EGS Participant must meet all of the obligations and requirements of a PUC licensed EGS. The EGS Participant must be a member of PJM and be a signatory to any pertinent PJM agreements, as applicable.

1.6 The EGS Participant must be certified by PPL Electric for Bill Ready Billing.

1.7 The EGS Participant will create and maintain a webpage, to be referenced by PPL Electric, giving details about the available TOU rate option(s) for that quarter. This website must be updated (not more frequently than quarterly, coinciding with the PPL Electric PTC change) if the available TOU rate option has changed and must match the information provided to PPL Electric in the TOU Summary Report. The EGS Participant must also explicitly refer to that fact that the rate option is being offered as part of the PPL Electric Pilot TOU Program.

1.8 The EGS Participant must accept all eligible Residential and/or Small C&I customers who elect to participate in the Pilot TOU Program.

(a) Customers in PPL Electric's low income customer assistance program, known as "OnTrack," are permitted to participate in the Pilot TOU Program. The EGS Participant shall inform OnTrack customers that if they participate in OnTrack, and choose to participate in a TOU rate option, they may not see a reduction in their monthly payment.

1.9 The EGS Participant must comply with all applicable PUC customer notification requirements.

1.10 This Binding Participation Form includes terms and conditions for an EGS's participation in the Pilot TOU Program. This document should be used in conjunction with PPL Electric's Electric Generation Supplier Coordination Tariff. If any discrepancies exist between the terms of Binding Participation Form and the Electric Generation Supplier Coordination Tariff, the Binding Participation Form shall take precedent.

1.11 The EGS Participant must maintain its own set of independent records for review upon request by the Commission, for future evaluation of the Pilot TOU Program success.

1.12 EGS Participants must submit an initial TOU Summary Report to the Company at least 45 days prior to the initiation of the Pilot TOU Program and the quarterly TOU Summary Reports shall be summited to PPL Electric at least 5 days prior to the start of a PTC quarter and quarterly thereafter. The initial and the quarterly TOU Summary Reports shall include:

(a) The available TOU rate options for the upcoming quarter.

(b) The on- and off-peak hours and rates per rate option offered.

(c) Term of the customer contracts available per rate option.

(d) Changes or alterations of new TOU rate options from the previous quarter's rate options (if applicable).

(e) Summary of all TOU rate options offered by the EGS Participant under the Pilot TOU Program (to the date of the issued report) with the number of customers, by class, on each rate option.

The information in the TOU Summary Report shall only pertain to TOU rate options being offered under PPL Electric's Commission-approved Pilot TOU Program, and not to any other programs the EGS Participant may offer.

2. The EGS Participant warrants and agrees that it hereby undertakes all responsibilities and service delineated herein as to TOU customers that enter into a contract with the EGS Participant, and expressly absolves PPL Electric from any and all liability for EGS Participant's failure to perform and/or its default with respect to such responsibilities and service.

3. PPL Electric warrants and agrees that it hereby undertakes all responsibilities and service delineated herein as to TOU customers that enter into a contract with the EGS Participant, and expressly absolves EGS Participant from any and all liability for PPL Electric's failure to perform and/or its default with respect to such responsibilities and service.

4. Participation in the Pilot TOU Program shall constitute an agreement by EGS Participant to abide by the terms and conditions of the Pilot TOU Program as set forth herein and approved by the Commission. In the event of a material default by an EGS Participant in any of its obligations under the Pilot TOU Program, PPL Electric shall have the right to provide written notice of the default to the EGS Participant, directed to the Contact listed in the Contact Form, appended hereto. If the EGS Participant does not cure the default within 10 business days from the date of the written notice, PPL Electric shall have the right to terminate the EGS Participant from further participation in the Pilot TOU Program. PPL Electric also may seek whatever remedies to which it may be entitled before the Commission, in a court of law or otherwise, including reasonable attorneys' fees. Any court action shall be litigated in the Court of Common Pleas for Lehigh County or in the District Court for the Eastern District of Pennsylvania in Allentown.

5. The EGS Participant acknowledges that if PPL Electric is not able to confirm, as required by Section 1.5, above, that the EGS Participant is a licensed EGS in Pennsylvania and a member of PJM, as applicable, the EGS Participant will not be qualified to participant in the Pilot TOU Program.

6. PPL Electric and EGS Participant acknowledge that the Pilot TOU Program is only available to Residential and/or Small C&I customers in the Company's service territory.

7. The submission of this Binding Participation Form to PPL Electric shall constitute the EGS Participants' acknowledgment and acceptance of all the terms, conditions and requirements of the Pilot TOU Program contained herein and approved by the Commission at Docket No. P-2012-2302074.

8. The undersigned represents and warrants that he/she has the authority to act on behalf of, and to bind, the EGS Participant to perform the terms and conditions and otherwise comply with all obligations stated herein.

9. Any and all matters of dispute between the PPL Electric and the EGS Participant, whenever arising, shall be governed, construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania regardless of the theory upon which such matter is asserted.

10. The EGS Participant must affirmatively check either or both participation groups below, an EGS Participant may elect to offer a TOU rate option under the Pilot TOU Program to both the Residential and Small C&I Customer Groups or only to one of the groups.

    1. Participation in Residential Customer Group ___

    2. Participation in Small C&I Customer Group ___

    Signature of Authorized Individual: ______________________________

    Name of Authorized Individual *(print)*:______________________________

    Title of Authorized Individual *(print)*: ______________________________

    Date Signed: ____________________

11. As part of your submission to participate in the Time-of-Use Program, please send one (1) original of this Binding Participation Form to:

    PPL Electric Utilities Corporation
    Time-of-Use Program
    Two North Ninth Street, GENN5
    Allentown, PA 18101
    Attn: Energy Procurement Team

Contact Form

Please provide contact information for purposes of the pilot Time-of-Use Program (*items with an * are required*):

Company:* ______________________________

Contact Name:* ______________________________

Contact Title:* ______________________________

Address:

Street 1* ______________________________

Street 2 ______________________________

City* ______________________________

State* ______________________________

Zip Code* ______________________________

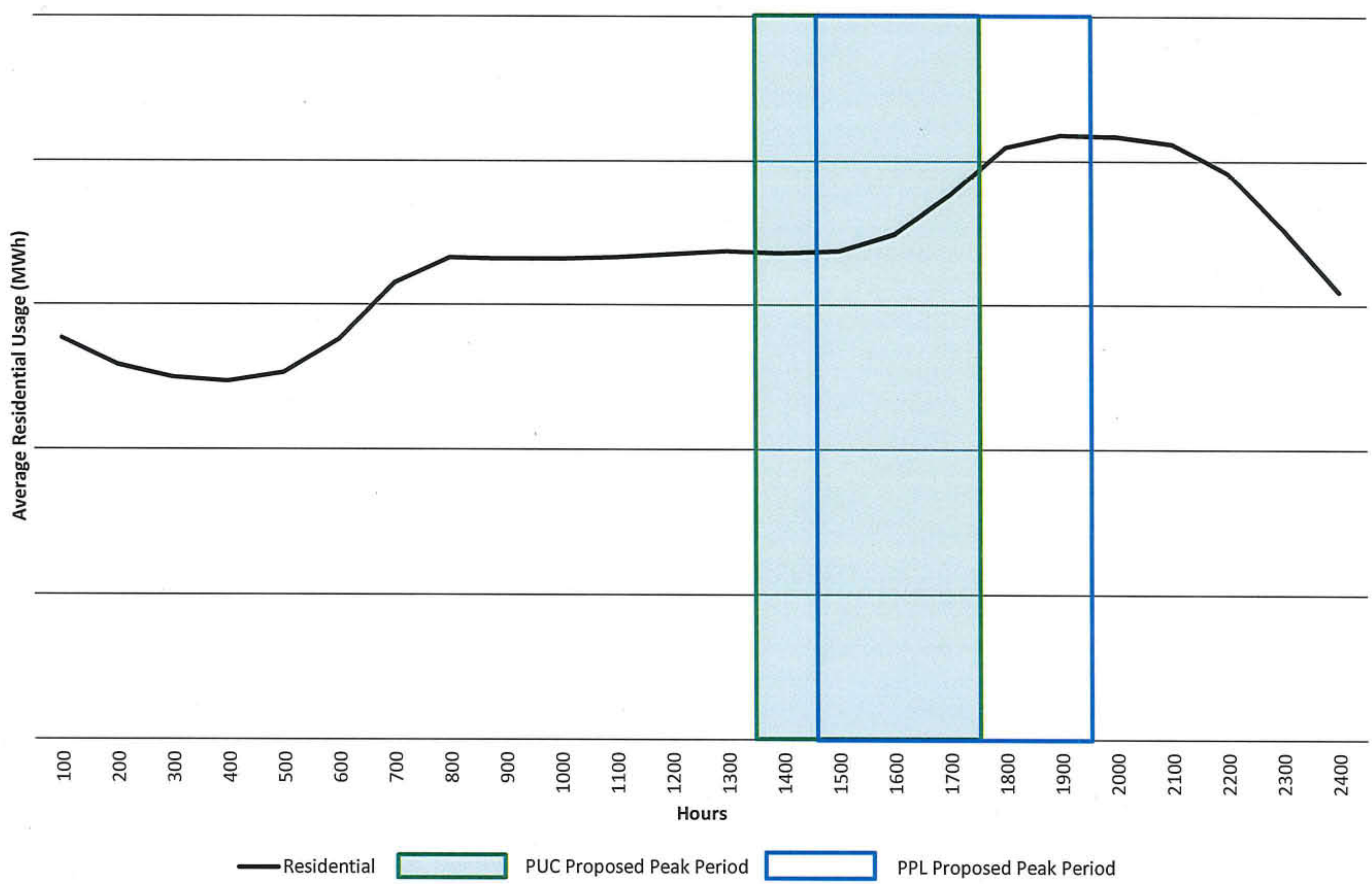
Phone Number:* ______________________________

E-mail Address:* ______________________________

Fax: ______________________________

Appendix B

Appendix B
PPL Electric Average Customer Usage Shape



Appendix B
PPL Electric Average Customer Usage Shape