PPL Electric Utilities Corporation
Testimony before the PA House Consumer Affairs Committee
January 31, 2008

Good morning Chairman Preston, Chairman Godshall and members of the committee. My name is Doug Krall, and I am the manager of regulatory strategy for PPL Electric Utilities. PPL Electric Utilities is a subsidiary of PPL Corporation, which is based in Allentown, Lehigh County. PPL Electric Utilities delivers electricity to 1.4 million customers in Eastern and Central Pennsylvania and employs 2,200 people in the communities we serve. We have been a Pennsylvania company for nine decades.

Thank you for the opportunity to testify on these important bills. PPL applauds the legislature's efforts to explore solutions that help consumers use electricity wisely, and reduce the impact of higher electricity prices after more than a decade under capped rates for generation charges.

The bills offer productive approaches to procurement of electricity supply, rate-increase mitigation, and demand management. The bills contain many concepts that PPL has long supported.

We are seeking some amendments to these bills, and I will focus my oral comments today on the rate mitigation and phase-in language in HB 2201. I would also like to briefly highlight PPL Electric Utilities' actions to help its customers prepare for the effect of higher prices in 2010, when its generation rate cap ends. The actions of PPL Electric Utilities dovetail with the intent and content of HB 2201 and HB 2200.

Electricity deregulation already has saved consumers in the Commonwealth billions of dollars compared with rates they would have paid under a fully regulated system. By 2010, the customers of PPL Electric Utilities will have benefited from an 11-year period where the price they paid for generation was capped at rates lower than the market price of electricity.

The caps were put in place to shield customers from increases in the price of electric generation supply during the transition to a competitive electricity market. They have done just that. But they also have driven alternative suppliers out of the market, because suppliers are unable to compete with the capped rate for provider of last resort service.

Caps already have ended in some parts of the Commonwealth, and in those areas competition is growing. As the caps near an end for the rest of Pennsylvania over the next few years, we need to exercise prudence in how electric distribution companies purchase default electricity supply for the future.

PPL Electric Utilities is implementing an electricity supply purchasing strategy that reduces price risk for consumers. Under a Competitive Bridge Plan, approved by the Pennsylvania Public Utilities Commission, we are spreading out our electricity supply purchases for 2010 rather than purchasing supply all at once, potentially at a time of high prices. This plan will help smooth the transition to competitive electricity markets when PPL Electric Utilities' rate caps for generation supply expire at the end of 2009.

We purchased one third of our generation supply needs in 2007. We will purchase another one third in 2008, and the final one third in 2009.

It is critical that utilities have clearly defined procurement rules to purchase electricity for their customers. Defined and transparent rules are also necessary for market stability.

To help mitigate price increases, it's important that customers have options and tools to understand and manage their energy use. PPL Electric Utilities has launched its ePower campaign and Energy Analyzer website. The website gives customers access to more information than they have ever had about their electricity use, and gives them suggestions for reducing their electricity use. Through conservation, customers can save money now and offset a significant portion of future increases.

Our ePower campaign is aimed at helping customers use electricity wisely. It is consistent with the conservation and demand management objectives of the legislature as contained in HB 2200.

We also know that customers want and need options for managing their electric bills.

PPL Electric Utilities also is increasing the scope of its existing time-of-use rate pilot program. We will expand this program from 300 to 600 customers this summer. At the same time, we are developing an additional time-of-use pilot program that we expect to launch by the end of 2008.

On Nov. 30, PPL Electric Utilities filed a proposal with the Pennsylvania Public Utility Commission that would give customers the option to spread out the expected 2010 rate increase over time if they prefer not to experience a larger one-time increase.

If the plan is approved, customers could make additional payments on their electric bills from July 2008 through December 2009. Those additional payments, with interest credited by PPL Electric Utilities, would be applied to their bills in 2010 and 2011, so that the initial generation increase would be spread over single-digit increases each year from 2008 to 2012 rather than a larger one-time increase in 2010.

HB 2201 contains a requirement that utilities offer customers the ability to phase in the initial generation increase over three years and enables utilities to offer prepayment programs in advance of caps coming off. We support these concepts, but recommend amendatory language in several areas to make the bill language consistent with what we understand to be the intent of this section. Our amendments are as follows:

1. We recommend deletion of the term "gradual" from the description of the transition in subsection (b)(1). The word "gradual" is subjective and could lead to implementation disputes before the PUC. Moreover, the term is unnecessary

because later provisions of Section 2813 specifically describe how the rate ramp-in will be implemented.

2. We recommend revision of the Rate Phase-in Plan in subsection (b)(2) to define the rate increase subject to the Plan and specify the rates to which the 15% will be applied. The rate to be phased-in is clearly defined as the initial increase in generation rates at the end of the rate cap period. The 15% limit is applied to the Overall Rates in effect at the end of the rate cap. The remainder of those deferrals (plus carrying charges) would be recovered in the three year post-deferral recovery period (see #3, below).

3. We recommend the additional period after the phase-in period specified in subsection (b)(2) be extended from two years to three years and that the recoverable costs be specified. These changes will help to ensure that an electric delivery company (or "EDC") which incurs a large rate increase at the end of its rate cap period will have sufficient time to recover all amounts remaining un-recovered at the end of the initial three year rate phase-in period. These changes also reduce the likelihood that there will be disputes in the future regarding which specific items are recoverable, including carrying charges.

4. We recommend that the language in subsection (c) providing for recovery of costs through a non-bypassable charge be clarified to provide that the charge will be considered a Section 1307 charge and will be applied to participating customers on a customer class basis. The addition of a reference to Section 1307 simply provides a cross-reference to the applicable provision of the Public Utility Code. Regarding application of this charge, the original language could be read to require that the charge must be calculated and applied on an individual customer basis. Such a requirement would be prohibitively expensive and time-consuming for EDCs to implement. Moreover, the Commission's consistent practice in the past has been to apply such charges on a customer class basis.

5. We recommend that a provision be added to subsection (c) requiring that the charge be included in other charges on the customer's bill. This charge is not a mechanism for recovering new costs from customers. If it were recovering new costs, a separate line item on the customer's bill would be appropriate. Rather, this charge is a mechanism to phase-in an increase in generation costs. Because the charge simply is phasing costs already reflected on the bill, it is appropriate to include it as a part of other charges on the customer's bill.

6. We recommend that a provision be added to subsection (c) specifying that this charge will be considered a new service under section 2804(4)(vi). Depending on when this legislation is enacted and when the Rate Phase-in Plan is implemented, one or more EDCs in Pennsylvania may still be under generation rate caps. Under those circumstances, other parties may contend that recovery of the phase-in costs would violate the rate cap. The proposed language explicitly places the

Rate Phase-in Plans within one of the statutory exceptions to the rate caps and eliminates future uncertainty regarding this issue.

7. We recommend that subsection (e) be amended to provide that only customers enrolled in a "prepayment" plan can receive a billing credit if they leave the plan early. This proposal simply clarifies operation of the billing credit. If a customer is not enrolled in a "pre-payment" plan and leaves the program early, that customer will have a billing debit (will owe money to the EDC), not a billing credit (will be owed money by the EDC).

In addressing the mix of resources that EDCs may use to procure generation supply to meet their default service obligation, HB 2201 addresses the use of long-term contracts. While we support the use of long-term contracts, we are concerned that the acquisition of supply under such contracts be the result of a competitive process and consistent with market principles. The following amendments are intended to achieve that end:

1. We recommend subsection (e)(2) be amended to limit the Commission's discretion to order an EDC to enter into a long-term contract for default service supply. Without this amendment, the commission would have essentially unlimited discretion to order an EDC to enter into a long-term contract for default service. Special interest groups may attempt to pressure the commission to order an EDC to enter into a long-term contract to support a specific generation project. Such a result would harm development of the competitive market because that one project would be given an unfair advantage to the detriment of its competitors. Moreover, such a result could harm the EDC's customers because the long-term contract may not be the most cost-effective mechanism for obtaining default service supply.

2. We recommend subsection (e)(5) be amended to specify that an EDC can enter into long-term contracts only through an auction or requests for proposals process. As originally written, this subsection would permit an EDC to enter into a long-term contract through a "competitive process." However, the term "competitive process" is broadly defined in subsection (b)(2) to include bilateral contracts. Given the significant commitments that can be imposed on an EDC and its customers under a long-term term contract, it simply is not good public policy to allow an EDC to enter into such a contract on a bilateral basis.

3. We recommend subsection (e)(5) be amended to specify that long-term contracts will be permitted for energy generated from any source. As originally written, this subsection could be read to require that the EDC enter into long-term contracts only for renewable generation and credits. This interpretation would unduly limit an EDC's ability to make full use of long-term contracts in the future. There may be situations where a long-term contract is the most cost-effective way to obtain default supply from non-renewable resources. The proposed amendment provides that option for the EDCs while retaining the original emphasis on renewable resources.

4. We recommend that subsection (e)(5) be amended to delete the provision giving the Commission authority to waive the statutory limitations on long-term contracts. As discussed above, a long-term contract can impose a significant commitment on an EDC and its customers. For that reason, it is appropriate to impose certain limits on the duration of such contracts, the amount of load supplied from them and the methods by which they are obtained. The legislation imposes such limits. Giving the Commission authority to waive those statutory limitations could significantly diminish the protections that they are intended to provide and is unnecessary to achieve the objective of encouraging the use of long-term contracts.

5. We recommend that subsection (e)(9) be amended to reduce the time for Commission review of the results of a competitive procurement from ten business days to two business days. Commission review of the results of a competitive procurement comes late in the process. The commission previously would have reviewed and approved all the details of the EDC's competitive procurement plan. This final review of the results primarily focuses on whether the EDC implemented the plan as approved and whether there were disruptions in the market that would adversely affect prices. Given this narrow scope of review, a much shorter time period seems more than adequate. Moreover, if a bidder is required to guarantee its bid prices for an extended period while the procurement is under review, that bidder will build a premium into its price to recognize the business risks that are associated with such a delay. The result would be higher default service rates for the EDC's customers. In addition, the risk associated with a 10 day PUC approval could cause some potential bidders to not participate in the process, thereby lowering the number of bidders and the competitiveness of the results.

PPL Electric Utilities is committed to continue its work with members of the General Assembly, the Administration and the Public Utility Commission to develop a sound energy policy. I thank you for your time and would be happy to answer any questions that you may have.

Options to Manage Electricity Bills

PPL Electric Utilities

PPL Electric Utilities shares the concerns of its customers with the rising price of electric generation supply, and is giving customers tools and options to reduce electricity use and limit the effect on their pocketbooks.

E-power: Helping Customers Use Less Electricity

Through the *e-power* campaign, PPL Electric Utilities is giving customers information they can use to save electricity and money.

• Energy Analyzer

Customers can go to *www.pplelectric.com*, answer a few questions about their home and get detailed information about how and when they use electricity, personalized tips for reducing energy use, and an estimate of potential savings.

Customers who enroll in the Energy Analyzer also get two compact fluorescent light bulbs courtesy of PPL Electric Utilities. These bulbs use 75 percent less electricity than conventional light bulbs, and are a great way to start on the road to energy savings.

• Daily Electricity Use

With the power of its advanced electric meters, PPL Electric Utilities can show customers how much electricity they use on a daily basis. By 2010, customers will be able to see their electricity use hour by hour. This detailed information enables customers to make informed decisions about their electricity use and ways they can save.

• Energy Learning Center

By using the Energy Learning Center at *www.pplelectric.com*, customers can calculate the energy use of various appliances, determine potential savings if they switch to more energy-efficient appliances, and search an extensive library of energy information.

• ENERGY STAR® Partnership

PPL Electric Utilities is a partner in the federal government's ENERGY STAR® program to promote energy efficiency and the wise use of electricity. With the help of ENERGY STAR, Americans saved an estimated $14 billion on their utility bills in 2006.

The ENERGY STAR Web site, *www.energystar.gov* includes information about efficient appliances, home improvements, federal tax credits and much more.

Helping Customers Cope with Higher Prices

• Phase-In Option: Gradually Adjust to 2010 Price Increase

PPL Electric Utilities has asked the Pennsylvania Public Utility Commission to approve a plan that would give customers the option of gradually adjusting to higher prices for electric generation supply. Customers who choose this voluntary option would have single-digit increases spread over several years as opposed to a larger one-time increase in 2010, when the rate cap on electric generation supply ends.

• Buying in Advance

Under Pennsylvania's electricity competition law, PPL Electric Utilities must obtain electric generation supply for any customer who does not choose another supplier. The price for that service must be approved by the Public Utility Commission and passed on to customers without mark-up.

To reduce the price risk of buying all the electricity it will need for 2010 at one time, PPL Electric Utilities developed, and is pursuing, a plan to obtain electricity in six stages. Two stages are completed; one-third of the electricity supply for 2010 has been purchased. Competitive bidders representing many different companies have been involved in the process.

• Demand Management

PPL Electric Utilities will offer a voluntary time-of-use rate option to all customers in 2010. An existing pilot program will be expanded in 2008, and new pilot programs will be developed to test rate options under which customers pay different prices depending on when they use electricity.

Shopping for Supply

Under Pennsylvania law, consumers may choose the company that provides their electric generation supplier. Few or no choices exist today because of rate caps. When rate caps end, consumers should have more opportunity to seek and compare offers from competitive suppliers.

Help for Customers in Need

PPL Electric Utilities has been an industry leader for 25 years in offering payment assistance programs for customers with financial hardships. These programs address a variety of needs. Funding will increase to $28 million for 2008.

• OnTrack

This special payment plan is for customers with limited income, overdue electric bills and an inability to pay their bills in full.

• Winter Relief Assistance Program

This free home weatherization program helps low-income customers reduce their electric bills and make their homes more energy efficient.

• Operation HELP

This fund provides cash grants that help customers with financial hardships pay their heating bills, no matter what fuel they use to heat their homes. It's funded by donations from PPL, its customers and its employees.

• LIHEAP

LIHEAP is a federally funded program that is managed by the Pennsylvania Department of Public Welfare. It provides payment assistance for energy bills. PPL has advocated for increased federal funding, and for the creation of a similar program at the state level.

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Options for Small Businesses to Manage Electric Bills

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PPL Electric Utilities shares the concerns of business customers about rising energy prices, and is giving small businesses options that help them use electricity wisely and manage their electric bills.

E-power: Tools and Information to Help You Save

PPL Electric Utilities' e-power campaign helps business customers save electricity and money.

- **Energy Analyzer**
  This new tool at *www.pplelectric.com* provides detailed information about how your business uses electricity, personalized tips for reducing energy use, and an estimate of potential savings. You'll find the Energy Analyzer in the Energy Center section of the page for Commercial and Industrial customers.

- **Daily Electricity Use**
  With the power of its advanced electric meters, PPL Electric Utilities can show business customers their daily electricity use through the Energy Analyzer. By 2010, you will be able to view electricity use hour by hour.

- **ENERGY STAR® Partnership**
  PPL Electric Utilities is a partner in the federal government's ENERGY STAR® program. Visit *www.energystar.gov* for information about energy efficiency, federal tax credits and much more.

ENERGY STAR PARTNER

Phase-In Option

PPL Electric Utilities has asked the Pennsylvania Public Utility Commission to approve a plan that would give customers the option of gradually adjusting to higher prices for electric generation supply.

If approved by the PUC, customers who choose the phase-in option would make additional payments on their electric bills from July 2008 through December 2009. Those payments, with interest paid by PPL Electric Utilities, would be applied to electric bills in 2010 and 2011.

The proposal would allow customers to choose single-digit increases spread over several years rather than a larger one-time increase in 2010.

Customers would be able to leave the plan at any time through December 2011 and get back the balance of their additional payments, plus interest.

Buying in Advance

Under Pennsylvania's electricity competition law, PPL Electric Utilities must obtain electric generation supply for any customer who does not choose another supplier. The price for that service must be approved by the Public Utility Commission and passed on to customers without mark-up.

To reduce the price risk of buying all the electricity for 2010 at one time, PPL Electric Utilities is obtaining electricity in six stages. Competitive bidders representing many different companies have been involved in the first two stages of the process.

Shopping for Supply

Under Pennsylvania law, consumers may choose the company that provides their electric generation supplier. Few or no choices exist today because of a rate cap that has kept utility prices for generation at 1990s levels. Generation suppliers are unable to compete with capped utility rates.

In some areas of Pennsylvania, rate caps have ended. In those areas, competition is growing. In western Pennsylvania, 22 percent of the customers of Duquesne Light are served by competitive suppliers. Within that total, 17 percent of Duquesne Light's commercial customers and 47 percent of Duquesne Light's industrial customers have chosen alternative suppliers. Electric shopping statistics are available at the Office of Consumer Advocate's Web site, *www.oca.state.pa.us*.

Utility	# Customers Shopping	% Customers Shopping	% Electric Load Shopping
Duquesne Light	129,000	22%	49%
Penn Power	16,000	10%	36%

Source: Pennsylvania Office of Consumer Advocate, Electric Shopping Statistics, Jan. 18, 2008.

The rate cap for PPL Electric Utilities ends Dec. 31, 2009. When the cap ends, other suppliers will have the opportunity to compete with the utility price. You could save money by shopping for electric generation supply.

To learn more about shopping for electricity, visit Pennsylvania's Utility Choice Web site: *www.puc.state.pa.us/utilitychoice*.

For more information about your electric service and electric bill, visit *www.pplelectric.com*.

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