BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Retail Markets Investigation

Docket No. I-2011-2237952

En Banc Hearing – November 10, 2011

Statement of Douglas A. Krall

Manager – Regulatory Strategy

PPL Electric Utilities Corporation

Good afternoon, Mr. Chairman and Commissioners. My name is Doug Krall. I am the Manager of Regulatory Strategy for PPL Electric Utilities Corporation ("PPL Electric" or "the Company"). PPL Electric is a public utility and an Electric Distribution Company ("EDC") as those terms are defined under the Public Utility Code. The Company furnishes electric distribution and transmission service to approximately 1.4 million customers throughout its 10,000 square mile service territory. In addition, the Company provides default service provider ("DSP") electric supply services to non-shopping customers in its service territory.

PPL Electric has been an active supporter of both wholesale and retail electricity competition and the development of Customer Choice within the Commonwealth. Today, over three-quarters of the kilowatt-hours ("kwh") consumed within the PPL Electric service territory are provided by competitive Electric Generation Suppliers ("EGSs"). The customers consuming these kwhs represent over 40% of PPL Electric's customers and include almost a half-million residential customers. These results reflect the contributions and hard work since 2009 of not only PPL Electric, but also of the PUC and EGSs to patiently and relentlessly increase awareness of shopping as one of several tools available for customers to control their electricity costs. The Company has been a supporter of and active participant in the Retail Markets Investigation and an active participant on every one of the sub-groups that is open to the Company's participation. On

behalf of PPL Electric, I want to thank the Commission for the opportunity to testify at this hearing.

The subject of this panel is the use of a retail opt-in auction to encourage non-shopping customers to leave EDC-provided default service. The Commission's Tentative Order, entered October 14, 2011, recommended that EDCs consider incorporating a number of features within their next default service plans, including an opt-in auction. PPL Electric has begun the process of considering all of the Commission's recommendations. At this early stage of those considerations, the Company believes that an opt-in auction has the potential to encourage customers who might otherwise not consider shopping to switch from EDC-provided default service. However, while the approach seems simple, it is actually more complex than one might think and, depending on its ultimate design and the unique features that may exist in individual EDC service territories, could have unintended negative consequences. PPL Electric offers the following early insights arising from its consideration of retail opt-in auctions:

Opt-in, as opposed to opt-out, is the better approach.
Given that the objective of such a program is to overcome customer inertia, forcing customers to opt-out to avoid participation is likely to increase resistance and be counter-productive.

Retail opt-in auctions should not be allowed to impact existing default service supply contracts.
PPL Electric believes the Tentative Order is correct in recommending that auctions be considered for inclusion in EDCs' next default service plans because the existence of such programs can dramatically alter customer migration and wholesale suppliers of full requirements products need to have an opportunity to factor that into the prices they bid. Because retail auctions were not an element of existing default service plans, it follows, therefore, that existing default service supply contracts for full requirements service were entered into without

knowledge of specific retail auction programs. The introduction of such programs at this late date could affect the parties to those contracts and, ultimately, alter the default service that is available to customers under existing plans.

Retail opt-in auctions need to be carefully designed so as not to be disruptive to existing shopping patterns or result in only temporary increases in the shopping population.

- The retail auction structure that is being discussed is fundamentally different from the core premise of retail competition which is customers making individual choices to purchase those products that best meet their needs. A large portion of PPL Electric's customer base has embraced that core premise and the Company believes that that is the best way for choice to grow and to achieve the objectives set out in the Competition Act. The Company is concerned that this new approach, especially if perceived to discriminate against shoppers and/or if structured so that customers perceive it to be a "bait-and-switch" program, will undermine years of consumer education and actually have a chilling effect on shopping.
- Default service in the PPL Electric service territory will continue to include block supply contracts entered into under its existing default service plan. Those contracts provide fixed amounts of energy at a relatively low cost with the result that as shopping increases, the price of default service will drop from what it would otherwise have been. This could result in opt-in participants actually returning to default service immediately after they qualify for any upfront inducement that may be part of the program.

Retail opt-in auctions may result in fewer choices being available to customers.

The lowest competitive residential offer in the PPL Electric service territory is only 0.42 cents/kwh below the Company's current price to compare. Proposals discussed within the sub-group include inducements and discounts that far

exceed the savings that an average customer might otherwise expect in a year. This raises a number of concerns, but, among them is the concern that only those EGSs with the financial ability to “buy market share” will be able to participate in the retail opt-in auction. Ultimately, only those EGSs will remain in the market; resulting in fewer choices for customers, a primary focus on price competition, and a loss of variety related to other non-price attributes.

Retail opt-in auctions should neither benefit nor harm non-participants. The retail auction structure being discussed within the sub-group provides benefits to participating customers (through the inducements and discounts without which there would be no participation) and to participating EGSs (who acquire customers without marketing costs). Non-participating customers should not benefit or be harmed; especially, if they are not eligible to participate. Non-participating EGSs should not benefit or be harmed. These circumstances lead to the conclusion that the costs of retail opt-in auctions should be borne by the EGSs that participate in and are beneficiaries of such an auction.

Again, on behalf of PPL Electric, I thank you for the opportunity to express the insights the Company has been able to develop thus far as it continues to consider the role a retail auction may play in its next default service plan.. I’d be happy to answer any questions you may have at the appropriate time.