PPL ELECTRIC UTILITIES CORPORATION

Statement of Reasons
for the Proposed Increase
Docket No. R-2012-2290597

March 30, 2012

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I. Introduction

In this filing, PPL Electric Utilities Corporation ("PPL Electric" or the "Company") requests that the Public Utility Commission ("PUC" or the "Commission") approve an overall annual increase in distribution revenues of approximately $104.6 million based on a future test year ending December 31, 2012, and a proposed allowed rate of return on equity of 11.25 percent. If granted by the Commission as filed, this request would produce a system average increase in distribution rates of approximately 13 percent and an increase in total rates (distribution, transmission and generation charges) of approximately 2.9 percent for default service customers.

As described below, this filing, in large part, is PPL Electric's response to four critical business challenges:

1. Reduced revenue resulting from lower customer usage and a stagnant economic climate;
2. The need to accelerate capital investment programs to maintain reliability and replace aging infrastructure;
3. Support for the development and expansion of the competitive retail electricity market; and
4. Major storm damage in PPL Electric's service area during 2011.

Each of these challenges is discussed in detail in Section II. As a general matter, these challenges either reduce the Company's annual revenue or increase its annual operating costs. Taken together, they place significant stress on PPL Electric's overall financial health and are the primary drivers behind the Company's request for rate relief in this proceeding. Section III addresses PPL Electric's management effectiveness and describes its various efforts to control increasing costs and improve service to customers. Section IV provides a more detailed overview of this rate filing.

II. Business Challenges

A. Stagnant Economic Climate

PPL Electric continues to face an extremely challenging business environment with a slower economic recovery than the national average. During 2011, United States' gross domestic product ("GDP") grew at an annual rate of 1.8 percent while Pennsylvania's GDP grew by 1.4 percent. Although 2011 showed modest GDP growth, it's still far below the 10-year national average growth rate of 3 percent experienced prior to the recession. Unemployment remained high at 8.95 percent for the nation and 7.95 percent for Pennsylvania. The housing markets showed minimal growth, with the median home price continuing to fall, and with homes staying on the market for longer periods than in the past. PPL Electric experienced the lowest increase in new customers in its history in 2011, with total customer growth at less than 1/10th of 1 percent for the year.

The slow economic recovery resulted in a marginal increase in the sale of electricity in PPL Electric's service area. However, sales remain below 2008 levels. Residential normalized average use dropped by 4 percent in 2010 and increased by only 0.7 percent in 2011. In the near term, the continuing success of energy efficiency programs will likely offset much of the sales gain that could result from an improving economy.

Similarly, average use by both small and large commercial and industrial customers dropped 0.7 percent and 1 percent respectively, during 2011 and 6.6 percent and 6 percent respectively since 2008. This is a result of the recession, increased national energy efficiency standards, state mandated energy efficiency programs, and conservation efforts driven by higher prices as a result of the rate cap expiration. The sales forecast shows average use recovering slightly going forward.

These flat or declining consumption data have serious implications for PPL Electric's annual revenue and are a substantial factor in the Company's request for rate relief. The Company forecasts that sales will increase by 0.14 percent in 2012 when compared to 2011 (on a weather-normalized basis). Actual revenues are expected to decline by 5.7 percent compared to 2011, reflecting a forecast of normal weather for 2012 in contrast to the high cooling and heating degree days experienced in the past two years.

B. Increased Capital Investment to Ensure Reliability

The economic downturn is particularly difficult for PPL Electric because it has undertaken significant capital investments to maintain and improve current system reliability and replace aging infrastructure throughout its system. Much of the Company's electric distribution system was constructed and placed in service in the 1960s and 1970s. PPL Electric has been able to maintain this equipment in a way that has continued reliable customer service. However, much of that equipment has an expected useful life of approximately 40 years, and is nearing or past the end of that lifespan. The Company has begun to incur increasing maintenance expenses to deal with rising equipment failures, a solution that becomes expensive and does not adequately address long-term reliability. Investment in system replacements will reduce the rate of O&M cost increases, minimize the total cost of doing business and reduce the potential for eroding reliability performance.

In late 2008, the Company began a detailed, comprehensive study to assess the overall equipment age, condition and performance of its transmission and distribution assets. The purpose of the study was to develop a strategy for capital replacement and maintenance improvements that would allow the Company to avoid the anticipated cost and reliability effects of aging infrastructure and bolster its ability to maintain reliable electric service. Based on the results of the study, PPL Electric has embarked on a 10-year capital plan to replace, maintain and improve various distribution assets. In addition, the replacement of older technology with new systems and facilities will improve system reliability by reducing service outages and shortening outage response time.

Replacing and modernizing these delivery system facilities will require PPL Electric to make significant capital investments. Over the past five years, 2007 through 2011, the Company invested almost $1.3 billion in the delivery system, associated information technology and facilities infrastructure. PPL Electric intends to invest an additional $1.6 billion in the delivery system from 2012 to 2016. In 2011, PPL Electric invested a total of $326.6 million in distribution system improvements.

The Company plans to make distribution system capital investments of $337 million during the future test year in this case (calendar year 2012). The Company will have to raise a significant amount of money in the capital markets to make those planned investments.

At the time of the last major utility-led infrastructure build-out period in the 1960s and 70s, utility corporate credit ratings were typically at the A to AA- levels. Today, the most common Standard & Poor's Rating Services corporate credit rating among electric utilities is BBB, which also tends to be about the average for the industry and is just two notches above speculative grade. This downward drift in utility credit ratings reflects the continued challenging business environment and slow economic recovery in the United States, including declining electric sales, increasing operating expenses and the need to fund significant capital investments. Clearly, access to capital at reasonable borrowing rates is extremely important to the Company and, ultimately, to its customers. For these reasons, it is critical that the financial community views PPL Electric as an attractive investment.

Since its last distribution base rate case, Moody's has downgraded the Company's credit rating from Baa1 to Baa2. PPL Electric forecasts its return on equity for the distribution business will fall to approximately 6.7 percent in 2012 based on current rates. This return is inadequate by any standard. In this filing, the Company is requesting an allowed return on equity of 11.25 percent, along with a capital structure of approximately 51 percent common equity and 49 percent long-term debt, which PPL Electric believes are necessary ratios to successfully raise capital under today's financial market conditions.

In light of the business environment described above, PPL Electric believes its requested return on equity is the minimum required to attract needed capital under reasonable terms. Such access to the capital markets will allow the Company to proceed with its proactive strategy to renew and strengthen the delivery system from a position of financial strength. Ultimately, it will enable the Company to execute its plan more efficiently, which will result in lower costs to customers over the long term, maintain reliable service, and create hundreds of jobs. Adequate rate relief also will permit the Company to pursue efforts to improve its bond ratings which, if achieved, would further lower the cost to serve customers.

C. <u>Competitive Markets</u>

PPL Electric also anticipates it will incur increased costs over the next several years to support the development and expansion of retail electric competition in Pennsylvania.

In an Order entered on April 29, 2011, the Commission initiated an investigation of Pennsylvania's retail electricity market, order entered at Docket No. I-2011-2237952. PPL Electric has been an active participant in all aspects of the investigation.

During the course of the investigation, various initiatives for enhancing the retail electricity market in Pennsylvania have been proposed. Many of these initiatives will result in increased costs to electric distribution companies ("EDCs") like PPL Electric.

PPL Electric is complying fully with the requirements established thus far and expects additional requirements to arise as the investigation continues. During the future test year in this case (calendar year 2012), the Company expects to spend significant amounts on these initiatives, now and in the near future, as additional direction is provided by the Commission.

D. Storm Damage

In addition to the various items discussed above, PPL Electric incurred significant costs in 2011 to respond to extraordinary damage resulting from numerous storms across its service area. In fact, more storms impacted service to customers in 2011 than any year in the past 12 years, and two of these storms ranked among the Company's five worst storms ever in terms of customers affected.

In late August 2011, the remnants of Hurricane Irene struck a majority of PPL Electric's service territory. These areas experienced severe weather, which included heavy rainfall and extremely high winds with gusts up to 55 mph and resulted in outages to more than 428,000 customers. Full service restoration lasted several days. PPL Electric incurred total costs of $26.2 million to restore service to all customers during this event.

On October 29, 2011, an unusual fall snowstorm impacted the Northeast region of the country, including portions of the PPL Electric service territory. Heavy wet snow, as much as 13 inches in some areas, accumulated on leaves of trees and caused widespread damage to both electric transmission and distribution facilities. Total outages exceeded 388,000 customers. The severity of this storm again required multiple days to achieve full service restoration. The Company's restoration efforts included extensive use of other utilities and contract resources from across the eastern, southern and Midwestern United States. PPL Electric incurred total costs of $27 million associated with the October snowstorm.

PPL Electric filed two petitions with the Commission requesting permission to defer the incremental costs of these storms (net of capital, straight time wages and storm insurance recoveries) for recovery in a future base rate proceeding. In Orders entered on December 15, 2011, at Docket No. P-2011-2270396 and Docket No. P-2011-2274298, the Commission granted both petitions. Accordingly, PPL Electric is including in this filing a request to recover $24.2 million of 2011 storm restoration costs to be amortized over a five-year period.

III. Management Effectiveness

PPL Electric's management is effectively controlling costs while, at the same time, providing customers with high quality service and expanded service options. The Company owns and maintains an expansive network of facilities that are required to deliver electricity to its customers, and the costs associated with operating and maintaining these facilities continue to increase.

In addition to facing substantial upward pressure on its costs, the Company also is facing declining revenues and lower credit ratings. PPL Electric has undertaken substantial efforts to address these issues while continuing to provide high quality, reliable service to its customers. Several examples of these efforts are provided below. PPL Electric requests that the PUC consider these efforts in establishing its cost of common equity capital in this proceeding.

A. <u>Advanced Metering Infrastructure</u>

The Company, wherever reasonable and economic, utilizes new technology to improve productivity and manage its operating costs. For example, PPL Electric's advanced metering infrastructure reduces costs associated with manual meter reading processes and aids in the outage identification and restoration process. In addition, it provides more detailed information to customers and to electric generation suppliers ("EGSs"), which is important as Pennsylvania's competitive retail electric market evolves and expands. PPL Electric steadily has improved upon its advanced metering infrastructure to the benefit of all customers by adding features such as a data management system that makes daily and hourly electric-use information available to customers.

PPL Electric is exploring new capabilities for the Company's meters as part of its smart meter plan approved by the Commission in an order entered on June 24, 2010 at Docket No. M-2009-2123945. Because the Company's existing system already meets the PUC's requirements for smart meter technology, PPL Electric does not need to replace its metering equipment. Rather, the Company is testing a variety of applications that will expand the capabilities of the current system and equipment over the next five years.

B. Operating Initiatives

In late 2009, PPL Electric was awarded a $19 million matching grant from the U.S. Department of Energy to implement advanced Smart Grid functionality for the Harrisburg area. Since the grant was awarded, a secure fiber optic and wireless communication solution has been designed and constructed in the Harrisburg area. By June 2012, more than 500 centrally-controllable distribution automation ("DA") devices will be installed and connected to PPL Electric's Distribution Management System ("DMS"). The Smart Grid solution will provide direct reliability benefits to more than 60,000 customers and will benefit all customers by providing system operators with advanced and timely situational awareness and control capabilities. PPL Electric plans to leverage this foundational grid modernization project to deploy self-healing Smart Grid functionality to approximately 50% of customers and circuits by 2019.

PPL Electric is in the process of deploying an enterprise work and asset management system ("WAM"). Beyond the significant effort required to convert to a new large scale software solution, the Company also has placed a strong emphasis on improving its associated work management business processes to more effectively and efficiently manage its portfolio of construction and maintenance work. As the WAM system is deployed, it will provide the future capability to more effectively store conditional and operational information associated with specific assets. The Company's plan is to leverage WAM and this new asset information to optimize maintenance and aging infrastructure replacement programs.

The historic storms of 2011 revealed areas where storm processes and systems were effective, as well as areas with opportunities for improvement. Some of the improvement initiatives already completed include:

- Hardware and software upgrades of the Company's Outage Management System to speed outage processing;
- Integration with a third-party service to handle customer outage calls when the telephone infrastructure reaches capacity;
- Revamped damage assessment processes to better utilize employees with mobile damage reporting capabilities and, in some cases, utilize retirees;
- Re-configured regional storm centers to optimize the flow of outage information and provide all required support; and
- Implementation of improved estimated restoration time ("ERT") processes and associated metrics.

The Company continuously evaluates and prioritizes reliability improvement and maintenance initiatives based upon several criteria, including the System Average Interruption Duration Index ("SAIDI"), which is the number of minutes an average customer is without electric service over the course of a year. In this way, attention is directed to worst-performing circuits. PPL Electric regularly reviews its worst-performing circuits and develops initiatives to alleviate conditions that contribute to poor performance. The Company also implements improvement projects on portions of the distribution system exhibiting particularly high interruption frequencies.

Finally, the Company has successfully deployed a comprehensive family of programs to meet its requirements under Pennsylvania Act 129. That Act requires electric distribution companies to work with customers to reduce energy use by 1 percent by May 31, 2011, and 3 percent by May 31, 2013. It also requires a 4.5 percent reduction in peak demand by May 31, 2013. The Company met the 2011 requirement and expects to meet both of the 2013 requirements.

C. Customer Contact Center

PPL Electric received nearly 6.5 million customer contacts in 2011, which is up from 4.3 million contacts in 2009. With more than 580,000 customers now shopping, the Company's interaction with customers has fundamentally changed. Even though the number of contacts has increased by 50 percent since 2009, operating costs for the Customer Contact Center have increased only 10 percent over that same period. These efficiencies are a direct result of capital investment in information systems to support customer choice and to provide expanded self-service options for customers.

Payment agreements and requests to start or stop electric service account for nearly 30 percent of the total contacts in 2011. The Company has implemented a payment agreement tool for its agents to improve compliance with Commission regulations, strengthen operational flexibility, enhance call-handling efficiency, and increase customer satisfaction. This system automatically establishes payment agreements, documents accounts, creates/cancels work orders, and generates confirmation letters. The payment agreement system includes automated consumer protections such as: voiding termination notices, reinstating payment agreements, and referring customers to PPL Electric's Customer Assistance Program ("CAP").

For requests to start or stop electric service, the Company has implemented a call-flow tool to improve the service application process, strengthen compliance with Commission regulations, and enhance call handling efficiency. This tool helps address uncollectible accounts by the timely handling of overdue balances transferred from previous accounts. These efforts mitigate the growth in write-offs of past due debt.

These system and process improvements create efficiencies by reducing the number of call transfers, lowering call handling times and increasing the grade of service (i.e., calls answered within 30 seconds).

With Commission approval in late 2010, PPL Electric implemented a two-year pilot program that allows residential customers to use self-serve tools (IVR and the web) to establish their own payment agreements. Customers already had the ability to make payments through the IVR or web. In 2011, customers made about 275,000 self-serve payments and established over 107,000 self-serve payment agreements.

PPL Electric also has made significant improvements to its call handling capabilities. In December 2011, PPL Electric increased the capacity of its telephony platform by 20 percent and leased IVR capacity from a high-volume call answering service. This added capacity will virtually eliminate busy messages during future major outage events. PPL Electric also instituted high-volume outbound calling capability to provide storm and ERT update messages to customers who are out of power or to issue alerts ahead of major events to help customers better prepare for service outages.

D. Retail Electric Competition

On January 1, 1997, the Electricity Generation Customer Choice and Competition Act ("Customer Choice Act") became effective. PPL Electric was a staunch supporter of the Customer Choice Act and, since its passage, has been an active supporter of both wholesale and retail electricity competition and the development of customer choice within Pennsylvania. Today, approximately three-quarters of the energy consumed within the PPL Electric service territory is provided by competitive EGSs. As previously discussed, PPL Electric is also an active participant in all phases of the PUC's retail market investigation.

E. Customer Education and Energy Efficiency Programs

The Company has included $8 million in its 2012 operating budget and in the future test year in this proceeding to continue providing consumers with programs and information that demonstrate how to use electric energy more efficiently and how these actions contribute to energy savings. These efforts are separate from the outreach component of Act 129, discussed above.

PPL Electric intends to maintain comprehensive consumer education and efficiency programs of the type included in its 2008-2012 consumer education plan beyond 2012. The Company proposes to maintain a broad-based, multi-media approach to provide all customers with educational programs designed to help them understand how and when they use electricity, how they can use energy more efficiently to better manage their electric costs, and how they can shop for electric supply in Pennsylvania's competitive retail electric market. The Company's plan successfully has targeted customers in all segments.

PPL Electric plans to offer the E-power team, a group of energy educators who interact with customers at community events (including Commission sponsored shopping events). In addition, the Company plans to create a traveling exhibit to promote shopping and energy efficiency. The mobile exhibit will be used in concert with community events and support other program activities including the E-power team and school programs. The Company also will develop an Energy Efficiency Technical Resource Center to offer seminars and workshops that provide businesses, facility managers, designers, contractors and engineers with an opportunity to learn about state of the art technology for saving energy and money.

F. Customer Assistance Programs

PPL Electric currently administers a family of universal service programs that provide reduced payment amounts and arrearage forgiveness (OnTrack); free weatherization measures and energy conservation education (WRAP and Act 129 WRAP); direct payments for energy bills (Operation HELP); and referral services for residential customers who have temporary hardships (CARES). In 2012, PPL Electric will expend approximately $77 million on these programs. The Company recovers these costs primarily through its reconcilable Universal Service Rider, which the Commission approved in PPL Electric's 2007 distribution rate case at Docket No.

R-00072155. In addition, a portion of the costs of the Company's low-income weatherization programs is included in its Energy Efficiency & Conservation Plan, which the Commission approved at Docket No. M-2009-2093216. The Company recovers these costs through its Act 129 Compliance Rider.

On May 5, 2011, the Commission entered an Order, at Docket No. M-2010-2179796, approving the Company's 2011-2013 Universal Service and Energy Conservation Plan ("Plan"). On June 1, 2013, PPL Electric will submit its proposed 2014-2016 Plan to the Commission for review and approval. In that filing, the Company will propose any necessary and appropriate changes to its current programs and services for low-income customers.

G. Industry Awards

In aggregate, the Company's efforts to control costs through effective management, use of improved business processes and application of new technology have been highly successful. Moreover, PPL Electric has been able to manage its costs without adversely affecting the quality of service to its customers. PPL Electric's customers consistently rank the Company as one of the best electric utilities in the country, as demonstrated by its numerous industry awards for quality of service and customer satisfaction.

In 2011, for the ninth time, PPL Electric was ranked highest among large electric utilities in the eastern United States in J.D. Power and Associates' annual study of business customer satisfaction. The J.D. Power and Associates study ranks companies' performance in areas such as power quality and reliability, billing and payment, corporate citizenship, price, communications, and customer service. In addition to its nine business customer satisfaction awards, PPL Electric has earned the top honor for residential customer satisfaction in the East eight times.

IV. Overview of Filing

In this filing, PPL Electric is requesting an annual distribution revenue increase of approximately $104.6 million, based on a future test year ending December 31, 2012, and a proposed allowed rate of return on equity of 11.25 percent. If granted by the Commission, this request will produce a system average increase in distribution rates of approximately 13 percent and an average increase in total rates (distribution, transmission and generation charges) of approximately 2.9 percent for default service customers.

Generally, the Company is proposing to allocate the increase to customer classes based on a class cost-of-service study and is proposing to move the rate of return for each customer class toward the system average rate of return. Based on the results of the class cost-of-service study and the Commonwealth Court's decision in *Lloyd v. Pa. Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006), the Company proposes to allocate the increase to rate classes that are below the proposed system average rate of return. The affected classes include residential customers, small single-phase commercial customers, street-lighting customers, and transmission service voltage customers. The Company proposes a rate decrease to one general service rate schedule with an overall rate of return well above the system average. PPL Electric limited the increase to Rate Schedule RTS (residential thermal storage) to approximately one-half the amount that would be required to move this rate class to system average rate of return.

This filing does not include either of the ratemaking mechanisms permitted by Act 11 of 2012. The Act authorizes fixed utilities to: (1) propose a distribution system improvement charge ("DSIC") and (2) use a fully projected future test year in base rate proceedings. Under the Act, utilities are not permitted to file a petition with the Commission to establish a DSIC until after January 1, 2013. As a result, PPL Electric has not included such a petition in this proceeding. However, PPL Electric does expect to file a petition for a DSIC in early January 2013. The authorization to utilize a fully projected future test year does not contain a similar filing restriction. However, the Company did not have sufficient time to prepare a fully projected future test year given its March 2012 filing date for this request. PPL Electric believes that proper development of such data for the first time would have required several months, at a minimum, and would have substantially delayed the effective date of new rates in this proceeding. Moreover, the Commission has not had an opportunity to develop the procedures and requirements for the use of a fully projected future test year.

The Company proposes to update its retail tariff to clarify certain provisions and eliminate other provisions that no longer are effective, including elimination of a number of terminated rate riders. The Company also has continued moving toward a rate design that more closely follows cost-of-service signals, specifically to recover a greater portion of its revenue requirements through demand and customer components. The Company, therefore, proposes an increase in the monthly customer charge for Rate Schedule RS from $ 8.75 per month to $16 per month. The customer charge for Rate Schedule RTS will remain at $18.06 per month.

For Rate Schedules GS-1, GS-3, GH-2 and LP-4, the Company proposes the distribution revenue requirement be recovered through an increased Customer Charge.

The Company also proposes to eliminate several rate schedules. When PPL Electric's generation rate caps expired on December 31, 2009, most of the interruptible service customers either switched to an EGS or migrated to firm power rate schedules, because the advantage of lower energy costs previously reflected in the interruptible service rates had been eliminated. Accordingly, the Company proposes to eliminate Rate Schedule IS-P (only two customers remain on Rate Schedule IS-P) and transfer those customers to Rate Schedule LP-4. The Company also proposes to eliminate Rate Schedule LP-6 (only two customers remain on Rate Schedule LP-6) and transfer those customers to Rate Schedule LP-5. Rate Schedules IS-P and LP-6 would be eliminated.

Also, as requested by the Office of Small Business Advocate ("OSBA") in the Company's 2010 distribution base rate case at Docket No. R-2010-2161694, PPL Electric sent letters to all customers being served under Rate Schedule GH-1 advising them that their distribution rates would be lower if they were served on Rate Schedules GS-1, GS-3, or LP-4. Those customers also have received personal telephone calls from PPL Electric. Currently, none of the Rate Schedule GH-1 customers benefit by staying on that rate schedule. Accordingly, PPL Electric proposes to move these customers to their respective general rate schedule (Rate

Schedule GS-1 for single-phase customers, Rate Schedule GS-3 for three-phase customers, and Rate Schedule LP-4 for primary voltage customers) and eliminate Rate Schedule GH-1.

PPL Electric proposes to eliminate Rate Schedule RTD (residential time of day) and bill these customers in the future under Rate Schedule RS. All of the distribution charges for both rate schedules currently are the same.

PPL Electric also proposes to modify the Net Metering for Renewable Customer-Generators Rider to reflect changes in the Alternative Energy Portfolio Standards Act and to clarify the net metering provisions for shopping customers. Also, PPL Electric is proposing to limit, prospectively, the generation in new Net Metering applications to 110% of the customer's connected load. This change is consistent with the original intent of the Net Metering provisions in the Alternative Energy Portfolio Standards Act, 73 P.S. Section 1648.1, *et seq.*, and the Commission's regulations implementing that Act, 52 Pa. Code Section 75.11, *et seq.* Also, this change is consistent with the size limitation proposed by the Commission in its Tentative Order at Docket No. M-2011-2249441.

PPL Electric proposes to increase the customer disconnect/reconnect charge for termination of service under Rule 10 of its Tariff from $15 to $30 during normal business hours and from $21 to $50 during non-business hours to better reflect the true costs of performing these services.

Finally, the Company is proposing to recover non-capital costs associated with consumer education, actions undertaken in response to the Retail Markets Investigation and other activities of a similar nature through a reconcilable rider - - the

Competitive Enhancement Rider ("CER"). The Company proposes the CER become effective on January 1, 2013, that it be applied on a per customer basis to each customer who takes distribution service and that it be subject to annual reconciliation.

Included in the filing as Exhibit DAK 1A is a black line version of the tariff reflecting these changes; Exhibit DAK 1 is a clean version of the revised tariff.

V. Conclusion

In this filing, PPL Electric is proposing a distribution rate increase appropriate for the restructured electric utility industry now in place in Pennsylvania. It reflects PPL Electric's status as a distribution electric utility and is based on financial and operating data for that single business line. The requested rate increase reflects the business environment the Company currently faces, particularly its need to make significant capital investments to help ensure that its reliability performance remains strong for customers today and in the future. The increase will move PPL Electric's inadequate return on equity from an estimated 6.7 percent in 2012 to an allowed 11.25 percent. This return is the minimum required for the Company to attract capital on reasonable terms, provide safe and reliable service to its customers and fully fund the various innovative programs described above. The return on equity proposed in this filing is particularly appropriate in view of PPL Electric's management effectiveness and award-winning customer service in the face of challenging economic and capital market conditions. For all of these reasons, PPL Electric's proposed distribution rate increase is just and reasonable and should be approved by the Commission.