BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	**Docket No. R-2012-2290597**
PPL Electric Utilities Corporation	:	

MAIN BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE

Steven C. Gray
Acting Small Business Advocate
Attorney ID # 77538

Office of Small Business Advocate
300 North Second Street - Suite 1102
Harrisburg, PA 17101

Dated: August 29, 2012

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I. **Introduction**

On March 31, 2012, PPL Electric Utilities Corporation ("PPL" or the "Company") filed with the Pennsylvania Public Utility Commission ("Commission") a request for additional annual distribution revenues of $104.6 million.

On May 24, 2012, the Commission suspended the proposed effective date of PPL's filing and instituted an investigation into the justness and reasonableness of the issues raised in the PPL filing.

On April 25, 2012, the Office of Small Business Advocate ("OSBA") filed a complaint against the PPL filing.

On May 31, 2012, a prehearing conference was held before Administrative Law Judge ("ALJ") Susan D. Colwell.

On June 1, 2012, ALJ Colwell issued her Scheduling Order.

On June 22, 2012, the OSBA served the direct testimony of Robert D. Knecht. On July 16, 2012, the OSBA served the rebuttal testimony of Mr. Knecht. On August 1, 2012, the OSBA served the surrebuttal testimony of Mr. Knecht.

Evidentiary hearings were held in Harrisburg on August 6th, 7th, and 9th, 2010.

The OSBA submits this main brief pursuant to the procedural schedule set forth in ALJ Colwell's June 1, 2012, Scheduling Order.

II. Summary of Argument

The cost of service study presented by PPL in this case provides a rational and reasonable basis for revenue allocation and rate design decisions. PPL's cost of service study is reasonably consistent with the underlying methodologies approved by the Commission in the Company's 2010 base rates case.

The revenue allocation proposed by PPL, at the full revenue request, is reasonable and should be adopted.

If the Company receives less than its full revenue request, the revenue allocation proposed by PPL should not be proportionately scaled back using the traditional methodology. A proportional scale back will seriously roll back the progress towards cost-based rates that is inherent in the Company's revenue allocation proposal at the full revenue request. Rather, a reduction in the proposed increase should be shared among all rate classes in proportion to the revenues proposed for each class in this proceeding.

The OSBA supports the Company's proposed rate design changes to the GS-1, GH-1, and GH-2 customer classes.

The OSBA generally supports the Company's proposed rate design changes to the GS-3 customer class. However, the OSBA recommends that if the Commission approves PPL's proposed GS-3 rate design changes, the Company should be required to identify and contact any single-phase service GS-3 customer that would benefit from switching to the GS-1 customer class.

The Company's proposed Competitive Enhancement Rider should not be addressed in this proceeding. The Rider is better addressed in PPL's concurrent default service proceeding. However, if the Commission determines that the Rider should be addressed in this proceeding, the rate design for recovering the costs of the Rider should be changed. Costs should be directly assigned to the Company's rate classes where that is possible.

VIII. Rate Structure

A. Cost of Service Study

1. Introduction

OSBA witness Robert D. Knecht summarized the Company's cost of service study ("COSS"), as follows:

> The Company's cost allocation or cost of service study ('COSS') is supported by the testimony of Mr. Joseph M. Kleha (PPL Electric Statement No. 8) and is detailed in hardcopy format in Exhibit JMK-1 for the historical test year and Exhibit JMK-2 for the future test year. Various supporting calculations and information are presented in Exhibit JMK-3.

OSBA Statement No. 1, at 2.

Mr. Knecht also summarized the key features of PPL's filed COSS:

> In its COSS, PPL Electric excludes all costs that are not related to base distribution rates, including energy and capacity costs, transmission costs, uncollectibles costs related to electricity supply, universal service costs, and Act 129 costs. All of these excluded costs are recovered in separate tariff charges or riders.
>
> PPL Electric's only 'function' is electric distribution -- all generation and transmission costs have been excluded from the COSS. As such, the *functionalization* aspect of a traditional COSS unnecessary. However, based on its plant records, PPL Electric sub-functionalizes its distribution costs related to a variety of plant assets into "primary voltage" system and "secondary voltage" system components. Similarly, the Company sub-functionalizes its operating and maintenance ('O&M') costs into primary and secondary system components.

The Company *classifies* most of its primary and secondary plant assets into demand-related and customer-related components. To do so, the Company uses a 'minimum system' method, adjusted slightly for the load carrying capability of secondary system transformers. Meters plant is classified as 100 percent customer-related. O&M and labor costs directly related to specific types of plant are classified in the same proportion as the related plant. The significant change proposed by the Company and approved by the Commission in the 2010 base rates proceeding was to classify most primary voltage distribution plant into both customer-related and demand-related components. Prior to that proceeding, PPL Electric classified all primary system plant as 100 percent demand-related.

Demand-related costs are generally *allocated* among the various rate classes based on class non-coincident peak ('NCP') demand. Most customer-related costs are allocated based on number of customers. Meters plant costs, as well as the customer component of services and transformer plant, are allocated using weighted customer allocators.

Customer accounts costs are allocated in proportion to number of customers. Customer service costs related to the Company's customer assistance program costs are assigned only to the residential classes.

General plant and related O&M expenses, as well as most administrative and general ('A&G') costs are classified and allocated in proportion using a wages and salaries allocation factor.

Working capital costs are allocated in some detail using a variety of methods, but the large dollar components of working capital costs are materials and supplies, which are classified and allocated in proportion to distribution plant, and working cash costs, which are classified and allocated in proportion to allocated O&M costs.

Taxes other than income taxes are generally classified and allocated in proportion to allocated plant costs. Deferred income tax costs are classified and allocated (in some detail) in proportion to a combination of allocated labor costs and allocated plant costs.

> Income taxes are allocated based on taxable rate class income, which is developed (in extraordinary detail) in the Company's COSS.

OSBA Statement No. 1, at 2-4 (citations omitted) (emphasis in original).

Significantly, Mr. Knecht observed that "the methodology adopted for the classification and allocation of distribution plant can have a significant impact on a wide range of costs in the COSS." *Id.*, at 4.

Mr. Knecht also provided a helpful overview of the rate classes present in PPL's COSS:

> **RS** Approximately 1.2 million residential customers taking service under Schedule RS, plus a few hundred residential customers taking service under time-of-day schedule RTD.
>
> **RTS** Approximately 13,000 residential customers who installed thermal storage devices prior to December 31, 1995, who take service under schedule RTS.
>
> **GS-1** Approximately 146,000 small general service customers taking secondary distribution service (mostly single-phase service) under schedule GS-1, plus a small number of utility customers who use the Company's distribution system to provide service to their own customers under schedule BL (borderline).
>
> **GS-3** Approximately 26,000 medium general service customers taking secondary distribution service (mostly three-phase service) under schedule GS-3, plus a few greenhouse customers taking interruptible service under schedule IS-1.
>
> **LP-4** Approximately 1,100 medium to large general service customers taking primary, three-phase distribution service. In this proceeding, PPL Electric proposes to include customers previously served under Rate ISP (an interruptible service class) in Rate LP-4.
>
> **LP-5** Approximately 128 large industrial customers taking service at transmission voltage (69 kV or higher)

> and providing their own substations under schedule LP-5. In this proceeding the LP-5 class includes customers previously served under Rate LP-6.
>
> **LPEP** One customer (Amtrak) taking electric propulsion service at transmission voltage (69 kV or higher) under schedule LPEP;
>
> **GH-2** Approximately 1,800 small to medium general service customers taking grandfathered all-electric heating service under schedules GH-2. In this proceeding, PPL Electric proposes to close the GH-1 class (which was previously included with the GH-2 class for cost allocation purposes), and transition those customers to service under Rates GS-1, GS-3 and LP-4.
>
> **SL/AL** Approximately 1,500 private and public lighting customers taking service under schedules SA, SM, SHS, SE, TS, and SI-1.

OSBA Statement No. 1, at 4-5.

Mr. Knecht concluded by observing:

> Note that customers in the LP-5 and LPEP classes take service at transmission voltage. Therefore, the only distribution plant costs assigned to those classes relate to meters, and in the case of LPEP, also dedicated substation costs. The customers in those classes currently represent only 0.2 percent of PPL Electric's current distribution revenues.

OSBA Statement No. 1, at 5.

2. The OSBA's Position on the Cost of Service Study

PPL's previous base rates case was filed on March 31, 2010, at Docket no. R-2010-2161694. In that proceeding, the Company presented two different cost of service studies in its initial filing. The first COSS employed a new methodology for classifying the Company's primary system distribution plant. The second COSS was identical to the first COSS, except that it used a methodology for classifying the Company's distribution plant that was the same as that found in the cost of service studies used by PPL in the Company's prior base rate proceedings.

The Commission approved the Company's updated COSS methodology, using the new way of classifying PPL's primary system distribution plant. *See Pennsylvania Public Utility Commission, et al., v. PPL Electric Utilities Corporation*, Docket No. R-2010-2161694 (Order entered December 21, 2010), at 46-47.

The OSBA's primary focus in this proceeding has been to investigate whether the COSS presented by the Company comports with the COSS approved by the Commission in PPL's 2010 base rates case. OSBA witness Knecht observed:

> At this writing, I am unaware of any fundamental changes that PPL Electric has experienced with respect to the factors that contribute to cost causation. I therefore see no reason to re-litigate the Company's COSS methodology in this proceeding.

OSBA Statement No. 1, at 5-6.

PPL witness Joseph M. Kleha stated that PPL had not made any significant changes in this proceeding to the COSS methodology approved by the Commission in the Company's 2010 base rates case. *See* PPL Statement No. 8, at 19-25. Mr. Knecht agreed with Mr. Kleha's assessment, and concluded that "the methodology used in this year's COSS appears to be reasonably consistent with that approved by the Commission." OSBA Statement No. 1, at 6.

Nevertheless, Mr. Knecht did note the following differences in the COSS presented in this proceeding:

> *Distribution Plant Classification:* The Company's proposed plant classification factors in this proceeding are similar in magnitude to those used in the last proceeding. There is therefore no obvious indication that the Company

> has departed from the approved methodology. Overall, distribution plant (substations, poles, conductors, conduit, and transformers) were classified as 59 percent customer-related, 41 percent demand-related in the last proceeding at Exhibit JMK-2, and are classified as 55 percent customer-related, 45 percent demand-related in this proceeding. This modest reduction in customer-related costs generally has the effect of reducing costs allocated to residential and GS-1 customers, and increasing costs allocated to larger non-residential customers.
>
> *Meters Plant Investment:* The Company has modified its meter plant allocation method such that the average per-customer cost of meters for the GS-1 class, which was comparable to that for an average residential customer in the 2010 COSS, is now nearly 80 percent higher than that for a residential customer.
>
> *Transformer Customer Weighting Factors:* The allocation factor that the Company applies to the customer component of transformer costs has been modified such that the costs assigned to non-residential customers have increased substantially relative to the approved methodology.
>
> *Services Customer Weighting Factors:* The allocation factor that the Company applies to the customer component of services costs has been modified such that the costs assigned to GS-3 customers have increased substantially relative to the approved methodology.
>
> *NCP Demand:* The NCP class load factor for the GS-3 and GH-2 classes is materially lower in the current COSS than it was in the 2010 COSS. This change has the effect of increasing demand-related costs assigned to the GS-3 and GH-2 classes relative to the demand allocation factors used in the 2010 COSS.

OSBA Statement No. 1, at 6-7 (footnote omitted).

Even though the list, set forth above, represents changes to the Company's COSS methodology, Mr. Knecht stated, as follows:

> [T]hese changes generally have the effect of increasing costs allocated to non-residential customers. Nevertheless, even with these changes, the Company has proposed to

> recover the vast majority of its revenue requirement deficiency from the residential rate classes. If I were to conclude that any or all of these changes are inappropriate, it would simply reinforce my support for the Company's revenue allocation proposal.

Id., at 7.

Consequently, the OSBA finds that the COSS methodology employed by PPL in this proceeding is reasonable. It is true, as listed above, that the Company has made certain changes to the COSS methodology. However, those changes do not alter the OSBA's conclusion that PPL's COSS, as presented in this case, generally conforms to the COSS methodology approved by the Commission in the Company's 2010 base rates case.

Therefore, the OSBA recommends that the ALJ and the Commission employ the Company's COSS as the "polestar" for the setting of rates in this proceeding.[1]

B. Revenue Allocation

1. Introduction

OSBA witness Mr. Knecht summarized the process of revenue allocation, as follows:

> The process generally begins with the revenues produced under existing rates from each class. These revenues are included in the COSS analysis at current rates. The 'current rates' COSS shows each class' over- or under-recovery of allocated costs at the existing rates. The relative over- or under-recovery of costs is evaluated using a variety of different metrics that depict the relationship between revenues and allocated costs. Most utilities and regulators adopt a policy in a base rates proceeding of attempting to move revenues more into line with allocated

[1] *See Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006), *appeals denied*, 916 A.2d 1104 (Pa. 2007).

> costs by varying the magnitude of the rate increases for the individual classes.

OSBA Statement No. 1, at 7-8.

However, Mr. Knecht noted that regulators would also employ other non-cost criteria in the ratemaking process. Mr. Knecht continued:

> Of the traditional rate design criteria, the most common non-cost considerations in the revenue allocation process are:
>
> the *gradualism* principle (or avoidance of 'rate shock'), in which large rate increases for individual customers or classes of customers are avoided; and
>
> the *value of service* principle, which is often used to mitigate rate increases for customers or customer classes with relatively elastic demand.

Id., at 8.

Mr. Knecht explained the final steps of the revenue allocation process, as follows:

> Using these criteria, the utility will develop a proposal for assigning the increase in the revenue requirement among the classes that reflects both cost and non-cost considerations. With this proposal, the COSS is then re-simulated to show the impact on cost recovery at 'proposed rates.' With the two COSSs, at current and proposed rates, the utility can evaluate whether any 'progress' has been made toward the policy of achieving cost-based rates. The results of this analysis of progress may then be used to develop a revised revenue allocation proposal. An iterative process follows until the rate designer is satisfied.

Id.

2. The OSBA's Position on Revenue Allocation

PPL witness Douglas A. Krall set forth the methodology for the Company's proposed revenue allocation in his direct testimony. *See* PPL Statement No. 5, at 8-10. Mr. Knecht summarized the Company's proposed revenue allocation, as follows:

As a percentage of distribution base rates only (excluding the various rate riders and adjustments), the $104.6 million increase proposed by PPL Electric in this proceeding requires a system average distribution rate increase of 14.3 percent. Mr. Krall proposes to generally rely on the results of the Company's COSS. However, he appears to impose limits on the rate increases assigned to the residential rate classes such that (a) the combined dollar increase for the RS and RTS rate classes does not exceed the overall proposed dollar increase, and (b) the increase for the RTS class not be more than two times the increase for the RS rate class on a total bill basis.

OSBA Statement No. 1, at 8-9.

The Company's proposed revenue allocation, at the full, proposed distribution revenue increase of $104.6 million, is summarized below:

PPL Proposed Revenue Allocation				
	Distribution Revenues at Present Rates ($000)	**Distribution Revenues at Proposed Rates ($000)**	**Proposed Increase ($000)**	**Percent Increase**
RS/RTD	473,043	574,129	101,086	21.4%
RTS	4,588	8,156	3,568	77.8%
GS-1	71,903	72,718	815	1.1%
GS-3	122,915	118,241	(4,674)	-3.8%
LP-4	33,611	33,618	7	0.0%
LP-5	1,205	1,917	712	59.1%
LPEP	443	443	0	0.0%
GH-2	1,382	1,705	323	23.4%
Lighting	22,869	25,648	2,779	12.2%
Total	**731,959**	**836,575**	**104,616**	**14.3%**
Source: Exhibit JMK-2				

OSBA Statement No. 1, at 9, Table IEc-1.

In order to evaluate whether the Company's revenue allocation proposal produced rates consistent with the results of PPL's COSS, Mr. Knecht evaluated the Company's revenue allocation proposal using the "differential rate of return" metric. Mr. Knecht explained the usefulness and simplicity of differential rate of return metric:

> The differential rate of return is the ***difference*** between the rate of return for a class and the system average rate of return. Thus, for example, at present rates, the Rate RS rate of return is 3.87 percent, compared to a system average rate of return of 6.14 percent, implying a differential rate of return of -2.27 percent.
>
> A ***differential rate of return of zero*** implies that a class is exactly recovering its allocated cost.
>
> A ***negative differential rate of return*** implies that the class is under-recovering its costs.
>
> [A] ***positive differential rate of return*** implies that the class is over-recovering its allocated cost.
>
> If a class exhibits a differential rate of return that is ***closer to zero at proposed rates than it is at present rates***, that class is making progress toward cost-based rates.

OSBA Statement No. 1, at 9-10 (emphasis and formatting added).

A table summarizing Mr. Knecht's differential rate of return analysis is set forth below:

PPL Revenue Allocation Proposal Differential Rate of Return Analysis				
	Percent Increase		**Present Rate Differential RoR**	**Proposed Rate Differential RoR**
RS/RTD	21.4%		-2.3%	-1.4%
RTS	77.8%		-10.2%	-6.5%
GS-1	1.1%		2.1%	-0.1%
GS-3	-3.8%		11.4%	8.2%
LP-4	0.0%		3.9%	1.6%
LP-5	59.1%		-11.7%	0.3%
LPEP	0.0%		15.5%	13.2%
GH-2	23.4%		-0.8%	0.3%
Lighting	12.2%		0.0%	0.0%
Total	**14.3%**		**0.0%**	**0.0%**
Source: Exhibit JMK-2				

OSBA Statement No. 1, at 10, Table IEc-2.

As is readily apparent from the table, all of the Company's rate classes are making progress towards cost-based rates under PPL revenue allocation proposal. The lone exception is the Lighting rate class, which remains effectively at cost-based rates under both present and proposed rates. *Id.*, at 10.

Regarding the specifics of the Company's revenue allocation proposal, Mr. Knecht observed the following:

> Even with the large rate increases proposed by the Company for the RS and RTS rate classes, those classes will continue to under-recover allocated costs at proposed rates. This is particularly true for the RTS class, which still produces a class rate of return that is 6.5 percentage points below system average, even after a 77.8 percent distribution rate increase.

> The small proposed increase for the GS-1 class will move revenues for that class closely into line with PPL Electric's allocated costs.
>
> Even with a reduction in rates for the GS-3 class, the Company's proposal will result in only modest progress toward cost-based rates, with that class continuing to substantially over-recover allocated costs at proposed rates and producing a class rate of return that is 8.2 percentage points over system average.
>
> Applying a *de minimis* increase to Rate LP-4 results in reasonable progress toward cost-based rates, although that class will continue to over-recover costs at proposed rates.
>
> The rate increase for the GH-2 class will eliminate the under-recovery at present rates and actually result in a modest over-recovery of costs at proposed rates.
>
> The near system-average rate increase for the lighting classes will hold revenues approximately equal to costs for those customers.

OSBA Statement No. 1, at 11.

The OSBA finds that the Company's revenue allocation proposal, at the full revenue requirement, is reasonable. Admittedly, the OSBA would have preferred more aggressive progress for the beleaguered GS-3 customer class, as that class continues to remain significantly above its cost of service. However, additional relief for the GS-3 customer class would necessitate increases to other rate classes:

> Strict adherence to the principle of moving rates into line with allocated costs would probably justify a larger rate reduction for the GS-3 class, a modest reduction for the LP-4 class, and a modest reduction for the LPEP class, offset by a higher increase for the Rate RS class. However, such adjustments would move the increase for RS customers above 1.5 times the system average increase.

Id., at 11-12.

Therefore, the OSBA recommends that the ALJ and the Commission adopt the Company's revenue allocation in this proceeding.

3. Scale Back

In the likely event that the ALJ and the Commission do not approve the entirety of the Company's $104.6 million distribution revenue increase, some form of scale back methodology must be used to allocate the revenue increase among PPL's customer classes. Mr. Knecht stated the goal for such a scale back methodology:

> Ideally, the allocation of a reduced revenue requirement should reflect the same principles inherent in the allocation of the initially proposed revenue requirement, and the progress toward cost-based rates that was part of the original intent should be retained.

OSBA Statement No. 1, at 13.

Mr. Knecht continued, as follows:

> The traditional approach used in Pennsylvania, namely the proportional scaleback of the increase, ***fails*** to meet that objective.
>
> I therefore recommend that any reduction in the overall rate increase be shared among the rate classes in proportion to the Company's proposed revenues in this proceeding. This approach will be vastly more effective in retaining the progress toward-cost based rates that is built into the Company's original proposal, and it will therefore be much more consistent with the ***PPL Electric's commitment in the remand phase of the 2004 base rate proceeding that rates be moved into line with costs within three base rates proceedings***.

Id. (emphasis and formatting added).

An example of Mr. Knecht's recommended approach is set forth in the table below. The example assumes that the Commission approves a $74.6 distribution revenue increase for PPL, $30 million below the Company's request.

Scale Back Example at $74.6 Million ($000)				
	PPL Proposed Increase	**Proposed Distribution Revenues**	**Scaleback**	**Net Increase After Scaleback**
RS/RTD	101,086	574,129	(20,589)	80,497
RTS	3,568	8,156	(292)	3,276
GS-1	815	72,718	(2,608)	(1,793)
GS-3	(4,674)	118,241	(4,240)	(8,914)
LP-4	7	33,618	(1,206)	(1,199)
LP-5	712	1,917	(69)	643
LPEP	0	443	(16)	(16)
GH-2	323	1,705	(61)	262
Lighting	2,779	25,648	(920)	1,859
Total	**104,616**	**836,575**	**(30,000)**	**74,616**
Note: The scale back amounts in the third column are proportional to the proposed distribution revenues in the second column. Source: Exhibit JMK-2, IEc calculations.				

OSBA Statement No. 1, at 14, Table IEc-3.

The scale back methodology proposed by Mr. Knecht is easily adapted for any final distribution revenue increase approved by the Commission.

Therefore, because Mr. Knecht's scale back methodology maintains the progress towards cost-based rates present in the Company's original revenue allocation proposal, the OSBA recommends the adoption of Mr. Knecht's scale back proposal in this proceeding.

C. Tariff Structure

1. The OSBA Position on GS-1, GS-3, GH-1, and GH-2 Rate Design

Mr. Knecht summarized the customer rate classes that the OSBA will be addressing in this proceeding, as follows:

> This testimony addresses the tariff design for customers served under the GS-1, GS-3, GH-1, and GH-2 rate schedules. These tariff schedules map closely, but not exactly, to the GS-1, GS-3 and GH-2 rate classes in the COSS. All customers in these rate classes are non-residential, and all take service at secondary distribution voltage.
>
> Customers taking service under Schedules GS-1 and GS-3 are generally distinguished between single-phase (GS-1) and three-phase (GS-3) service. While some grandfathered GS-1 customers retain three-phase service and some grandfathered GS-3 customers have single-phase service, PPL Electric is gradually moving to a consistent delineation of customers based on service type.

OSBA Statement No. 1, at 14-15.

Mr. Knecht set forth the pertinent details of these rate classes:

> PPL Electric has some 145,000 GS-1 customers, with an average monthly kWh consumption of about 1,100 kWh (slightly larger than the average residential customer), and average billing demand of a little less than 6 kW.
>
> PPL Electric's 27,600 GS-3 customers are, on average, considerably larger than GS-1 customers. Average monthly kWh consumption for this class is about 25,800 kWh, with average billing demand of 75 kW.
>
> The GH-1 and GH-2 customer classes are historical anachronisms, originally designed in the era of integrated electric utilities and high fossil fuel prices to encourage the adoption of electric heat. No new customers have been permitted to sign up for either GH-1 or GH-2 service since August 1972.

> Rate GH-1 is a commercial space heating service, available only to customers who use electricity for all their energy requirements, including space heating. There are currently about 670 customers taking service on this schedule, with an average monthly energy consumption of about 24,000 kWh and average billing demand of 93 kW.
>
> Rate GH-2 is a separate meter space heating service, for customers who take general service under another tariff schedule. There are currently about 1.990 GH-2 customers, with average monthly energy use of 2,300 kWh (about double the size of an average GS-1 customer), and average monthly billing demand of 15 kW. In effect, Rate GH-2 customers are similar to larger Rate GS-1 customers.
>
> On average, the load factor for the GH classes materially lower than that for the GS-1 and GS-3 customer classes.

OSBA Statement No. 1, at 15.

In regard to the GH-1 customer class, Mr. Knecht observed:

> The current GH-1 tariff is, in structure, comparable to the GS-3 tariff, consisting of a customer charge and a single demand charge. The Company proposes to close this tariff and to shift customers to the appropriate alternative tariff schedule, including GS-1, GS-3 and LP-4.

OSBA Statement No. 1, at 15.

The OSBA supports the Company's proposal for the GH-1 rate class. Mr. Knecht explained, as follows:

> I recommended that the GH-1 tariff be eliminated in the Company's last base rates proceeding, and I have generally been recommending that the GH-1 and GH-2 tariffs be phased out since 1994. At present rates, a GH-1 customer will experience a lower bill under GS-1, GS-3 or LP-4 service. Thus, PPL Electric's proposal to eliminate this class should result in a net distribution rate reduction for these customers.

Id., at 16.

In regards to the GH-2 customer class, Mr. Knecht stated:

> The GH-2 tariff for distribution service currently consists of a customer charge and a demand charge. To move rates for this class more into line with allocated costs, the Company proposes to increase both tariff charges.

Id. The following table sets forth the Company's proposed changes for the GH-2 customer class.

Rate GH-2: PPL Electric Proposal			
	Current	***Proposed***	***Percent***
Customer Charge ($/month)	$14.00	$16.00	14.3%
Billing Demand ($/kW)	$2.535	$3.090	21.9%
Sources: Attachment IV-C			

Id., Table IEc-4.

The OSBA supports the Company's proposal for the GH-2 customer class. Mr. Knecht explained the basis for this support:

> The proposed increase to the demand charge will move overall rates for this class into line with allocated costs, and will result in a tariff charge that is much closer to that for GS-1 service.

Id.

In regard to the GS-1 customer class, Mr. Knecht observed:

> The GS-1 tariff for distribution service also consists of a customer charge and a demand charge. Although PPL Electric proposes a minimal overall increase for the GS-1 class, the Company proposes to increase the customer charge and reduce the demand charge.

OSBA Statement No. 1, at 16. The follow table sets forth the Company's proposed changes for the GS-1 customer class.

Current and Proposed GS-1 Tariff Charges			
	Current Tariff Charges	***Proposed Tariff Charges***	***Percent***
Customer Charge ($/month)	$14.00	$16.00	14.3%
Billing Demand ($/kW)	$4.530	$4.258	-6.0%
Sources: Attachment IV-C			

Id., at 17, Table IEc-5.

The OSBA supports the Company's proposed changes for the GS-1 customer class. Mr. explained the support, as follows:

> I agree with PPL Electric that the increase to a $14.00 customer charge is directionally consistent with the results of the PPL Electric COSS. In addition, I note that the Company's proposal sets the proposed GS-1 customer charge at the same level as the residential customer charge. The customer-related cost for most GS-1 customers is similar to that for residential customers, as these customers have metering, service and line transformer requirements that are similar to those of the average residential customer.

Id. (footnote omitted).

In regard to the GS-3 customer class, Mr. Knecht explained the Company's proposal, as follows:

> The GS-3 tariff for distribution service also consists of a customer charge and a demand charge with no minimum billing demand. While PPL Electric proposes an overall reduction in rates to this class, the Company proposes to increase the customer charge, and decrease the demand charge.

OSBA Statement No. 1, at 17. The follow table sets forth the Company's proposed changes for the GS-3 customer class.

Current and Proposed GS-3 Tariff Charges			
	Current Tariff Charges	***Proposed Tariff Charges***	***Percent***
Customer Charge ($/month)	$30.00	$40.00	33.3%
Billing Demand ($/kW)	$4.510	$4.192	-7.1%
Sources: Attachment IV-C			

Id., at 18.

The OSBA generally supports the Company's proposed changes to the GS-3 rate class, with one notable exception. Mr. Knecht explained the support, as follows:

> The increase in the customer charge proposed by PPL Electric for GS-3 customers is generally consistent with the customer-related costs for service to most GS-3 customers.

Id. However, Mr. Knecht continued:

> [T]he GS-3 class appears to still contain two or three thousand single-phase service customers, whose customer-related cost is similar to that for residential customers. Imposing a $40 per month customer charge on these customers would implicitly require them to subsidize larger customers within the class. In order to mitigate this effect, PPL Electric should take steps to determine whether single-phase service GS-3 customers would pay lower rates under Rate GS-1, and advise any customers who would pay lower rates under Rate GS-1 to switch to that service.

Id.

Therefore, the OSBA generally supports the Company's rate design proposals for GS-3. The OSBA does recommend that PPL make a concerted effort to identify and contact any single-phase service GS-3 customer that would benefit from switching to the GS-1 customer class.

IX. Miscellaneous Issues

D. CER

The Company has proposed the adoption of a Competitive Enhancement Rider ("CER") in this proceeding. *See* PPL Statement No. 8, at 30-32. Mr. Knecht summarized the Company's CER proposal, as follows:

> PPL proposes to adopt a reconcilable CER to recover two types of costs. First, the CER would recover certain general and energy efficiency customer education programs that are currently recovered through base rates (and which exclude any programs specifically related to the Company's Act 129 EE&C program). Second, the CER would recover program costs that may arise out of the Commission's retail market enhancement initiatives that are not otherwise recovered from other parties or other rate riders. As proposed, the CER would be a per-customer charge that would be identical for each of PPL Electric's customers.

OSBA Statement No. 1, at 18.

Mr. Knecht identified a number of issues with the Company's CER proposal:

> [W]ith respect to basic customer education programs, those costs are currently recovered in base rates, and PPL Electric does not offer any specific reasons why another rate rider and reconciliation mechanism is necessary to address recovery of these costs. Moreover, implementing another rider will simply lead to the need for more regulatory oversight to ensure that costs claimed under the new rider include only those costs which were specifically identified as being associated with that rider.

Id., at 19.

Nevertheless, Mr. Knecht found areas of agreement with PPL:

> [W]ith respect to the recovery of retail market enhancement costs, I agree with PPL Electric on a number of counts. First, I agree that PPL Electric should be allowed to fully recover the costs that it incurs for retail market enhancement. Because these costs are substantially

> uncertain, a reconciliation mechanism may very well be worth the effort. Second, I agree with PPL Electric that many costs associated with retail market enhancement should be recovered from electric generation suppliers ('EGSs'), as specified by the Commission in its guidelines. Third, I agree with PPL Electric that other Pennsylvania electric distribution companies ('EDCs') have, or have proposed, riders related to retail market enhancement and other costs incurred by EDCs related to their obligations with respect to generation and transmission service.

OSBA Statement No. 1, at 19.

Ultimately, Mr. Knecht concluded that the CER should not be addressed in this proceeding:

> [T]his is a distribution rate proceeding. A rate rider designed to recover retail market enhancement costs would be better addressed in the Company's current default service proceeding, currently in progress at Docket No. P-2012-2302074, where the specific costs and programs that might be covered by such a rider can be evaluated more fully.

Id.

However, if the Commission were to approve a CER for PPL in this proceeding, the OSBA recommends that the Company's rate design for recovering the costs of the CER program be changed. As set forth above, the cost of the CER will be recovered by spreading that cost equally across all of the Company's customers. Such a simplistic solution creates a cost-causation problem, as Mr. Knecht explained:

> [M]any of the programs that would be covered by the CER apply to specific types of customers, and the costs for those programs should be recovered from those customers. For example, the costs for the 'Energy Report Cards for Small C&I' customers should be assigned to and recovered from Small C&I customers. Similarly, any costs associated with the retail opt-in auction program that are not recovered from EGSs should be assigned to and recovered from

> residential customers, because the retail opt-in auction program does not apply to non-residential customers.

OSBA Statement No. 1, at 20.

Instead of the Company's proposal, the OSBA recommends that costs be directly assigned to PPL's rate classes where that is possible:

> [T]he Company should directly assign the CER program costs to those rate classes for which costs can clearly be attributed. Costs that are not specifically associated with a rate class should be allocated using some reasonable cost-based allocation factor. (Using number of customers would generally be consistent with the Company's current COSS methodology.) The Company should then develop a separate CER charge for each rate class or rate class group, based on the allocated costs.

Id. (footnote omitted).

The OSBA proposal to directly assign costs, where possible, is consistent with the principles of cost-causation, and leads to a more just and reasonable result than simply spreading the CER costs equally over all of the Company's customers. The OSBA recommends the adoption of the proposal is the Commission determines that a CER should be implemented in this proceeding.

X. Conclusion

Wherefore, the OSBA requests that the ALJ and the Commission:

1. Adopt the PPL cost of service study as the basis for the revenue allocation and rate design decisions in this proceeding;

2. Adopt the PPL revenue allocation at the full revenue requirement of $104.6 million;

3. Proportionately scale back the revenue allocation if a revenue requirement of less than $104.6 million is approved;

4. Adopt PPL's proposed rate design changes for the GS-1, GH-1, and GH-2 customer classes;

5. Adopt PPL's proposed rate design changes for the GS-3 customer class, but require PPL to identify and contact any single-phase service GS-3 customer that would benefit from switching to the GS-1 customer class;

6. Order that PPL's proposed Competitive Enhancement Rider should not be addressed in this proceeding, but rather in PPL's concurrent default service proceeding.

    a. In the alternative, change the Rider's rate design by directly assigning costs to the Company's rate classes where that is possible.

Respectfully submitted,

Steven C. Gray /sew

Steven C. Gray
Acting Small Business Advocate
Attorney I.D. No. 77538

Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101
(717) 783-2525
(717) 783-2831

Dated: August 29, 2012

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	**Docket No. R-2012-2290597**
PPL Electric Utilities Corporation	:	

CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Main Brief, on behalf of the Office of Small Business Advocate, by e-filing, e-mail, and/or first-class mail (unless otherwise noted) upon the persons addressed below:

Hon. Susan D. Colwell
Administrative Law Judge
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105
(717) 787-1191
(717) 787-0481 (fax)
scolwell@pa.gov
(E-mail and Hand Delivery)

Paul E. Russell, Esquire
PPL Electric Utilities Corporation
Two North Ninth Street
GENTW4
Allentown, PA 18101-1179
(610) 774-4254
(610) 774-6726 (fax)
perussell@pplweb.com

David B. MacGregor, Esquire
Post & Schell, PC
Four Penn Center
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103
dmacgregor@postschell.com

Todd S. Stewart, Esquire
William E. Lehman, Esquire
Hawke McKeon & Sniscak, LLP
P. O. Box 1778
100 N. Tenth Street
Harrisburg, PA 17105-1778
(717) 236-1300
(717) 236-4841 (fax)
tsstewart@hmslegal.com
welehman@hmslegal.com

Tanya McCloskey, Esquire
Candis A. Tunilo, Esquire
Darryl A. Lawrence, Esquire
Office of Consumer Advocate
555 Walnut Street - 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048
(717) 783-7152 (fax)
tmccloskey@paoca.org
ctunilo@paoca.org
dlawrence@paoca.org
(E-mail and Hand Delivery)

Regina L. Matz, Esquire
Bureau of Investigation and Enforcement
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105
(717) 787-1976
(717) 772-2677 (fax)
rmatz@pa.gov
(E-mail and Hand Delivery)

Michael W. Gang, Esquire
John H. Isom, Esquire
Christopher T. Wright, Esquire
Post & Schell, PC
17 North Second Street - 12th Floor
Harrisburg, PA 17101-1601
mgang@postschell.com
jisom@postschell.com
cwright@postschell.com

Scott J. Rubin, Esquire
333 Oak Lane
Bloomsburg, PA 17815-2036
(570) 387-1893
(570) 387-1894 (fax)
scott.j.rubin@gmail.com

Kenneth L. Mickens, Esquire
316 Yorkshire Drive
Harrisburg, PA 17111
(717) 343-3338
(717) 657-0938 (fax)
kmickens11@verizon.net

Glenn Watkins
Technical Associates, Inc.
9030 Stony Point Parkway - #580
Richmond, VA 23235
Watkinsg@tai-econ.com
(E-Mail Only)

Roberta Kurrell
591 Little Mountain Road
Sunbury, PA 17801-5540
(First-class Mail Only)

William Andrews
40 Gordon Avenue
Carbondale, PA 18407
(First-class Mail Only)

John Lucas
112 Jessup Avenue
Jessup, PA 18434
(First-class Mail Only)

Helen Schwika
1163 Lakeview Drive
White Haven, PA 18661
(First-class Mail Only)

Richard Koda
Koda Consulting
409 Main Street
Ridgefield, CT 06877
rjkoda@earthlink.net
(E-Mail Only)

Roger D. Colton
Fisher, Sheehan, and Colton
34 Warwick Road
Belmont, MA 02478
(617) 484-0597
roger@fsconline.com
(E-mail Only)

Joseph L. Vullo, Esquire
1460 Wyoming Avenue
Forty Fort, PA 18704
(570) 288-6441
(570) 288-4598 (fax)
jlvullo@aol.com

Dave Kenney
577 Shane Drive
Effort, PA 18330
(First-class Mail Only)

Eric Joseph Epstein
4100 Hillsdale Road
Harrisburg, PA 17112
(717) 541-1101
lechambon@comcast.net

Daniel Clearfield, Esquire
Deanne O'Dell, Esquire
Carl Shultz, Esquire
Eckert Seamans Cherin & Mellott, LLC
213 Market Street - 8th Floor
Harrisburg, PA 17101
(717) 237-6000
(717) 237-6019 (fax)
dclearfield@eckertseamans.com
dodell@eckertseamans.com
cshultz@eckertseamans.com

Pamela C. Polacek, Esquire
Adeolu A. Bakare, Esquire
McNees Wallace & Nurick, LLC
P. O. Box 1166
Harrisburg, PA 17108-1166
(717) 232-8000
(717) 260-1763 (fax)
ppolacek@mwn.com
abakare@mwn.com

Edmund Berger, Esquire
Berger Law Firm, P.C.
2104 Market Street
Camp Hill, PA 17011
(717) 920-8900
tberger@bergerlawfirm.net

Frank J. Richards
Richards Energy Group, Inc.
781 South Chiques Road
Manheim, PA 17545
frichards@richardsenergy.com
(E-Mail Only)

Steven C. Gray /sew

Date: August 29, 2012

Steven C. Gray
Acting Small Business Advocate
Attorney ID No. 77538