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August 29, 2012

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA ELECTRONIC FILING

RE: Pennsylvania Public Utility Commission v. Petition of PPL Electric Utilities Corporation; Docket No. R-2012-2290597

Dear Secretary Chiavetta:

Please find enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") the Main Brief of the PP&L Industrial Customer Alliance ("PPLICA") in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to the proceeding are being duly served with a copy of the document.

Very truly yours,

McNEES WALLACE & NURICK LLC

By
Adeolu A. Bakare

Counsel to the PP&L Industrial Customer Alliance

AAB/lmc
Enclosure
c: Administrative Law Judge Susan D. Colwell (via E-mail and First Class Mail)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Counsel to PP&L Industrial Customer Alliance

Dated this 29th day of August, 2012, at Harrisburg, Pennsylvania.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

MAIN BRIEF OF THE PP&L INDUSTRIAL CUSTOMER ALLIANCE

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Dated: August 29, 2012

TABLE OF CONTENTS

TABLE OF AUTHORITIES

I. INTRODUCTION

A. STATEMENT OF THE CASE

On March 30, 2012, PPL Electric Utilities Corporation ("PPL" or "Company") filed with the Pennsylvania Public Utility Commission ("PUC" or "Commission") Supplement No. 118 to Tariff-Electric-Pa. P.U.C. No. 201 ("Supplement No. 118"), to become effective on June 1, 2012. Supplement No. 118 proposed to increase PPL's distribution rates by approximately $104.6 million, or 14.3% over the Company's present annual distribution revenues. The Company stated that the requested distribution rate increase was necessary in order to attract capital, expand investment for its distribution system and maintain strong reliability for its customers. If approved, the Company's distribution rate increase request would produce an overall rate increase of approximately 3%.

On May 25, 2012, the PP&L Industrial Customer Alliance ("PPLICA") filed a Complaint in this proceeding. PPLICA is an ad hoc association of energy-intensive commercial and industrial customers receiving electric service in PPL's service territory. PPLICA members purchase service from PPL primarily under Rate Schedules LP-4, LP-5, LP-6, IS-P, and IS-T, as well as available riders.[1] These Rate Schedules make up the Large Commercial and Industrial ("Large C&I") Class for purposes of PPL's distribution base rate filing. PPLICA was an active Party in PPL's Restructuring Proceeding pursuant to the Electricity Generation Customer Choice and Competition Act ("Competition Act"), during which the Company's initial unbundled distribution and transmission rates were established, as well as PPL's 2004, 2007, and 2010 Distribution Base Rate proceedings.

[1] Some PPLICA members also have accounts on Rate Schedules GS-1 and GS-3.

In addition to PPLICA, the following parties filed Complaints in this proceeding: Office of Consumer Advocate ("OCA"); Office of Small Business Advocate ("OSBA"); Eric Epstein; and numerous individual PPL ratepayers. The Commission's Bureau of Investigation and Enforcement ("I&E") filed a Notice of Appearance. Parties that filed Petitions to Intervene included: Richards Energy Group, Inc. ("Richards"), the Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF"), Dominion Retail, Inc. ("Dominion"), the Commission on Economic Opportunity ("CEO"), Granger Energy of Honey Brook LLC and Granger Energy of Morgantown LLC ("Granger Energy"), Direct Energy Services LLC ("Direct Energy"), and International Brotherhood of Electric Workers, Local 1600 ("IBEW").

By Order entered May 24, 2012, the Commission suspended Supplement No. 118 for investigation and assigned the matter to the Office of Administrative Law Judge ("OALJ") for hearing, and this proceeding was assigned to Administrative Law Judge ("ALJ") Susan D. Colwell.

Pursuant to the procedural schedule established in ALJ Colwell's Second Prehearing Order, issued June 1, 2012, PPLICA received Direct Testimony from the following parties on June 22, 2012: OCA, OSBA, I&E, SEF, Dominion, CEO, Granger Energy, and Direct Energy.

On July 16, 2012, PPLICA served the prepared Rebuttal Testimony and Exhibit of Richard A. Baudino, and received Rebuttal Testimony from the Company, OCA, OSBA, I&E, and Granger Energy.

On August 1, 2012, PPLICA served the prepared Surrebuttal Testimony of Mr. Baudino, and received Surrebuttal Testimony from OCA, OSBA, I&E, SEF, Dominion, Granger Energy, and Direct Energy. In addition, PPLICA received Supplemental Surrebuttal Testimony from

I&E on August 3, 2012. Although not included as part of the procedural schedule, the Company served the other parties with Rejoinder Testimony and Exhibits on August 5 and 6, 2012.

Evidentiary hearings, in which PPLICA actively participated, were held on August 6, 7, and 9, 2012. During these hearings, PPLICA entered its prepared testimony and exhibits into the record, as well as one cross-examination exhibit. Pursuant to the procedural schedule in this proceeding, PPLICA hereby submits this Main Brief.

II. SUMMARY OF ARGUMENT

First, the Commission should approve the Company's Customer Cost of Service Study ("CCOSS"), which properly allocates primary distribution facility costs in both a customer and demand component and is consistent with the NARUC policies. As presented, PPL's CCOSS is a reasonable basis upon which to make a determination of the appropriate allocation among rate schedules. Alternate CCOSSs proposed by OCA are contrary to established cost of service principles and should be rejected.

Second, the Commission should also approve PPL's proposed revenue allocation methodology. The Company's proposal for allocation of the revenue requirement is the only proposal presented that would move all classes toward the system average rate of return, while not creating further inequity for Rate Schedule LP-4 customers. As such, the Company's revenue allocation is appropriate and should be accepted by the PUC.

Third, the Commission should approve the revenue-based scaleback proposed by the OSBA. Of the various scaleback methodologies proposed in this proceeding, the OSBA's proposed scaleback best preserves the Company's proposed revenue allocation at the full rate increase request. To avoid reversing the Company's progress towards cost of service rates, OSBA's proposal should be approved. In the event that the Commission declines to approve

OSBA's revenue-based scaleback, then the Commission should approve a proportional scaleback for all rate schedules receiving a rate increase.

Finally, if the Company's request to implement a Competitive Enhancement Rider ("CER") is approved, the Commission should approve PPL's proposal to Company's proposal to collect costs related to retail market enhancements from Electric Generation Suppliers ("EGSs"). The Commission should reject any proposal to collect costs on a per kWh basis and find that any additional CER costs should be both allocated amongst customer classes and collected from individual customers on a per customer basis. If the Commission declines to approve a cost recovery structure both allocating and collecting CER costs on a per customer basis, the Commission should approve PPL's proposal to implement a fixed monthly charge applicable to all customers.

III. RATE BASE

PPLICA will not be addressing issues regarding PPL's Rate Base in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

IV. REVENUES

PPLICA will not be addressing issues regarding PPL's Revenues in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

V. EXPENSES

PPLICA will not be addressing issues regarding PPL's Expenses in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

VI. TAXES

PPLICA will not be addressing issues regarding PPL's Taxes in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

VII. RATE OF RETURN

PPLICA will not be addressing issues regarding PPL's Rate of Return in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

VIII. RATE STRUCTURE

A. COST OF SERVICE STUDY

1. PPL's Class Cost of Service Study Should Be Accepted as Filed.

a) Introduction

The Commission has a duty pursuant to Sections 2804(10) and 1301 of the Public Utility Code to ensure that the unbundled distribution rates charged to customers are just, reasonable and non-discriminatory. See 66 Pa. C.S. §§ 2804(10), 1301. To accomplish this, the PUC relies upon long-standing principles of cost allocation and rate-making.

These principles are critically important in addressing the CCOSS in this proceeding. Appropriately quantifying the cost of service is a critical step in developing just and reasonable rates. Any approved CCOSS must reflect sound cost of service principles and ensure that customers are allocated costs in conformance with their impact upon the PPL's distribution system. For the reasons detailed below, PPLICA submits that PPL's proposed CCOSS follows established technical and regulatory precedents and should be approved by the Commission.

b) Parties' Positions

PPL has filed a CCOSS that presents the fully distributed costs of providing retail distribution service to the various rate classes at both present and proposed rates. The filed CCOSS generally follows the same principles used by PPL in previous base rate proceedings by utilizing "the class maximum non-coincident peak ("NCP") demand method, which is based on the highest demand imposed by each rate class on its distribution system, to allocate its demand-related distribution costs." PPL Electric Utilities Corporation Statement No. 8, Direct Testimony of Joseph M. Kleha, at 19. When classifying distribution plant investment and expenses, PPL used the "minimum size system" methodology and allocated these costs based partially on the number of customers and partially on the basis of peak demand. Id. at 20-21.

Importantly, PPL's CCOSS utilizes a heightened level of data analysis originally applied in the CCOSS prepared for the 2010 base rate case. As in 2010, the Company again developed allocators to classify primary voltage level distribution facilities into their "demand-related and 'minimum or no load' customer-related cost components." PPL Electric Utilities Corporation Statement No. 8-R, Rebuttal Testimony of Joseph M. Kleha, at 9. As indicated by Mr. Kleha, PPL refined its allocation method to more accurately reflect cost causation following criticism regarding the load-carrying capability, or lack thereof, of the primary voltage level equipment used in the Company's minimum size system studies. See Id. Previously, the allocation for primary voltage level distribution facilities was made solely on the basis of demand. Id. According to Mr. Kleha, in addition to responding to criticisms made in PPL's previous distribution base rate proceedings, this modification is consistent with NARUC recommendations "that primary voltage level overhead and underground conductors be classified into their demand-related and customer-related cost components." Id.

Only the OCA opposes PPL's proposed CCOSS. From the outset, it is noteworthy that OCA opposes PPL's CCOSS on substantially the same grounds which the Commission rejected in PPL's 2010 base rate case. Now, just two years later, OCA again challenges PPL's classification of certain distribution costs as demand and customer related, arguing that primary plant should be classified on a 100% demand basis, with only secondary plant allocated to both demand and customer components.[2] To support this proposal, OCA offers a reiteration of the 100% demand allocation that was rejected in the 2010 base rate case and an alternative minimum size study comprised of flawed adjustments to PPL's minimum size study. Specifically, OCA performs essentially the same density analysis from 2010, concludes that the density study does not support allocation of distribution plant based on customer count, and therefore develops an alternate CCOSS allocating all distribution plant on a 100% demand basis. As a second alternative study, OCA offers several adjustments to PPL's minimum size study, each applied to increase the percentage of plant allocated on a demand basis. OCA then recommends a compromise between the two alternative studies, claiming that the Commission should allocate 100% of PPL's primary plant on a demand basis and apply OCA's minimum size study to allocate secondary plant on a both a customer and demand basis.

PPLICA supports PPL's filed CCOSS. The Company has performed the same CCOSS consistently approved by the Commission in numerous prior rate cases. As demonstrated below, OCA's recommendation is largely based on a results-driven density analysis with no meaningful relation to the cost of service principles historically applied by the Commission and supported by NARUC. The minimum size study forming the remaining justification for OCA's

[2] In the 2010 base rate case, OCA argued that all of PPL's distribution plant should be classified on a 100% demand basis. OCA offers the same arguments in this proceeding, but alters its recommendation to a purportedly "compromise" position incorporating a customer cost component for secondary distribution plant and allocating primary plant on a 100% demand basis.

recommendation erroneously imputes hypothetical plant to PPL's system and fails to accurately reflect the specific utilization of certain plant assets. Although cost allocation may be an art, not an exact science, PPL's CCOSS provides a reasonable basis for assessing distribution-related rates of return for each rate schedule, consistent with Commission precedent and NARUC recommendations. Therefore, PPL requests that the Commission adopt PPL's CCOSS as filed and reject the OCA's recommendations.

c) Argument

Although OCA opposes PPL's filed CCOSS, OCA offers no credible evidence to overcome the conclusion reached in the 2010 base rate case, that PPL's CCOSS is supported by and consistent with NARUC principles. Rather, OCA conducts an alternative minimum size analysis and repeats the density analysis presented in the 2010 case. Office of Consumer Advocate Statement No. 3, Direct Testimony of Glenn A. Watkins, at 18. While OCA's overall recommendation does not strictly follow either study, the recommendation to return to a 100% demand allocation of primary plant represents an alleged compromise based on the 100% allocation derived from OCA's density analysis and OCA's adjusted minimum size study. As both of OCA's alternative CCOSSs are flawed, the purported compromise recommendation should be rejected and the Commission should approve PPL's filed CCOSS.

The results of OCA's density study are irrelevant to PPL's CCOSS. Using essentially the same metrics as the 2010 study, OCA finds that all customer classes are dispersed in relatively even proportions across urban and rural areas of PPL's service territory. Id. at 13. OCA then concludes that the density study does not support allocation of distribution plant based on customer count. Id. Notably, the empirical results of OCA's density study are not controversial. As indicated by PPL, "Mr. Watkins customer 'density' analysis shows exactly the results that anyone who is familiar with PPL Electric's service territory and its distribution system would expect." PPL Stmt. No. 8-R, at 13. However, OCA's conclusions remain unsupported because the density study bears no relation to NARUC cost of service principles.

As OCA's density study relies on presumptions contrary to longstanding NARUC cost of service principles, the Commission should reject any recommendation based in whole or in part upon such results. PPLICA Witness Richard A. Baudino describes the NARUC methodologies for allocating distribution plant as follows:

> There are two recognized methodologies to estimate the customer component of distribution costs. These methods, which are described in the excerpt from the NARUC manual, are the "minimum intercept" method and the "minimum size" method, which is the approach used by PPL. Each of the two methods is designed to estimate the component of distribution plant cost that is incurred by a utility to effectively interconnect a customer to the system, as opposed to providing a specific level of power (kW demand) to the customer.
>
> A minimum size distribution cost of service analysis is designed to reflect the costs associated with changes in both the number of distribution customers and the loads of these customers. The conceptual basis for the minimum size method is that it reflects a classification of the distribution facilities that would be required to simply interconnect a customer to the system, irrespective of the kW load of the customer. From a cost causation standpoint, the argument supporting this approach is that all of these minimal facilities would be required simply due to the requirement to interconnect the customer.

PP&L Industrial Customer Alliance Statement No. 1-R, Rebuttal Testimony of Richard A. Baudino, at 4-5. Mr. Baudino goes on to directly address OCA's interpolation of customer density into the cost of service analysis supported by NARUC, describing the analysis as "completely incorrect." Id. at 6. Based on the NARUC cost of service principles allocating customer costs based on the minimum size method, Mr. Baudino asserts that "[w]hether customers live in rural or urban areas has no bearing whatever on the classification of certain distribution system costs as demand or customer related." Id.

The invalidity of Mr. Watkins' density study was recognized by the Commission in the 2010 base rate case when the Commission concluded that OCA's recommendation to allocate distribution plant on a 100% demand basis was "contrary to prior Commission action in PPL's 2004 and 2007 base rate proceedings and inconsistent with recommended COSS principles as outlined in the NARUC manual."[3] Now, in 2012, the Commission's prior statements remain as accurate as before. As discussed in further detail below, the record reflects no new evidence or analysis beyond the arguments already rejected by the Commission in PPL's 2010 rate case.

OCA's minimum size study is similarly unsupported. PPL allocated both primary and distribution plant according to the actual plant installed to connected customers to the minimum size system. PPL Electric Utilities Corporation Statement No. 8-R, at 21. This "minimum size system" is the plant necessary to provide the appropriate level of capability to carry load that meets the requirements of its minimum size distribution system. See Id. at 16, 22-24. Notably, PPL has refined its minimum size study to reflect the actual installations on the system. For example, OCA makes a generalized claim that fiber optic communication cables should not be included within the minimum size analysis because they are not capable of carrying amperate. OCA Stmt. No. 3, at 31. Conversely, Mr. Kleha clarifies that PPL utilizes fiber optic communication cables because PPL uses the plant to communicate with SCADA, which is a necessary component of distribution plant. PPL Stmt. No. 8-R, at 23-24. Similarly, OCA's minimum size analysis incorporates hypothetical two-wire conductors rather than the actual conductors currently used on the system. PPL Stmt. No. 8-R, at 28. In summary, OCA's minimum size study does not accurately reflect the configuration of PPL's system whereas PPL's CCOSS follows the methods found reasonable by the Commission in 2010.

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[3] Pa. Pub. Util. Comm'n v. PPL Elec. Utilities. Corp., R-2010-2161694 (Order entered Dec. 21, 2010), at 35-36 [hereinafter "2010 Order"].

Despite the evidentiary shortcomings of OCA's alternative CCOSSs and the Commission's 2010 ruling in favor of PPL's CCOSS, OCA continues to seek Commission approval of its current CCOSS recommendation through unpersuasive attempts to distinguish the current recommendation from the substantively identical arguments rejected by the Commission in 2010. Just as the Commission found that the record in 2010 precluded an allocation of all distribution plant on a 100% demand basis, the record in this proceeding does not support fully allocating primary distribution plant on a 100% demand basis. The fundamental issues remain unchanged from the 2010 rate case. See PP&L Industrial Customer Alliance Statement No. 1-SR, Surrebuttal Testimony of Richard A. Baudino, at 2. OCA attempts to subvert this fact in no less than three ways. First, OCA attempts to show that parties have misinterpreted the Commission's 2010 Order. Second, OCA claims that NARUC has updated its cost of service principles since issuing the 1992 NARUC Manual. Finally, OCA styles its CCOSS recommendation as a "compromise," creating a misnomer for a one-sided proposal. Each of these representations should be rejected.

OCA's claim that parties have misinterpreted the Commission's Order are erroneous. Mr. Watkins revisits the 2010 base rate case, stating that witnesses "supporting an *assumed* requirement that distribution plant must be classified as partially customer-related and partially demand-related, referred to certain quotes in the 1992 NARUC Electric Utility Cost Allocation Manual ("NARUC Manual")." OCA Stmt. No. 3, at 19 [Emphasis added]. As observed by Mr. Baudino, Mr. Watkins' argument is an attempt at misdirection. Mr. Baudino testifies that, "The 1992 NARUC Manual fully describes and supports the use of the minimum system method of classifying certain distribution plant accounts." PPLICA Stmt. No. 1-R. A review of the NARUC Manual clearly shows that application of the minimum system method requires development of a customer cost component for poles, towers, fixtures, overhead conductors, underground conductors, line transformers, and services. OCA Stmt. No. 3, Exhibit GAW-3, at 91-92. Regardless of whether the NARUC Manual necessarily mandates that every distribution cost be allocated to both customer and demand components, no party contests the fact that the NARUC Manual supports the minimum size method and specifies that a properly developed minimum size study includes calculation of customer cost components for primary and secondary plant. Accordingly, as observed by Mr. Baudino, "Mr. Watkins has not presented evidence that would suggest any change is warranted to the Company's minimum size system study in this proceeding." PPLICA Stmt. No. 1-SR, at 2.

OCA also exaggerates the policy implications of a 2000 rate design study by unreasonably portraying the study as an update to the 1992 NARUC Manual. OCA relies upon a report entitled Charging for Distribution Services: Issues in Rate Design ("Rate Design Report") to support its recommendation to allocate 100% or primary plant on a demand basis. OCA Stmt. No. 3, at 20, Exhibit GAW-4. The statements relied upon from the Rate Design Report establish that no rate design methodology is perfect, recognize the minimum size study as one of a number of applied cost studies, and offers some criticism of the method's assumptions.[4] Importantly, while OCA refers to the Rate Design Report as a "NARUC" Report, the study must be viewed in its proper context. The Rate Design Report does not constitute official NARUC policy and represents only the views of the authors. Tr. 517-18, 522-23. Unlike the NARUC Manual, which bears the NARUC seal and credits the organization itself as the author, the findings in the Rate Design Report were not adopted by NARUC in any official capacity and should not be

[4] As clearly stated in the Rate Design Report "[a]ny approach to classifying costs has virtues and vices." OCA Stmt. No. 3, at 21.

regarded as such. See OCA Stmt. No. 3, Exhibit GAW-3; but see OCA Stmt. No. 3, Exhibit GAW-4.

Finally, in requesting that the Commission allocate primary plant on a 100% demand basis and allocate secondary plant in accordance with OCA's minimum size study, OCA labels its recommendation as a "compromise." This is curious language as OCA's recommendation incorporates no other positions other than those supported by OCA. No other party to this proceeding supports OCA's density study or the accompanying finding that distribution plant should be allocated on a 100% demand basis. Similarly, no other party to this proceeding supports OCA's proposed adjustments to PPL's minimum size study. As evidenced by the Commission's Order in the 2010 base rate case, and further discussed in testimony from PPL, PPLICA, and OSBA witnesses, the OCA 100% demand CCOSS bears no relation to NARUC cost of service principles. 2010 Order, at 35-36; PPL Stmt. No. 8-R, at 13; PPLICA Stmt. No. 1-R, at 6; Office of Small Business Statement No. 1, Direct Testimony of Robert D. Knecht, at 2. OCA's adjusted minimum size analysis is likewise flawed. PPL Stmt. No. 8-R, at 16-18. Blending two unsupported recommendations together cannot cure the dearth of evidentiary support and certainly does not represent any measure of compromise.

For the above reasons, PPLICA requests that the Commission reject the CCOSS proposed by OCA and approve PPL's filed CCOSS.

B. REVENUE ALLOCATION

1. PPL's Proposed Revenue Allocation Should Be Approved

a) Introduction

One of the primary principles of rate-making is that customers' rates should reflect the cost of service. Specifically, the Commonwealth Court and the Commission have repeatedly held that a utility's cost of providing service must be the guiding principle – or "polestar" – in utility ratemaking. See Lloyd v. Pa. Pub. Util. Comm'n, 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006); see also, e.g., Pa. Pub. Util. Comm'n v. Philadelphia Gas Works, Docket No. R-2008-2073938, 2009 WL 884424 *5 (Order entered Mar. 26, 2009) (upholding natural gas utility rates as consistent with Lloyd by reason of the rates being properly derived from a cost of service analysis and subject to cost of service review in future base rate case). The Commission has since applied the Court's directive in Lloyd by recognizing that, while other factors may be considered, cost of service should be the primary consideration for ratemaking purposes. See, e.g., Pa. Pub. Util. Comm'n v. PPL Elec. Utilities Corp., Docket No. R-00049255, 2007 WL 2198189 *7-10 (Order entered Jul. 25, 2007) (PUC order citing Lloyd in support of settlement of distribution rate increase based on cost of service principles). In circumstances where immediately moving a particular customer class to cost of service would produce an extremely disproportionate increase for a particular class of customers, then the rate-making principle of "gradualism" can be applied to move rates towards cost of service over a period of time. See Barash v. Pa. Pub. Util. Comm'n, 101 Pa. Commw. 76, 515 A.2d 651 (1986). These are the relevant considerations to be applied in reviewing the revenue allocation proposals in this proceeding.

b) Parties' Positions

This proceeding is the fourth in a series of distribution cases that attempt to move PPL's distribution rates to "at or near" the full cost of providing service. See PPL Electric Utilities Corporation No. 5, Direct Testimony of Douglas A. Krall at 8. In accordance with the mandate from Lloyd, PPL initially developed a rate allocation in strict adherence to the Company's CCOSS. PPL Stmt. No. 5, at 9. PPL then applied adjustments to reflect gradualism for Residential customers, particularly customers on Rate Schedule RTS. See PPL Stmt. No. 5, at 10. Id. at 10.

As indicated above, OCA submitted a flawed CCOSS and based its revenue allocation solely upon the results of its recommended CCOSS. OCA Stmt. No. 3, at 36. As OCA provided no alternate revenue allocation based on the Company's filed CCOSS, its proposed revenue allocation is inherently flawed and must be summarily rejected.

OSBA originally did not oppose the Company's filed revenue allocation, but proposed an alternate allocation to be applied in the event that the Commission approves OCA's proposed CCOSS. Office of Small Business Advocate Statement No. 2, Rebuttal Testimony of Robert D. Knecht, at 4. As with any proposal based on OCA's flawed CCOSS, OSBA's alternative revenue allocation proposal should be summarily rejected.

c) Argument

The revenue allocation issues presented in this proceeding are inextricably linked to the controversial issues surrounding the proposed CCOSSs. PPL applied a CCOSS in accordance with the allocation methods consistently utilized to bring all classes closer to cost of service in previous base rate cases. Based on the filed CCOSS, PPL proposes a revenue allocation structured to bring all classes closer to cost of service rates, subject only to adjustments to account for gradualism. As discussed in the preceding Section of this Main Brief, OCA proposes an alternate cost of service recommendation based on two flawed CCOSSs, including the 100% demand cost study which was rejected by the Commission in the Company's 2010 base rate case. The Commission properly rejected the 100% demand CCOSS and should not permit OCA to apply a revenue allocation based in whole, or in part, on the decidedly flawed methodology. See PPLICA Stmt. No. 1-R, p. 8. Accordingly, the Commission must reject any revenue allocation derived from OCA's CCOSSs and approve the fair and equitable revenue allocation developed by PPL. PPLICA Statement No. 1-SR, at 2.

PPL's proposed revenue allocation moves all rate classes closer to cost of service in accordance with the Company's filed CCOSS and should therefore by approved as consistent with Lloyd. Of note, PPL's proposed revenue allocation results in a substantial 59.1 percentage increase for Rate Schedule LP-5 customers. See PPL Initial Filing, Exhibit JMK-2. Further, although Rate Schedule LP-4 ("LP-4") customers do not incur increased rates, current rates for LP-4 customers remain above cost of service. However, PPLICA does not oppose these results at the full requested rate increase because the Company's revenue allocation methodology, in line with its previous distribution cases, continues to move all classes "at or near" the full cost of providing service while also moving all classes towards the system average rate of return. PPL Stmt. No. 5, at 10. PPLICA concurs with OSBA that strict adherence to cost of service principles would require rate reductions for certain classes, including LP-4, GS-3, and LPEP classes, but accepts the Company's filed CCOSS as a reasonable progression towards cost based rates for purposes of this proceeding. See OSBA Stmt. No. 1, at 11.[5] Accordingly, PPLICA submits that PPL's proposed revenue allocation is reasonable and should be accepted by the Commission.

OCA's revenue allocation derives in large part from the results of its unsupported CCOSSs and therefore fails to move classes towards cost based rates due to the incorporation of flawed cost of service principles. As noted in the prior Section of this Main Brief, OCA repeatedly attempts to distinguish its recommendations in the instant proceeding from the 2010 base rate case. Consistent with this approach, Mr. Watkins asserts that:

> [m]y recommended cost allocation study is not based on 100% peak demand allocations, but rather one that is consistent with PPL's studies prior to 2010 in which primary distribution plant is allocated based on

[5] PPLICA reserves the right to argue in future proceedings that rate reductions are appropriate and necessary to take LP-4, GS-3, and LPEP to cost of service.

> 100% demand peak demands, and services and meters are allocated based on weighted customer counts.

Office of Consumer Advocate Statement No. 3-R, Surrebuttal Testimony of Glenn. A. Watkins, at 6. This statement is clearly contrary to Mr. Watkins' initial testimony on the development of his proposed revenue allocation. Mr. Watkins' previously stated that "I have developed a revenue allocation that relies on reasonable CCOSS results as a primary guide, but also recognizes gradualism, and that is fair to all classes." OCA Stmt No. 3, at 39. The record in this proceeding reflects only three CCOSS results, PPL's minimum size study, Mr. Watkins' 100% demand study, and Mr. Watkins' adjustments to PPL's minimum size study. OCA Stmt. No. 3, at 35-36. Based on Mr. Watkins' description of PPL's CCOSS as "exceptionally biased," it is presumed that he would not regard the same as a "reasonable CCOSS." See OCA Stmt No. 3, at 39. Therefore, the primary guides underlying Mr. Watkins' revenue allocation were his 100% demand allocation cost study and adjusted minimum size study. The Commission should reject OCA's attempt to design a revenue allocation based in substantial part on a CCOSS that was litigated and rejected in the Company's 2010 base rate case. See 2010 Order, at 35-36. While substantial reliance upon a 100% demand based cost study would alone provide sufficient cause to reject OCA's revenue proposal, the Commission should also reject OCA's proposed revenue allocation for substantial reliance on the unreasonable adjustments to PPL's minimum size study. See OCA Stmt. No. 3, at 39; cf PPL Stmt. No. 8-R, at 16-18. For the same reasons, the Commission must reject OSBA's alternative revenue allocation. The Commission should allow PPL to continue progressing towards cost of service rates utilizing the CCOSS methodology consistently approved in prior rate cases.

2. OSBA's Proposed Scaleback Should be Approved.

Parties to this proceeding have offered various scaleback proposals to determine the appropriate method of allocating revenues if the Commission approves an overall revenue increase lower than the Company's requested $104.6 million increase. In reviewing the various scaleback proposals, PPLICA considers the continued applicability of Lloyd and the importance of maintaining progress towards cost based rates under a reduced revenue requirement. As a primary recommendation, PPLICA requests that the Commission approve the revenue-based scaleback methodology proposed by OSBA. As a secondary alternative, PPLICA requests that any approval of proportional scaleback be applied to all rate classes receiving an increase, with no further exclusion.

PPL, OCA, and I&E each support some form of an increase-based scaleback. PPL and OCA support a proportional scaleback, with no change in revenues for classes that do not receive a rate increase. PPL Electric Utilities Corporation Statement No. 5-R, the Rebuttal Testimony of Douglas A. Krall, at 4; OCA Stmt. No. 3, at 42. I&E also supports a proportional scaleback, but would add adjustments to mitigate substantial increases for certain customers. I&E's proposed scaleback would apply the first $1,784,000 of any revenue reduction to lower the revenue requirement for Rate Schedule RTS customers. Any further reductions would be applied to Rate Schedules RS, GH-2, SL/AL, and on a conditional basis, LP-5.[6] I&E Statement No. 3, Direct Testimony of Jeremy B. Hubert, at 16-17. Approval of a proportional scaleback is an acceptable alternative if the Commission declines to adopt the revenue-based scaleback proposed by OSBA. However, Mr. Hubert's recommendation to attach additional conditions to a scaleback for Rate

[6] I&E recommended a decrease in the LP-5 customer charge from the proposed rate of $1,125 to $892.28, and would apply a scaleback to LP-5 revenues only if the Commission rejects the proposal to reduce the LP-5 customer charge. I&E Stmt. No. 3, at 16-17.

Schedule LP-5 is inappropriate. Rate Schedule LP-5 customers will incur an increase under the Company's proposed $1,125 customer charge or Mr. Hubert's proposed $891 customer charge. These customers should benefit from a scaleback under either scenario. Accordingly, if the Commission applies a proportional scaleback, all customers receiving rate increases should share in the scaleback, consistent with the recommendations of PPL and OCA.

However, to support progress towards costs based rates, the Commission should approve OSBA's recommendation to apply a revenue-based scaleback. OSBA's revenue-based scaleback would allocate any overall rate increase approved by the Commission to each rate class in proportion to the Company's proposed revenues from each class. OSBA Stmt. No. 1, p. 13. Application of a proportional scaleback in this proceeding would hinder progress to cost of service rates by reducing rate increases for customers paying below cost of service rates pursuant to PPL's CCOSS, but permitting no correlating adjustments for customers whose present rates are above cost of service. See OSBA Stmt. No. 1, at 13. This scaleback is particularly appropriate in the instant proceeding as parties have proposed significant revenue reductions. For example, if the Commission approves OCA's revenue adjustments and allowed PPL an overall $21 million increase, the majority of the approximately $83 million revenue decrease would be applied to reduce the rate increase to the Residential class and reverse progress towards cost based rates by permitting the Residential customers to continue paying rates substantially below cost of service. See OCA Stmt. No. 3-R, at 4. Conversely, approval of the OSBA scaleback would achieve movement towards cost of service such that parties may finally near cost based rates upon the filing of PPL's next base rate case.

C. TARIFF STRUCTURE

PPLICA will not be addressing issues regarding PPL's Tariff Structure in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

D. TARIFF RULES AND RIDERS

PPLICA will not be addressing issues regarding PPL's Tariff Rules and Riders in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

IX. MISCELLANEOUS ISSUES

A. PURCHASE OF RECEIVABLES

PPLICA will not be addressing issues regarding PPL's Purchase of Receivables in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

B. CAP

PPLICA will not be addressing issues regarding PPL's CAP in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

C. CONSUMER EDUCATION

PPLICA will not be addressing issues regarding PPL's Consumer Education Plan in its Main Brief other than the associated cost recovery issues addressed in the foregoing Section. PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

D. CER/RMI

1. Retail Market Enhancement Costs Should be Recovered from EGSs

PPL has proposed to implement a nonbypassable CER to recover costs of the Company's Consumer Education Plan and any retail market enhancement costs not recovered from EGSs. In this proceeding, PPLICA does not take a position on the Consumer Education costs to be recovered through the CER other than to note that the Company should monitor its Consumer Education Plan to ensure that customers do not incur duplicative costs for services provided through the Consumer Education Plan, Act 129 of 2008, or PPL's proposed retail market enhancement programs. PPLICA supports the Company's proposal to recover costs associated with Retail Market Enhancement Programs from EGSs.

The Commission recently issued a Retail Market Investigation Final Order setting forth an Intermediate Work Plan for improvement of retail electricity markets in Pennsylvania.[7] The IWP Order requires EGSs to implement retail market enhancement programs designed to encourage and facilitate shopping for competitive EGSs.[8] Consistent with the IWP Order, PPL has proposed to recover costs of retail market enhancement programs from the EGSs that benefit from such programs. PPL Stmt. No. 5, at 38. PPL also requests that the Commission allow the Company to recover any retail market enhancements costs not otherwise recovered from EGSs through the CER. Id. As noted above, the IWP Order recognized that EGS benefit from retail market enhancement programs and should therefore be responsible for the attendant costs. IWP Order, pp. 32, 78. Accordingly, PPLICA supports PPL's proposal to recover retail market enhancement costs from EGSs

2. CER Costs Should Be Allocated and Collected on a Per Customer Basis

PPLICA agrees with the OCA and OSBA proposals to directly assign CER costs to specific rate classes when feasible, with joint and general costs assigned to all classes on a per

[7] Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan; Docket No. I-2011-2237952, Order (Mar. 2, 2012) [hereinafter "IWP Order"].

[8] PPLICA notes that PPL's proposed retail market enhancement programs are at issue in PPL's ongoing Default Service Program proceeding at Docket No. R-2012-2302074.

customer basis. However, PPLICA disagrees with OCA's proposal to collect costs within each class on a per kWh basis. The cost collected through the CER are customer costs and should therefore be collected on a per customer basis, consistent with the allocation method proposed by OCA and OSBA. As an alternative, PPLICA does not oppose PPL's proposal to implement a fixed monthly charge on per customer basis. As such, PPLICA recommends that the Commission modify the OCA and OSBA proposals to not only allocate class-specific and general CER costs among customer classes on a per customer basis, but also require that such costs be collected on a per customer basis. Any proposal to collect CER costs on a per kWh basis should be rejected. Alternatively, PPLICA does not oppose approval of the Company's proposal to recover CER costs through a fixed monthly customer charge.

PPLICA concurs with the OCA and OSBA recommended allocations of CER costs among customer classes, but requests that the Commission reject OCA's proposal to collect costs within customer classes on a per kWh basis. As observed by PPLICA Witness Richard A. Baudino, the costs to be collected through PPL's proposed CER should be collected on a per customer basis:

> If the Commission adopts the proposed CER, then I agree with the Company's proposed per customer charge. These are customer related costs and, therefore, should be collected on the basis of a fixed charge per customer.

PPLICA Stmt. No. 1-R, p. 8. While Mr. Baudino references the Company's proposal to assign costs across all customer classes through a fixed monthly charge, the allocation proposals set forth by OCA and OSBA also assign costs on a per customer basis. Mr. Watkins recommends that PPL allocate those CER costs directly attributable to a customer class to such class and any generalized costs to all classes. Id. Under OCA's proposal, both allocations would be applied on a per customer basis, with costs collected within each class on a per kWh basis. Id.; see also

Office of Consumer Advocate Statement No. 3-SR, Surrebuttal Testimony of Glenn A. Watkins, at 7. Notably, OSBA Witness Robert Knecht also recommends that the Company directly assign CER costs to specific rate classes when such costs can be identified. OSBA Stmt. No. 1, at 20. Mr. Knecht similarly recommends that the Company develop a cost-based allocation factor for generalized costs, and cites customer count as a viable method. Id. Although PPLICA is in agreement with the cost allocation method proposed by OCA and OSBA, the cost collection method supported by OCA should be denied as contrary to cost causation principles. While concurring that CER costs are properly allocated on a per-customer basis, Mr. Watkins then claims that a per-kWh cost collection method is reasonable because customers that use more energy have more potential to benefit from consumer education programs than consumers who use very little energy. OCA Stmt. No. 3, at 52. This proposal conflicts with the purpose and benefits of PPL's Consumer Education Program.

Consumption-based cost recovery methods are inappropriate for the CER because PPL's Consumer Education Program is intended to provide broad and intangible benefits all customers. The Consumer Education Program provides primarily generalized education programs that are fairly attributable to all customers. While certain programs specifically target Large C&I, Small C&I and Residential customers, the most program costs to be recovered through PPL's CER fund general education programs. See PPLICA Cross Examination Exhibit No. 1. As demonstrated by PPL, the Consumer Education Plan offers broader and less tangible services than the "specific financial incentives" offered in Act 129. PPL Electric Utilities Corporation Statement No. 6-R, Direct Testimony of Thomas C. Stathos, at 3. Put more clearly, "[t]he Consumer Education Plan educates consumers about why energy efficiency and conservation are important, and the Act 129 EE&C Plan provides consumers with financial incentives to install measures that will help them conserve." Id. at 4. In theory, programs such as Act 129 may be more suited to consumption or demand based charges due to their targeted purpose and alleged benefits. However, because the programs offered through the Consumer Education Plan provide less targeted consumer education services, all customers should share such costs on a per customer basis.

X. CONCLUSION

WHEREFORE, the PP&L Industrial Customer Alliance respectfully requests that the Pennsylvania Public Utility Commission: (1) accept the Company's Class Cost of Service Study without modification; (2) accept the Company's Revenue Allocation without modification; (3) accept the OSBA's revenue-based scaleback recommendation; (4) deny any proposal to collect Competitive Enhancement Rider costs on a per kWh basis and require PPL to allocate and collect costs CER costs on a per customer basis or alternatively, implement a fixed monthly charge applicable to all customers.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

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