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September 14, 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 Reply 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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Dated this 14th day of September, 2012, at Harrisburg, Pennsylvania.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

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Dated: September 14, 2012

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I. INTRODUCTION

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 August 29, 2012, the PP&L Industrial Customer Alliance ("PPLICA") filed a Main Brief ("M.B.") on behalf of its Large Commercial and Industrial ("C&I") members, supporting PPL's Cost of Service Study and proposed revenue allocation. PPL also recommended approval of the revenue-based scaleback proposed by the Office of Small Business Advocate ("OSBA") and proposed that any recovery of PPL's Competitive Enhancement Rider should be on a per-customer basis, with costs directly allocated to a customer class when possible. PPLICA received Main Briefs from PPL, the Bureau of Investigation and Enforcement ("I&E"), the OSBA, the Office of Consumer Advocate ("OCA"), the Sustainable Energy Fund of Central Pennsylvania ("SEF"), Richards Energy Group, Inc., and Direct Energy Services LLC ("Direct Energy"). Pursuant to the procedural schedule, PPLICA files this Reply Brief in response to arguments raised in the Main Briefs of these parties.[1]

[1] PPLICA's Reply Brief will not respond to every argument contained in all of the parties' Main Briefs, but only those issues necessitating an additional response. PPLICA's decision not to respond to all arguments should not be construed as agreement with the positions raised by any of the parties on any of the issues currently outstanding in this proceeding.

II. SUMMARY OF REPLY ARGUMENT

First, PPLICA continues to advocate for the adoption of PPL's Class Cost of Service Study ("CCOSS") that properly allocates primary and secondary distribution facility costs into customer and demand components, consistent with NARUC Manual recommendations. The OCA has not provided adequate support to justify its proposal to allocate primary distribution plant costs on a 100% demand basis. As a result, the OCA's proposed CCOSS should be rejected.

Second, instead of adopting the revenue allocation recommendation of the OCA, the Commission should approve PPL's proposed revenue allocation methodology, which reasonably continues to move all classes toward the system average rate of return.

Third, the Commission should approve the scaleback methodology proposed by the OSBA, which preserves the movement towards cost of service achieved by PPL's revenue allocation at the full rate increase request.

Fourth, consistent with PPL's recommendation and the Commission's Order in PPL's 2010 base rate case, the Commission should reject Direct Energy's proposal to implement a non-bypassable uncollectible charge.

Fifth, if the Commission approves PPL's request to implement a Competitive Enhancement Rider ("CER"), the Commission should reject OCA's proposal to collect costs on a per-kWh basis and find that any additional CER costs should be both allocated among customer classes and collected from individual customers on a per-customer basis. Alternatively, 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. ARGUMENT

A. PPL's Class Cost of Service Study Appropriately Utilizes the Minimum Size System Methodology To Develop Customer and Demand Components for Joint Use Distribution Plant and Should be Accepted.

As stated in PPLICA's Main Brief, PPLICA supports the Company's CCOSS, which measures the class maximum non-coincident peak ("NCP") demand method and applies the "minimum size system" methodology for both primary and secondary voltage level distribution facilities to classify costs into customer and demand components. See PPLICA M.B., at 6. While the Company, PPLICA and OSBA agree that, consistent with the NARUC manual, joint-use distribution costs (with the exception of substation costs) should be classified into both demand-related and customer-related components, the OCA first argues in its Main Brief that the Commission should approve OCA's proposed CCOSS. Second, the OCA argues that PPL's proposal to continue classifying primary distribution plant as partially customer-related and partially demand-related is unsupportable. See OCA M.B., at 76. Third, the OCA questions the use and accuracy of the "minimum system methodology." See id., at 85. As a result, the OCA advocates for use of its own CCOSS, which substantially benefits the residential class to the detriment of PPL's large non-residential users. See id., at 94. Each of these arguments should be rejected.

1. OCA's Proposed CCOSS is Unsupported and Should Be Rejected.

The OCA has not provided any credible evidence to support its proposed CCOSS. OCA's CCOSS recommendation purports to be a compromise between a density analysis indicating that all distribution plant should be allocated on a 100% demand basis and a modified version of the Company's minimum size analysis. PPLICA M.B., at 7. Based on the results of both studies, OCA recommends that PPL allocate 100% of 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. OCA M.B., at 90. As extensively addressed in PPLICA's Main Brief, the OCA has failed to provide any evidence to rebut the Commission's rejection of OCA's density analysis in 2010. PPLICA M.B., at 8. The incorporation of a modified minimum size study for allocation of secondary plant does not cure the invalidity of OCA's overall CCOSS recommendation. PPLICA M.B., at 8-9. As demonstrated by PPL, OCA's modified minimum size study is also flawed, but the overall CCOSS recommendation should be rejected outright based on the Commission's prior finding that OCA's reliance on the density study as a CCOSS is inconsistent with NARUC principles. PPLICA M.B., at 10-11.

Rather than classify primary and secondary distribution plant on both a customer and demand basis, the OCA attempts to classify primary distribution plant on a 100% demand basis, in contravention of NARUC Manual standards. Specifically, OCA contends that "the only reason to classify a portion of joint distribution plant expenses based on customer counts..., rather than based on the demands placed on the system, would be due to the customer mix and density in the service territory." OCA M.B., at 78-79. Further, OCA Witness Watkins claims that, "if all customer classes are equally represented in all portions of a utility's service territory, there is no basis for classifying or allocating distribution plant based on customer counts." Id., at 79. Based on Mr. Watkins' findings that "customer classes are well represented throughout" PPL's service territory, the OCA concludes "there is no sound reason to classify or allocate Primary and Secondary Distribution plant on a customer-count basis." Id., at 80.

In addition, the OCA argues that PPL failed to account for how the distribution system is engineered in classifying primary facility costs. Id., at 78. Specifically, the OCA contends that, because the Primary distribution system is built so that its majority of costs are incurred for reasons other than to simply connect customers (such as to prevent outages to carry additional load during emergencies or interruptions from other line segments), the Company lacks the rationale for allocating costs, in part, on a customer basis. Id.

In formulating its overall CCOSS recommendation, OCA also incorporates a flawed alternative minimum size study for allocation of secondary distribution plant. OCA's alternative minimum size study consists of adjustments to PPL's minimum size study for secondary distribution plant. OCA M.B., at 90. These adjustments, presumptively referred to as corrections in the OCA Main Brief, should be rejected by the Commission. See Id., but cf. PPLICA M.B., at 10, PPL M.B., at 146-150. PPLICA concurs with PPL's assessment that the OCA's adjustments are contrary to the NARUC Manual and inconsistent with the specific characteristics of PPL's currently installed distribution plant. See PPL M.B., at 148, PPLICA M.B., at 10.

The shortcomings of OCA's compromise CCOSS recommendation were addressed in PPLICA's Main Brief. OCA erroneously argues that its CCOSS recommendation accurately reflects cost causation principles, is reasonable, and is equitable to all customer classes. OCA M.B., at 73. PPLICA's Main Brief described the NARUC methodologies for allocating distribution plant, specifically noting that PPLICA Witness Richard Baudino described OCA's density analysis as "completely incorrect." PPLICA M.B., at 9. Mr. Baudino further clarified 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. PPLICA's Main Brief further notes that the Commission rejected OCA's density study in PPL's 2010 base rate case. PPLICA M.B., at 10. Finally, PPLICA's Main Brief demonstrates that OCA's adjustments to the Company's minimum size study ignore specific application of certain distribution plant within the PPL's system. Id. PPLICA's Main Brief establishes that OCA's cost of service recommendation is based on improper CCOSSs.

As with any cost of service recommendation derived from flawed CCOSS principles, OCA's recommendation is inherently unreasonable and inequitable to customer classes.

The additional arguments offered in the OCA's Main Brief provide no support for OCA's CCOSS recommendation. The OCA's Main Brief places particular emphasis on two points, claiming that its CCOSS recommendation is consistent with both PPL's CCOSS methods applied by PPL in the Company's 2004 and 2007 base rate cases, and also consistent with cost of service principles applied throughout the nation. OCA M.B., at 75. PPLICA submits that the CCOSS methods applied in PPL's 2004 and 2007 base rate cases are largely irrelevant in light of the improved CCOSS introduced in PPL's 2010 base rate case. As described by various parties to this proceeding, PPL utilized newly available data to refine its CCOSS methods in preparation for the 2010 base rate case. PPLICA M.B., at 6. The CCOSS was fully litigated and approved by the Commission. Id. The Order approving PPL's 2010 CCOSS went so far as to reference the CCOSS from the 2004 and 2007 base rate cases, which OCA relies upon here, as "the less accurate cost of service methodology used by PPL in its 2004 and 2007 base rate cases."[2] The Commission should disregard OCA's reliance on the 2004 and 2007 base rate cases and rely upon its findings from the 2010 base rate case.

Similarly, the Commission should accord little weight to OCA's claims that its CCOSS recommendation is consistent with cost of service principles applied throughout the nation. OCA asserts that regulatory bodies in over 30 states classify primary distribution plant on a 100% demand basis. OCA M.B., at 71. PPLICA notes that is based on claims from a 2000 report entitled: Charging for Distribution Services: Issues in Rate Design ("Rate Design Report"). OCA Stmt. No. 3, at 20, Exhibit GAW-4. Considering that PPL itself classified primary distribution plant on a 100% demand basis at the time of the report, the data should be considered stale and accorded little weight. Further, the Report does not identify which 30 or so

[2] Pa. Pub. Util. Comm'n v. PPL Elec. Utilities. Corp., R-2010-2161694, (Order entered Dec. 21, 2010) at 37 [hereinafter "2010 Order"].

states are referenced, therefore eliminating any opportunity to examine the characteristics of states opting for the 100% demand method. Finally, even when evaluating the Report in the best possible light, OCA's claim marginalizes the fact that a significant number of states do not allocate primary plant on a 100% demand basis.

In conclusion, OCA's CCOSS is based on cost of service principles which the Commission has rejected in PPL's 2010 base rate case whereas PPL has applied substantially the same CCOSS which was not only approved in the 2010 base rate case, but recognized as a new and improved methodology. The Commission should again approve the Company's proposed CCOSS.

B. PPL's Revenue Allocation Should Be Accepted.

As discussed more fully in PPLICA's Main Brief, the Company has presented a revenue allocation methodology that, 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 toward the system average rate of return. PPL's proposed revenue allocation is based on the Company's CCOSS results, varying only as necessary to reduce the overall increase to the residential class in conformance with gradualism principles. PPL M.B., at 153. Accordingly, PPLICA supports PPL's proposed revenue allocation.

Only OCA opposes PPL's proposed revenue allocation. OCA M.B., at 97-98. Both PPLICA's and PPL's Main Briefs demonstrate that the OCA's proposed revenue allocation is based on its flawed CCOSS recommendation. PPLICA M.B., at 17, PPL M.B., at 156. In consideration of the credible arguments showing the OCA's CCOSS recommendation is based on an irrelevant density study and an unsupportable minimum size study, the Commission should reject OCA's proposed revenue allocation as inherently flawed due to its reliance on OCA's unsupported CCOSS recommendation.[3] See PPLICA M.B., at 5-13. PPL should be permitted to continue progressing towards cost of service rates utilizing the CCOSS methodology consistently approved in prior rate cases.

C. OSBA's Recommended Scaleback Should be Approved.

PPLICA's Main Brief addressed the various scaleback proposals supported by parties to this proceeding and recommends that the Commission adopt the OSBA's proposed scaleback. As set forth in the PPLICA's Main Brief, PPL, OCA, and I&E each propose an increase-based scaleback. PPL M.B., at 156; OCA M.B., at 101-01 note 25, I&E M.B., at 126. Of the three increase-based scaleback proposals, I&E's recommendation is uniquely troubling as it would inappropriately limit the scaleback amount for certain customers, including customers on Rate Schedule LP-5. PPLICA M.B., at 18-19; I&E M.B., at 126-27. If the Commission approves an increase-based scaleback, the Commission should reject I&E's proposal and apply the proportional scaleback proposals recommended by PPL and OCA.[4]

However, PPLICA recommends that the Commission approve the revenue-based scaleback proposed by the OSBA. OSBA's revenue-based scaleback preserves the movement towards cost of service rates achieved by PPL's proposed revenue allocation at the full rate increase request. Although three parties proposed alternate scaleback proposals, only OCA specifically opposes OSBA's scaleback. As demonstrated below, OCA's arguments should be disregarded.

OCA argues that OSBA's proposed scaleback produces unreasonable results and was previously rejected in PPL's 2010 base rate case. OCA M.B., at 104. As addressed in PPLICA's

[3] As OCA's CCOSSs are flawed and unsupported, any proposed revenue allocation based on OCA CCOSS recommendation should re rejected.

[4] To the extent that OCA's recommendation to apply a proportional increase-based scaleback is specifically tied to OCA's CCOSS and/or revenue allocation, the Commission should consider PPL's increase-based scaleback as a secondary alternative to the OSBA's proposed scaleback.

Main Brief, OSBA's scaleback produces results mirroring PPL's original revenue allocation. PPLICA M.B., at 19. The increase-based scalebacks proposed by PPL and OCA erode progress towards cost-based rates embedded in PPL's original revenue allocation. Id. Although PPL recommends an increase-based scaleback, the Company concurs with the effects of OSBA's scaleback, stating that "[t]he Company believes that OSBA's proposed scale back, while not achieving system average returns in all rate schedules, does continue to move rate classes towards the system average return." PPL M.B., at 156. PPLICA agrees and further adds that the application of increase-based scalebacks hinders progress towards cost-based rates under Lloyd. The Commission should adopt OSBA's innovative proposal and enable PPL to progress towards cost-based rates in the likely event that the Commission approves a lower revenue increase the Companies' full request.

The Commission did not reject OSBA's revenue-based scaleback recommendation in the 2010 base rate case as claimed by OCA. The OCA claims that "the OSBA's recommendations for how to allocate any revenue increase that is less than the total amount requested by PPL were directly addressed and rejected in [PPL's 2010 base rate case]." OCA M.B., at 104. OCA supports this claim by citing to the ALJ's observation that "a reduced amount of a rate increase does not provide a source of funding as OSBA" and the Commission's finding that "to as one class to shoulder more of an increase than the final total increase in revenue would constitute unjust and unreasonable rates." OCA M.B., at 104. A review of the 2010 Order shows that these statements are taken out of context. 2010 Order, at 43, 46. The quoted statements reference a first-dollar-relief scaleback proposal, which is fundamentally distinct from the revenue-based scaleback proposed by OSBA in this proceeding.[5] Id. Unlike a first-dollar-relief scaleback, the revenue-based scaleback is a proportional allocation, applied to each rate schedule based on proposed distribution revenues. OSBA M.B., at 15, PPLICA M.B., at 19. PPL is now in the fourth base rate case since Lloyd and yet four rate classes, Rate Schedule GS-1, GS-3, LP-4, and LPEP, continue to show returns at present rates that are higher than the system average return. The OSBA's proposed scaleback provides an opportunity to realize progress under Lloyd whereas adoption of an increase-based scaleback will prolong the historic cross-subsidies on PPL's system to the detriment of customers taking service on the over-earning rate schedules. To be consistent with Lloyd, the Commission must take affirmative steps to move the over-earning classes towards cost of service. Therefore, OSBA's proposed revenue-based scaleback should be approved.

D. Direct Energy's Proposal to Unbundle Uncollectibles Accounts Is Inconsistent with Commission Precedent and the Competition Act.

Direct Energy proposes to rebundle PPL's uncollectible accounts expenses currently recovered through PPL's Merchant Function Charge ("MFC") and purchase of receivables discount ("POR"). Direct Energy M.B., at 20. As noted by PPL, the Commission rejected an identical proposal in PPL's 2010 base rate case. PPL M.B., at 189-90. The Commission found that "EGSs should bear the collection risk for their own customers, either by including it in the charges to those customers or by selling their receivables to PPL Electric at a discount." Id., at 191 citing 2010 Order, at 153. Further, as observed by PPL, Direct Energy's proposal violates Section 2804(3) of the Competition Act, which requires EDCs to unbundle generation, transmission, and distribution rates. PPL M.B., at 191 citing 66 Pa. C.S. § 2804(3).

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[5] In the 2010 base rate case, the parties reached a settlement allowing PPL to increase rates by $77.5 million instead of the originally requested $114.7 million. 2010 Order at 41. OSBA proposed to apply the first $18.1 million of the approximately $37 million revenue reduction to reduce the revenue requirements for rate classes above cost of service. Id.

For the above reasons, the Commission should reject Direct Energy's proposal to rebundle uncollectibles charges as contrary to Commission precedent and the Competition Act.

E. OCA's Proposal to Recover CER Costs on a Per-kWh Basis Should Be Rejected.

OCA's Main Brief proposed that PPL should allocate directly assignable and general CER cost on a per-customer basis, but collect such costs from customers based on kWh.[6] OCA M.B., at 126. OCA clarifies that costs attributable to the Large C&I customer class under its per-kWh recommendation are expected to be miniscule. OCA M.B., at 126. However, as illustrated in PPLICA's Main Brief, the costs to be recovered through PPL's proposed CER are generally customer costs. See PPLICA M.B., at 22-23; PPLICA Statement No. 1, Direct Testimony of Richard A. Baudino, at 6 (hereinafter "PPLICA Stmt. No. 1").

In addition to PPLICA Witness Richard A. Baudino's statements, PPL has also indicated that cost to be recovered through the CER are customer costs. The statements of Mr. Baudino in favor of a per-customer based rate design for the CER, are further supported by comments from PPL indicating that"[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." PPL Electric Utilities Corporation Statement No. 6-R, Direct Testimony of Thomas C. Stathos, at 4; cf. PPLICA Stmt. No. 1, at 6. These comments illustrate that PPL's Consumer Education Plan costs are not directly linked to usage in the manner of energy efficiency and conservation plans. PPLICA M.B., at 23-24. Additionally, PPL's original proposal for recovering CER costs was to implement a nonbypassable charge on a dollar-per-customer basis. PPL Electric Utilities Corporation Statement No. 5-R, Direct

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[6] PPLICA also supports the Company's position that costs of retail market enhancements should be primarily recovered from electric generation suppliers ("EGSs"). PPLICA M.B., at 21. Also, PPLICA agrees with OCA and OSBA that PPL should also allocate directly assignable costs and general costs on a per customer basis. PPLICA M.B., at 22. These positions were not contested in any party's Main Brief.

Testimony of Douglas A. Krall, at 37. For the above reasons, the Commission should reject OCA's proposal to apply a kWh cost recovery mechanism and require PPL to both allocate and collect any costs recoverable through the CER on a per-customer basis.

IV. CONCLUSION

WHEREFORE, the PP&L Industrial Customer Alliance respectfully requests that the Pennsylvania Public Utility Commission accept the Company's Class Cost of Service Study and Revenue Allocation without Modification, adopt the revenue-based scaleback proposed by OSBA, and reject OCA's proposal to recover Competitive Enhancement Rider costs on a kWh basis.

Respectfully submitted,

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By ______________________

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