COMMONWEALTH OF PENNSYLVANIA
OFFICE OF SMALL BUSINESS ADVOCATE

November 8, 2012

E-FILED

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

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

Dear Secretary Chiavetta:

Enclosed for filing are the Exceptions, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please contact me.

Sincerely,

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

Enclosures

cc: Parties of Record

Robert D. Knecht

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 Exceptions, 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:

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Date: November 8, 2012

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	**Docket No. R-2012-2290597**
	:	
PPL ELECTRIC UTILITIES, INC.	:	
	:	

EXCEPTIONS
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE

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Dated: November 8, 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.

On August 29, 2012, the OSBA submitted its Main Brief.

On September 14, 2012, the OSBA submitted its Reply Brief.

On October 19, 2012, ALJ Colwell issued her Recommended Decision ("RD").

The OSBA submits the following exceptions in response to the RD.

II. History of the Case

A. PPL's 2004 Base Rate Case

On March 29, 2004, PPL filed with the Commission a proposed $164.4 million increase in distribution rates. As part of the same case, PPL also sought a $57.2 million increase in transmission rates.

As part of PPL's March 2004 filing, the Company performed a cost of service study ("COSS") to determine what share of PPL's distribution costs should properly be borne by each of the Company's various customer classes.

Although PPL performed a COSS for its 2004 distribution base rates case, the Company did not rely on the results of that COSS for its proposed allocation of the distribution rate increase. Instead, the Company imposed a "10% on a total-bill basis" limit on the combined distribution and transmission rate increase that could be imposed on any class.

The Commission upheld PPL's interclass distribution revenue allocation by evaluating the rate increase on a total-bill basis. The Commission concluded that it was not necessary to adhere strictly to a COSS and that, on the facts of that case, sufficient progress was being made toward cost-based distribution rates. *Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation*, Docket No. R-00049255 (Order entered December 22, 2004), at 81-82.

In an appeal to the Commonwealth Court, the OSBA pointed to the discriminatory effect of the distribution revenue allocation on the commercial GS-1 customer class. Specifically, the GS-1 class received a higher-than-system average distribution rate increase despite having an above-system average rate of return under the rates in effect at the time of the March 2004 filing.

In reversing the Commission's distribution revenue allocation decision, the Commonwealth Court held "that rates and rate structures [must] be set for each service primarily

on a cost-of-service study." *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006), *appeals denied,* 916 A.2d 1104 (Pa. 2007). Although the Court indicated that the Commission may consider other factors, such as gradualism, the Court characterized cost of service as the "polestar" of ratemaking concerns. Specifically, the Commonwealth Court stated as follows:

> However, while permitted, gradualism is but one of many factors to be considered and weighed by the Commission in determining rate designs, and principles of gradualism cannot be allowed to trump all other valid ratemaking concerns and do not justify allowing one class of customers to subsidize the cost of service for another class of customers over an extended period of time.
>
> * * *
>
> [I]n effect, the Commission has determined that the principle of gradualism trumps all other ratemaking concerns - especially the polestar - cost of providing service.

Lloyd, 916 A.2d at 1020.

Webster's Third New International Dictionary defines "polestar" as "a directing or controlling principle."

The Commonwealth Court also pointed out that the Commission had provided "no explanation how discrimination in distribution and transmission rate structures [is] eventually going to be gradually alleviated." *Lloyd*, 904 A.2d at 1020.

Finally, the Commonwealth Court "remanded to the Commission to set non-discriminatory reasonable rates and rate structure for each service." *Lloyd*, 904 A.2d at 1029.

On remand, PPL's 2004 base rate case ultimately settled, with the GS-1 customer class receiving a less than system average rate increase. The settlement document in the 2004 base rate remand proceeding stated as follows:

> PPL Electric also proposed [in the remand proceeding] to move its distribution rates for all major rate classes to at or near full cost of service over the course of three rate cases, including the 2004 rate case.

Joint Petition for Settlement of Remand Proceeding, Docket No. R-00049255, at Paragraph 20. *See also*, PPL Statement No. Remand-1, at 11. The Commission approved the settlement by Order entered July 25, 2007.

B. PPL's 2007 Base Rate Case

On March 29, 2007, PPL filed with the Commission a proposed $83.6 million increase in distribution rates.

PPL's 2007 base rate case also settled. In that settlement, the GS-1 customer class received a rate decrease. PPL's other rate classes that include small business customers, *i.e.*, the GS-3 and GH customer classes, were assigned rate increases below system average. *Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation*, Docket No. R-00072155 (Order entered December 6, 2007), at 29-31.

C. PPL's 2010 Base Rate Case

On March 31, 2010, PPL filed with the Commission a proposed $114.675 million increase in distribution rates.

A partial settlement was reached granting PPL a distribution revenue increase of $77.5 million dollars. Under the partial settlement, numerous issues, *e.g.*, cost of service and revenue allocation, were reserved for litigation.

The Commission entered an Order at Docket No. R-2010- 2161694 on December 21, 2010. The GS-1, GS-3, GH, or LPEP customer classes received no increases at the settled

revenue requirement. However, the OSBA proposal for First Dollar Relief ("FDR") for the GS-1, GS-3, and LPEP customer classes was denied.

The case was remanded to the Office of Administrative Law Judge for further proceedings not relevant to these Exceptions.

III. Exceptions

Exception No. 1: The ALJ erred when she ruled that a proportional scaleback of the rate increase for only those customer classes that were assigned rate increases in PPL's original filing is appropriate in this proceeding. (RD, at 117)

PPL originally requested a distribution revenue increase of $104.6 million. The ALJ recommended that PPL be allowed a distribution revenue increase of $63.83 million. The ALJ also recommended that PPL's revenue allocation methodology at the full $104.6 million increase be approved, a recommendation to which the OSBA takes no exception. The issue then becomes one of how to allocate the reduced overall revenue increase among the Company's customer classes.

Three options for scaling back the revenue increase were advanced in this proceeding. Office of Consumer Advocate ("OCA") witness Mr. Glenn A. Watkins proposed that the increases be scaled back proportionately among the rate classes that are assigned rate increases. OCA Statement No. 3, at 42. The Commission's Bureau of Investigation and Enforcement ("I&E") witness Mr. Jeremy Hubert offered a modified version of the proportional scaleback, in which first dollar relief is granted to the Rate RTS class and the balance of the reduction would be deducted proportionately from most of the classes facing a rate increase. I&E Statement No. 3, at 16-17. OSBA witness Mr. Knecht recommended that any reduction in the proposed revenue requirement be shared among all rate classes in proportion to PPL proposed revenues. OSBA Statement No. 1, at 13. In its rebuttal testimony, the Company appeared to support both

the I&E proposal and a proportional scaleback, but in its Main Brief argued in favor of the proportional scaleback among all classes facing an increase. *See* PPL Statement No. 5-R, at 4. *Compare* PPL Main Brief, at 156-157.

In her RD, ALJ Colwell recommended the adoption of a proportional scaleback of the rate increases for those customer classes that were assigned rate increases in PPL's original filing. The ALJ stated:

> In the *Lloyd* decision, the Commonwealth Court disapproved the setting of rates according to a flat across-the-board percentage because there was no dispute that the cost of serving each rate class varied, and that rates for certain classes were subsidizing rates for others, in the interest of keeping the increase in the total bills of each class to 10% or less. Accordingly, any scaleback should be utilized to bring the rates of each rate schedule closer to the cost of service.
>
> However, this concept, applied blindly, would result in reductions to customers who were not expecting an increase, or greater reductions to some customers than were originally proposed, to the detriment of those whose rates will rise more than necessary. The Company's proposal to apply any scaleback on a proportional basis to only those rate schedules which receive increases is recommended.

RD, at 116-117.

The OSBA opposed the Company's proposed proportional scaleback in both its main and reply briefs. *See* OSBA Main Brief, at 15-16; OSBA Reply Brief, at 9-12.

In his direct testimony, OSBA witness Robert D. Knecht presented two tables that are useful references when addressing the issue of allocating a reduced overall revenue increase. The first table, set forth below, summarizes the Company's proposed revenue allocation at PPL's full, original revenue proposal of $104.6 million:

Table 1 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, Table IEc-1, at 9.

The second table sets forth how much each customer class is over- or under-recovering its cost of service under current rates, and under PP's proposed rates at the full revenue proposal of $104.6 million:

Table 2
Impact of PPL Electric Revenue Allocation Proposal

	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.

Table 2 illustrates that the GS-3 customer class is significantly overpaying its cost of service at current rates, and received mild relief under PPL's original proposal revenue allocation. Specifically, the GS-3 class rate of return at present rates is 11.4 percentage points above system average, and, even with the proposed rate decrease, remains 8.2 percentage points above system average at PPL's proposed rates.

Mr. Knecht provided an excellent summary of the problems inherent in the proportional scaleback methodology adopted by the ALJ:

> 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. 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.

OSBA Statement No. 1, at 12-13.

Simply put, Mr. Knecht's scaleback methodology maintains the progress towards cost-based rates that was present in the Company's original revenue allocation proposal. However, if the ALJ's methodology is adopted, certain customer classes (*e.g.*, GS-3) will not benefit from the reduction in PPL's proposed distribution revenue increase. In surrebuttal testimony, Mr. Knecht compared the progress toward cost-based rates under his proposal with that under the I&E modified proportional scaleback method. Specifically, Mr. Knecht testified:

> Mr. Hubert's proposal is a modified version of the proportional scaleback, in which first dollar relief is provided to the RTS class, and a proportional scaleback is applied to the RS, LP-5, GH-2 and SL/AL rate classes. (Mr. Hubert excludes the small GS-1 and LP-4 rate increases from his proposed scaleback.) Table IEc-S1 below shows the differential rate of return at present rates, at PPL Electric proposed rates, and with the two alternative scaleback proposals. Note that "differential rate of return" represents the difference between the individual class rate of return and the system average rate of return. For example, at present rates the RTS class produces a rate of return that is 2.3 percentage points below the system average. Under PPL Electric's proposed revenue

allocation, the RTS class would continue to produce a rate of return below system average, but it would be 1.4 percentage points below the average. After Mr. Hubert's scaleback, however, the RTS rate of return would be 2.0 percentage points below system average.

Table IEc-S1
Impact of Alternative Scaleback Proposals
on Differential Rate of Return

	Present Rate Differential RoR	PPL Proposed Rates Full Rev. Requirement	Hubert Scaleback	RDK Scaleback
RS/RTD	-2.3%	-1.4%	-2.0%	-1.3%
RTS	-10.2%	-6.5%	-12.6%	-6.1%
GS-1	2.1%	-0.1%	2.1%	0.1%
GS-3	11.4%	8.2%	10.4%	7.8%
LP-4	3.9%	1.6%	3.7%	1.8%
LP-5	-11.7%	0.3%	-10.2%	-2.3%
LPEP	15.5%	13.2%	15.2%	12.1%
GH-2	-0.8%	0.3%	-0.6%	0.3%
Lighting	0.0%	0.0%	0.1%	-0.3%
Total	**0.0%**	**0.0%**	**0.0%**	**0.0%**

Source: Exhibit JMK-2, RDK Workpapers

OSBA Statement No. 3, at 5-6.

As Mr. Knecht's table shows, the I&E scaleback, like the proportional scaleback in general, undoes much of the progress toward cost-based rates that was inherent in the Company's original proposal. For example, the excess return from the GS-3 class is reduced from 11.4% to 8.2% in the Company's proposal, but the I&E scaleback would raise the over-recovery back up to 10.4%. Similarly, the Company's proposal effectively eliminates the excess return provided by the GS-1 class, while the I&E proposal would pretty much leave the GS-1

ratepayers where they started. Mr. Knecht's proposal, in contrast, would be much more effective in retaining the progress inherent in the original proposal.

PP&L Industrial Customer Alliance ("PPLICA") made a similar argument:

> PPLICA supports the scaleback recommendation proposed by OSBA in the event that the Commission approves an overall revenue increase lower than the Company's requested $104.6 million increase. PPLICA argues that 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 COSS ***but not allowing correlating adjustments for customers whose present rates are above cost of service***.

RD, at 116 (emphasis added).

As set forth in the History of the Case above, the OBSA proposal to allocate the revenue increase in order to move PPL's rate classes toward cost of service in this proceeding is in compliance with *Lloyd's* mandate that such movement not take an "extended period of time." If the ALJ's decision is allowed to stand, this will be ***four*** full base rate cases where the GS-1 and GS-3 classes will still be overpaying their cost of service. In the OSBA's view, the traditional scaleback mechanism is a major contributor to the perpetuation of this inequity, because it undoes the progress in the original revenue allocation proposed by the Company. By any definition, that result amounts to making selected classes overpay for an "extended period of time," especially since they were overpaying at least as long ago as PPL's 2004 base rate case.[1] Assigning a zero increase to the overpaying customer classes is not in any way sufficient progress to satisfy *Lloyd*.

[1] Overpayment by GS-1 and GS-3 customers has existed for decades. *See, e.g.*, Recommended Decision of Administrative Law Judge Robert A. Christianson, Docket No. R-00943271 (Issued July 28, 1995) at 219. *See also, Pennsylvania Public Utility Commission v. Pennsylvania Power & Light Company*, Docket No. R-00943271 (Order entered September 27, 1995) at 211-212.

The OSBA notes further that the enactment of Act 11 provides a further impetus to get rates into line with allocated costs to the extent possible in this proceeding. Act 11 allows for the implementation of a Distribution System Improvement Charge ("DSIC") mechanism in 2013, and PPL indicates it intends to submit a filing to that effect. OSBA Statement No. 1, at 12. By its nature, a DSIC mechanism will be an automatic rate adjustment approach, which will not allow class-differentiated increases designed to move rates into line with allocated costs pursuant to *Lloyd.*

Finally, the OSBA takes exception to the ALJ's logic that a scaleback which benefits all customer classes will somehow be ". . . to the detriment of those whose rates will rise more than necessary." The OSBA submits that, under *Lloyd*, a rate increase that is "more than necessary" is a rate increase that will increase rates materially above allocated costs. No such situation exists in this case, either under PPL's recommended overall revenue allocation or under any of the proposed scalebacks. Of the major rate classes, the residential class will continue to under-recover its allocated costs under any of the methods, and the GS-3 and LP-4 classes will continue to over-recover costs. The ALJ is simply wrong to suggest that the OSBA scaleback will result in a rate increases for any class that is more than necessary under *Lloyd.*

The OSBA's scaleback methodology is designed so that progress is maintained towards cost-based rates present in the Company's original revenue allocation proposal. The OSBA proposal would allow all customers to benefit from a scaleback, not just a select few. The Commission should apply the principles of the *Lloyd* decision, overturn the ALJ's recommendation, and scaleback the revenue allocation using the OSBA methodology so that all classes benefit from the reduction in distribution revenue increase, and so that the small business customers of PPL receive the relief which they have been denied for years.

Exception No. 2: The ALJ erred when she approved the Company's proposed Competitive Enhancement Rider. Further, even if the Commission were to approve a Competitive Enhancement Rider, the ALJ erred in adopting the Company's proposed tariff design. (RD, at 133)

PPL 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.

The ALJ recommended the adoption of the Company's CER. The ALJ stated, as follows:

> I recommend that the CER be approved, and the costs incurred by the Company in implementing the retail market enhancement programs, including consumer education costs not recoverable from the EGSs, be recovered using the CER. As all customers benefit from the robust competitive market, then all customers should bear the costs involved in developing it, on a per customer basis.

RD, at 133.

The OSBA respectfully submits that there is no need at this time for yet another PPL reconcilable charge. As Mr. Knecht testified:

> First, with 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. There will always be a temptation for PPL Electric to try to include more of the costs that it incurs in a reconcilable charge, and there will always be a temptation for ratepayer advocates to argue that costs should not be included in the rider.
>
> Second, with 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. (For example, the FirstEnergy companies have proposed a Default Service Support Rider that applies to all customers.)
>
> However, this 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.

OSBA Statement No. 1, at 19-20 (footnotes omitted).

It is established Commission policy that retail market enhancement costs should be borne by EGSs, and that this issue should be resolved in default service proceedings.

> As to program costs, we agree with the assertions of OCA and UGIES that the bulk of the costs, including the costs of maintaining the referral programs once they are put into place, **should be the responsibility of the participating EGSs**. We also find that PECO's proposal to recover program costs through the discount on the POR appears to be acceptable. Furthermore, we encourage the other EDCs to **explore similar recovery in their own DS plan proceedings.**

> Concerning the OCA's and UGIES's request to have participating EGSs pay for the cost of implementing the Retail Opt-In Auctions, the Commission agrees. In the Commission's view, **having the participating EGSs pay for the auction implementation is a prudent way to recover the auction costs**, given that the participating EGSs are the entities reaping the possible customer acquisition benefits resulting from the auction.

Final Order, Docket I-2011-2237952, at 32 and 78 (emphasis added).

Moreover in the recently resolved First Energy default service proceedings, the Commission found:

> Upon review of the Recommended Decision and the record in this proceeding, we find that we do not have sufficient information to adopt the proposal for the cost recovery of the ROI Aggregation Program and Standard Offer Customer Referral Program as recommended by the ALJ. . . . Accordingly, the Companies, with the cooperation of the EGSs, are directed to resubmit a plan or proposal within sixty days for Commission review regarding **how EGSs will pay for the Standard Offer Customer Referral Program and the redesigned ROI Aggregation Program**.

Opinion and Order, P-2011-2273650 *et al.*, at 136 (emphasis added).

Since the Commission has expressly rejected the idea of recovering retail market enhancement costs from base rates customers, there is simply no basis for PPL to argue that it should establish a charge for costs that it will not incur. Moreover, it is certainly premature to establish a charge and a cost recovery mechanism at this time, when the Company has no idea what costs will be included. As the Commission has recognized, this issue should be addressed in PPL's default service proceeding.

In addition, because this is not a default service proceeding where all the issues relating to default service costs and retail market enhancement programs are addressed, the ALJ's rationale contains a logical inconsistency. The ALJ argues that ". . . as all customers benefit from the robust competitive market, then all customers should bear the costs involved in

developing it . . ." On its surface, this argument appears to be reasonable. However, there is an exactly parallel argument, namely that all customers benefit from the existence of default service, and therefore all customers should pay for the costs involved in developing it. However, the Commission has been very clear that administrative costs related to default service procurement must be borne solely by default service customers. Similarly, as the Commission has correctly and consistently concluded, costs related to retail market enhancement should be borne by the EGSs. The ALJ's logic therefore does not demonstrate any need for a CER at this time.

However, if the Commission does decide that yet another PPL reconcilable charge is necessary, the OSBA recommended 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. Instead, the OSBA recommended that costs be directly assigned to PPL's rate classes where that is possible.

Mr. Knecht explained the OSBA proposal, as follows:

> PPL Electric implicitly proposes to allocate all of the costs for these programs in proportion to number of customers. However, many 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.
>
> Thus, if the Commission does agree that a CER is appropriate, the 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.

OSBA Statement No. 1, at 20.

The OSBA respectfully submits that it is much more reasonable to directly assign costs, where possible, so that the cost-causing customer class pays. For example, in light of the high level of shopping that already exists among PPL's non-residential customers, it is most unclear that there is any benefit to be gained by developing retail enhancement programs for these customers. And if retail market enhancement programs apply only to the residential class, PPL's proposal to effectively allocate those costs among all customers is clearly at odds with both cost causation and fairness considerations.

By designing the CER, if it is deemed appropriate, in the way advocated by the OSBA, each class will pay its fair share of the costs to the extent possible.

IV. Conclusion

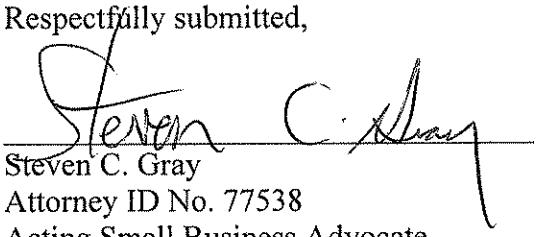
In view of the foregoing, the OSBA respectfully requests that the Commission:

1. Grant OSBA Exception No. 1;

2. Grant OSBA Exception No. 2; and

3. Grant such other relief as may be necessary.

Respectfully submitted,



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