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November 8, 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 Exceptions 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. Thank you.

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

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**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 8<sup>th</sup> day of November, 2012, at Harrisburg, Pennsylvania.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**EXCEPTIONS OF THE  
PP&L INDUSTRIAL CUSTOMER ALLIANCE**

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Dated: November 8, 2012

## **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%. In order to protect large customers' interests in the Company's service territory and in an attempt to prevent unreasonable distribution charges for large commercial and industrial ("C&I") customers as a result of this filing, the PP&L Industrial Customer Alliance ("PPLICA") filed a Complaint in this proceeding on May 25, 2012.

Pursuant to the procedural schedule established in this proceeding, PPLICA filed a Main Brief on August 29, 2012, and a Reply Brief on September 14, 2012. In general, PPLICA's Main and Reply Briefs supported PPL's Class Cost of Service Study ("CCOSS") and proposed revenue allocation, recommended approval of the revenue-based scaleback proposed by the Office of Small Business Advocate ("OSBA"), proposed that any recovery of PPL's Competitive Enhancement Rider ("CER") should be on a per-customer basis, with costs directly allocated to a customer class when possible, and opposed the proposal of Direct Energy Services LLC ("Direct Energy") to collect generation-related uncollectibles through a non-bypassable surcharge. On October 19, 2012, Administrative Law Judge ("ALJ") Susan D. Colwell issued a Recommended Decision ("R.D.") in this proceeding.

PPLICA generally supports the ALJ's well-reasoned R.D. with regard to issues of importance to PPL's large C&I customers. Specifically, the R.D. appropriately recognizes that PPL's proposed CCOSS conforms most closely with the NARUC Manual and should be used to allocate rates. *See* R.D., p. 107. In addition, the ALJ has reasonably approved a reduced rate increase of approximately \$64 million. R.D., p. 110. The ALJ also agreed with PPLICA that PPL's proposed CER should be recovered on a per-customer basis rather than a per-kWh basis and that Direct Energy's proposal to recover generation-related uncollectibles through a non-bypassable charge is inherently unfair. R.D., pp. 128, 133. Unfortunately, however, the R.D. denies PPLICA's recommendation for approval of the revenue-based scaleback proposed by OSBA. *See* R.D., p. 112.

PPLICA files these limited Exceptions to address the R.D.'s rejection of a revenue-based scaleback. The R.D. acknowledges the Commission's obligation to bring PPL's rates to cost of service, but denies approval of a revenue-based scaleback out of fear that certain customers would receive rate reductions beyond PPL's originally proposed levels. This rationale contradicts the entire purpose of moving towards cost-based rates. The obligation to achieve cost-based rates was sanctioned by the Commonwealth Court in *Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010, 1020 (Pa. Cmwlth. Ct. 2006) ("*Lloyd*"). As explained more fully below and in PPLICA's Main and Reply Briefs, PPLICA has demonstrated that a revenue-based scaleback rate option is consistent with *Lloyd* and should be approved to comply with the Commonwealth Court's directive. *See* PPLICA M.B. pp. 18-20; *see also* PPLICA R.B. pp. 8-10. Accordingly, PPLICA requests that the Commission grant the below Exception and approve the revenue-based scaleback as originally proposed by OSBA.

## II. EXCEPTIONS

### A. Exception No. 1: The R.D. Erred in Rejecting PPLICA's Recommendation for Approval of a Revenue-Based Scaleback. (R.D. pp. 110-112).

Over the course of this proceeding, PPLICA has made recommendations based on fundamental cost of service principles. PPLICA supported PPL's originally proposed CCOSS and revenue allocation because the proposals collectively resulted in progress towards cost-based rates. However, PPLICA also observed that PPL has now filed four base rate cases since *Lloyd*, without achieving cost-based rates for certain rate schedules. *See* R.D., p. 108. The R.D. partially recognized the importance of cost-based rates by recommending approval of PPL's CCOSS and proposed revenue allocation as the most accurate reflection of customers' cost of service. However, determining the most appropriate CCOSS and revenue allocation does not fully dispose of cost of service issues when the ALJ or Commission approves a revenue requirement lower than the Company's original request. As fully addressed in PPLICA's Main and Reply Briefs, it is imperative that any scaleback applied to the lower revenue requirement also reflect continued progress towards cost-based rates.

The R.D. fails to appropriately weigh the public interest benefit of preserving the progress towards cost-based rates achieved by the Company's original revenue allocation. The R.D. appropriately describes rate-setting practices before *Lloyd*, where EDCs routinely increased rates by uniform percentages across customer classes. The R.D. then summarizes corrective findings from *Lloyd*, recounting 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." R.D., p. 111. Finally, the R.D. correctly observes that the cost of service principles underlying *Lloyd* suggest that "any scaleback should be utilized to

bring the rates of each rate schedule closer to the cost of service." R.D., p. 111. Despite explicitly acknowledging the directives and principles from *Lloyd*, the R.D. inexplicably declines to adopt the revenue-based scaleback proposed by OSBA. Rather, the R.D. claims that strict adherence to cost of service principles would allow greater rate reductions for some customers than PPL's original proposal. R.D., p 112. To ensure that no Rate Schedule experiences rate reductions below levels that would have occurred upon approval of PPL's full rate request, the R.D. inappropriately denies the revenue-based scaleback in favor of a proportional increase-based scaleback supported by PPL and OCA.<sup>1</sup> R.D., p. 112.

As demonstrated in PPLICA's Main and Reply briefs, approval of a proportional increase-based scaleback would reverse progress towards cost-based rates by reducing rates for customers receiving an increase, *but still paying below cost rates*. PPLICA M.B., p. 19. At the same time, Rate Schedules currently paying above-cost rates, but not receiving a rate increase, would be excluded from a scaleback. *Id.* By scaling back rates for the Rate Schedules that PPL assigned higher rates under the originally proposed revenue increase, without making corresponding adjustments to the Rate Schedules PPL justifiably maintained at current levels, the increase-based scaleback reallocates the reduced revenue increase in a manner inconsistent with cost-based rates.

The unreasonableness of this result is clearly illustrated through examining the relative rates of return for Rate Schedule LP-4 under current rates, the full \$104.6 million requested increase, and the recommended \$64 million increase. Currently, PPL's overall average system rate of return is 6.14%, while Rate Schedule LP-4 customers generate a 10.03% return. PPL

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<sup>1</sup> The Bureau of Investigation and Enforcement ("I&E") supported an increase-based scaleback with restrictions applicable to specific Rate Schedules. While PPLICA believes a revenue-based scaleback most accurately reflects cost of service principles in this proceeding, PPLICA concurs with the R.D. that any approved increase-based scaleback should apply uniformly to all Rate Schedules experiencing a rate increase. PPLICA M.B., p. 19; PPLICA R.B., p. 8.

Statement No. 5, Exhibit DAK 3. PPL's proposed revenue allocation at the full rate increase would increase the system average rate of return to 8.46%, while maintaining a 10.03% rate of return for Rate Schedule LP-4. *Id.* As stated above, the proposed rates would not achieve rate parity for Rate Schedule LP-4, but would at least increase other rates while freezing Rate Schedule LP-4 revenues, thereby moving the class closer to cost of service. However, the increase-based scaleback recommended by the R.D. would diminish the progress towards cost-based rates. The R.D.'s \$64 million revenue requirement reduces PPL's system average rate of return to 7.65%, but with a scaleback allocated only to rate increases, the rate of return for Rate Schedule LP-4 would remain 10.03%.<sup>2</sup> As discussed below, no reasonable basis exists for approving a scaleback that reverses progress towards cost-based rates.

Approval of the proposed revenue-based scaleback is essential to preserve the progress towards cost-based rates reflected in PPL's original revenue allocation at the full \$104.6 million rate increase request. PPL developed its revenue allocation to stabilize rates for customers paying above-cost rates and recover most of the revenue requirement from customers paying below-cost rates. *See* PPLICA M.B., pp. 153-154, R.D., p. 108-09. The ALJ's approval of a lower revenue requirement does not diminish the obligation to develop cost-based rates. Accordingly, where PPL originally proposed to stabilize above-cost rates to approach rate parity at the full \$104.6 million rate increase, it is entirely appropriate for the Commission to apply rate decreases to affected Rate Schedules as necessary to preserve progress towards rate parity at a lower revenue requirement.

With above-cost rates lingering on PPL's system, the Commission should take affirmative steps to enforce the Commonwealth Court's mandate from *Lloyd*. Failure to modify the scaleback methodology adopted by the R.D. will ensure that rates for Rate Schedule LP-4 and

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<sup>2</sup> Rate Schedule GS-3 is similarly affected.

GS-3 remain significantly above cost of service despite PPL filing *four* rate cases since *Lloyd*. This completely avoidable result would materialize only if the Commission continues to apply the misplaced equity concerns expressed in the R.D. The R.D. purports to seeks "fairness" by ensuring that no rate class experiences rate decreases beyond the levels originally proposed by PPL. R.D., p. 112. However, the R.D. fails to account for the unreasonableness of further reducing rates for customers whose original allocations were *already* reduced by gradualism adjustments, while denying any further rate relief to customers continuing to pay above-cost rates. *Id.* As correctly noted by the R.D., "the basic factor in allocating revenue is to have the rates reflect cost of service." R.D., p. 108. In view of the outstanding directive from *Lloyd*, PPLICA submits that the Commission should apply the same cost of service principles and approve the revenue-based scaleback.

### **III. CONCLUSION**

The R.D. failed to appropriately weigh the public interest considerations affected by an increase-based or revenue-based scaleback. There is little public interest benefit gained from insulating certain customers from rate increases fully justified by cost of service principles while other customers are forced to continue paying above-cost rates. However, this result will transpire if the Commission concurs with the R.D. and approves an increase-based scaleback. Customers paying rates below-cost rates and appropriately allocated rate increases at the full rate increase will benefit from unreasonable rate reductions under an increase-based scaleback. The scaleback rate reductions will move these customers further from cost-based rate levels while customers historically paying above-cost rates receive no scaleback benefits. To avoid distorting progress towards cost-based rates and preserve the more balanced revenue allocation initially

developed by PPL at the full rate increase request, the Commission must approve the revenue-based scaleback proposed by the OSBA.

**WHEREFORE**, the PP&L Industrial Customer Alliance respectfully requests that the Pennsylvania Public Utility Commission:

- (a) Reject the Recommended Decision with respect to the denial of the revenue-based scaleback originally proposed by the OSBA; and
- (b) Adopt the other aspects of the Administrative Law Judge's Recommended Decision in all other respects without modification.

Respectfully submitted,

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