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File #: 150736

November 19, 2012

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed for electronic filing are the Replies of PPL Electric Utilities Corporation to the Exceptions of Other Parties in the above-referenced proceeding.

Copies have been provided to the persons in the manner indicated on the certificate of service.

Respectfully Submitted,

John H. Isom

JHI/jl
Enclosure
cc: Honorable Susan D. Colwell
Cheryl Walker Davis, Director
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing **Replies of PPL Electric Utilities Corporation to the Exceptions of Other Parties** have been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: November 19, 2012

John H. Isom

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLIES OF PPL ELECTRIC UTILITIES CORPORATION
TO THE EXCEPTIONS OF OTHER PARTIES

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I. INTRODUCTION

PPL Electric Utilities Corporation ("PPL Electric" or the "Company") files herewith its Replies to the Exceptions of OCA, I&E, OSBA, PPLICA, Direct Energy, and Dominion. The Exceptions of these parties provide no basis for overruling the Recommended Decision ("RD"). Disturbingly, the Exceptions, on many issues, simply summarize their own evidence and arguments and ignore the extensive evidence and legal precedent presented by the Company and credited by the ALJ. PPL Electric urges the Commission to carefully examine the RD and briefs and evidence presented by the Company. A full and fair review of the record will demonstrate the lack of merit in these parties' Exceptions. A summary of the Company's positions on major issues raised in these Exceptions is provided below.

Capital Structure. I&E and OCA propose hypothetical capital structures. Long-standing precedent holds that the Commission will not adopt a hypothetical capital structure where the utility's actual capital structure is within the range of capital structures for similarly situated companies. The unrebutted record evidence shows that PPL Electric's proposed capital structure is well within the range of capital structures for the barometer groups of companies employed by the Company, I&E and OCA. The record evidence also shows that PPL Electric's proposed capital structure is necessary to sustain its credit rating and infrastructure program and is fully consistent with its historic average capital structure. There is no factual or legal basis to employ a hypothetical capital structure in this proceeding.

Depreciation Reserve. The ALJ properly rejected OCA's proposed adjustment to the Company's claimed depreciation reserve, which matches the reserve with all other elements of rate base. The Company's depreciation expert, John Spanos of Gannett Fleming, who has prepared and presented depreciation studies to this Commission for virtually every major electric, gas and water company in the Commonwealth, presented unrebutted testimony that the method proposed by the Company is consistent with the method used by all other major Pennsylvania utilities, and this method has been accepted by the Commission in all instances. The OCA's method mismatches the depreciation reserve and all other elements of rate base, is inconsistent with uniform practice and precedent, and should be rejected.

Incentive Compensation. The Commission has repeatedly held that a utility's incentive compensation expense may be fully recovered in rates where the utility shows that its incentive compensation program is based on goals which benefit both customers and utility shareholders. I&E, OCA and the Company all agree that the Company's incentive compensation plan benefits both customers and shareholders. The Company's claim, therefore, should be approved. I&E and OCA argue at length that the Company did not present evidence as to the goals of its incentive compensation program. This argument is false. The Company did, in fact, present detailed information regarding the three overarching goals of its incentive compensation program and demonstrated that two of those three goals — achieve operational excellence and optimize workforce readiness and engagement — are specifically designed to benefit customers. The Commission should not be misled by the I&E and OCA Exceptions. Even a cursory review of the record will demonstrate the validity of the Company's claim.

Commission Assessments. I&E argues at length that a utility's funding of Commission operating costs is not a prepayment despite the fact that the invoice sent by the Commission specifically states that it is a prepayment and despite I&E's own admission that the Commission's operations are funded in advance and not after the fact. For I&E's assertion to be true the Commission would have to borrow money to operate and then be paid back after the fact through utility assessments. This obviously is not the case, and I&E's argument should be rejected.

Cost of Service Study, Revenue Allocation and Scaleback. On these three issues, PPL Electric's proposals are identical to the proposals presented in its 2010 base rate case. These issues were fully litigated and the proposals presented by opposing parties were specifically considered and rejected by both the ALJ and the Commission. There are no changed circumstances which would justify a different result in this case.

Residential Customer Charge. Applying the rules set forth in Commission's order in the 2004 Aqua base rate proceeding, the Company calculated a proposed alternative customer charge of $14.09 per month. OCA describes the Aqua decision as fact specific; I&E describes it as "aberrant." Neither description is accurate. The Company's proposed alternative customer charge should be approved.

Purchase of Receivables. Direct Energy repeatedly asserts that PPL Electric cannot separately track uncollectible accounts expense for shopping and non-shopping customers, and contends that uncollectible accounts expense should be "rebundled." Direct's Energy's allegation is false. The Company has not performed such a calculation, but is perfectly capable of doing so and will do so if the Commission endorses the proposal set forth in the RD.

II. REPLIES TO EXCEPTIONS OF OTHER PARTIES

1. I&E's And OCA's Exceptions To The ALJ's Approval of PPL Electric's Actual Capital Structure Should Be Denied. RD, pp. 56-60; PPL Electric IB, pp. 91-102; PPL Electric RB, pp. 41-55.

I&E and OCA except to the ALJ's recommended acceptance of PPL Electric's actual capital structure of 50.78% equity and 49.22% debt.[1] Both parties contend that a lower equity

[1] OCA asserts that the Company's actual capital structure is simply an estimate for the future test year. OCA Exc., p. 13, fn. 6. However, the record demonstrates that the Company has completed the financings projected during the future test year. PPL Electric St. 10-RJ, p. 6. Both parties also assert that PPL Corp. can control PPL Electric's capital structure as it is wholly owned subsidiary of PPL Corp. However, these parties ignore the fact that PPL

ratio would produce lower costs for customers and request that the Commission use a hypothetical capital structure for ratemaking purposes. The ALJ correctly rejected I&E's and OCA's contentions, recognizing that PPL Electric's actual capital structure is not atypical because it falls within the historic range of capital structures employed by each of the parties' barometer group companies. RD, pp. 57 and 60. The ALJ's recommendation should be accepted because (1) PPL Electric's capital structure is not atypical and, therefore, under precedent, provides no basis to employ a hypothetical capital structure; and (2) PPL Electric requires an equity ratio near the high end of the historic range employed by the barometer group companies to support its expanded infrastructure replacement program and its credit rating.

a. I&E and OCA Misstate The Circumstances That Authorize The Use Of Hypothetical Capital Structure Ratios.

In Exceptions, I&E and OCA contend that the Commission may use a hypothetical capital structure whenever it concludes that it would be more efficient than the Company's actual capital structure. I&E Exc., p. 17; OCA Exc., pp. 12-15. Fundamentally, these parties simply argue that a lower equity ratio lowers costs without regard for the circumstances that require a higher equity ratio. Both parties rely on statements in cases where the utility's equity ratio was <u>outside</u> the range of equity ratios of barometer group companies to contend that a hypothetical capital structure should be employed in this case where the actual equity ratio is clearly <u>within</u> the historic range of equity ratios employed by barometer group companies. The Parties cite *Carnegie Natural Gas v. Pa. P.U.C.,* 433 A.2d 928 (Pa. Cmwlth. 1981) (93.9% equity ratio); *Lower Paxton Twp. v. Pa. P.U.C.*, 317 A.2d 917 (Pa. Cmwlth. 1974) (100% equity ratio); and *T.W. Phillips Gas and Oil Co. v. Pa. P.U.C.*, 474 A.2d 355 (Pa. Cmwlth. 1984) (60.1% equity

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Electric raises debt directly from the public and has credit ratings from the rating agencies. Accordingly, its capital structure must meet the standards of the rating agencies. PPL Electric St. 10-R, pp. 3-5.

ratio). While these cases identify the Commission's power to employ a hypothetical capital structure where the actual capital structure is extreme and atypical, they do not address how to determine when the actual capital structure is atypical.

The ALJ correctly recognized, and the other Parties ignore, that the Commission has set standards for identifying an atypical capital structure. The Commission has found:

> The ALJ recommended use of the Company's stand-alone capital structure since it met the following characteristics of an appropriate capital structure:
>
> 1. It was within a reasonable range of similar risk barometer group companies.
> 2. It reflected the Company's actual capital structure and projected near term capital structure.
> 3. It is consistent with the Company's apparent capital structure goal.
>
> (R.D., p. 28).
>
> We concur with the recommendation of the ALJ, particularly for the reason that the Company's actual capital structure falls within a range employed by similar risk barometer group companies, described by Mr. Shiavo as commensurate with capital ratios employed by other independent telephone operating companies.

Pa. P.U.C. v. ALLTEL Pa., Inc., Docket No. R-942710 *et al.*, 59 Pa. PUC 447, 491, 1985 Pa. PUC LEXIS 53, *106 - *107, (May 24, 1985), ("*ALLTEL*"). The Commission should not depart from this long-established standard, especially where the evidence demonstrates that PPL Electric's equity ratio is within the range of each of the barometer groups presented by witnesses in this proceeding. PPL Electric St. 11, p. 22; PPL Electric St. 11-R, p. 6; PPL Electric IB, p. 95.

b. PPL Electric Has Justified Its Equity Ratio.

PPL Electric's equity ratio is not atypical and provides no basis for use of a hypothetical capital structure. PPL Electric also has demonstrated that its equity ratio is necessary to support its ability to attract capital and maintain its credit rating. These are important considerations as PPL Electric continues to ramp up its infrastructure replacement program.[2]

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[2] PPL Electric's infrastructure program is projected to increase from $298 million in 2009 to $870 million in 2013. PPL Electric IB, p. 95.

I&E and OCA contend that PPL Electric is employing more equity, as compared to the past, simply to increase rates to customers. Both argue that PPL Electric could meet its financing requirements with less equity than proposed. OCA and I&E simply ignore that PPL Electric's unsecured bond was downgraded from Baa1 to Baa2 by Moody's Investors Service ("Moody's") in April 2010, as a result of Moody's:

> opinion that PPL Electric's cash flow credit metrics will decline dramatically from their recent levels and will remain toward the low end of the Baa range (Baa2 to Baa3), due, in part to the <u>increased expenditures for capital investments</u> to support and maintain the reliability of PPL Electric's aging delivery systems.

PPL Electric St. 10, p. 3 (emphasis added). With even further expansion of the infrastructure replacement program in 2013, a modest increase in the equity ratio was designed to avoid any further downgrade of PPL Electric's rating to the lowest investment grade rating of Baa3. PPL Electric St. 10, p. 5.

PPL Electric's actions to improve its equity ratio are consistent with projections of increasing equity ratios for other electric utilities as they expand their infrastructure replacement programs. PPL Electric St. 11-R, p. 9; PPL Electric IB, p. 96 (explaining that PPL Electric's December 31, 2012 equity ratio is similar to the <u>average</u> projected equity ratios for electric utilities in 2012 and 2013). Accordingly, I&E's and OCA's comparisons to average historic equity ratios are not reflective of current market requirements to raise capital in competition with similarly situated electric utilities.[3]

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[3] PPL Electric also provided detailed calculations that demonstrate that reducing the equity ratio for ratemaking purposes as proposed by I&E and OCA, when combined with those parties' proposed ROEs, would significantly lower credit metrics and likely result in a further downgrade of the Company's bond rating. PPL Electric St. 10-R, pp. 3-5. While the ultimate rating will be affected by both the equity ratio and ROE used in the ratemaking process, this evidence demonstrates the jeopardy which I&E's and OCA's recommendations would create for PPL Electric and clearly refutes their contentions that the Company's equity ratio is designed to benefit shareholders at the expense of customers.

c. I&E's And OCA's Hypothetical Calculations Of Savings From A Lower Equity Ratio Are Both Illusory and Erroneous.

I&E and OCA provide simplistic calculations of the reduced revenue increases that would result if their hypothetical equity ratios are employed in setting rates. I&E's calculation is based on its 45% equity ratio and OCA's is based on its 47.16% equity ratio, as compared to the Company's originally proposed 51.03% equity ratio. Tr. 364; OCA St. 2, p. 22. The Company's equity ratio later was reduced to 50.78%. PPL Electric IB, p. 91, fn. 16; RD, p. 55.

I&E's and OCA's claimed savings are illusory because they incorrectly assume that PPL Electric can undertake a dramatically expanded infrastructure program without strengthening its equity ratio. As explained previously, other electric utilities are projected to increase their equity ratios for the same reasons as PPL Electric – to provide a strong financial profile as increased amounts of capital must be raised to rebuild infrastructure. PPL Electric St. 11-R, p. 9. PPL Electric should not be placed at a disadvantage in raising capital and be placed at risk of a further downgrade by adopting a hypothetical equity ratio.

I&E's and OCA's calculations also are erroneous because they ignore the fact that a substantial part of the increase in PPL Electric's equity ratio results from refinancing preference stock, which does not receive a tax deduction on dividends, with 50% equity and 50% tax deductible debt at a small net savings to ratepayers. As a result, I&E's and OCA's alleged savings from a lower equity ratio are significantly overstated because they incorrectly assume that the increased equity to refinance preference stock increases costs to ratepayers. PPL Electric St. 10-RJ, p. 5; PPL Electric IB, p. 93.

Finally, PPL Electric has refuted OCA's contention that its equity ratio is well above the Company's historic norm. As noted in the Company's Reply Brief, the appropriate historical comparison is 2009 through 2011, since 2009 is the start of PPL Electric's expanded infrastructure program. For this three-year period, PPL Electric's actual average capital structure, including preference stocks was:

Capital Type	2009-2011 Average Percentage
Common Equity	47.82%
Preference Stock	7.87%
Long-Term Debt	44.31%
Total	100.00%

When preference stock is replaced with 50% equity/50% debt at no increased cost to customers, the Company's adjusted three-year historic capital structure is as follows:[4]

Capital Type	2009-2011 Average Percentage
Common Equity	47.82% + ½(7.87%) = 51.75%
Long Term Debt	44.31% + ½(7.87%) = 48.25%
Total	100.00%

This table demonstrates that PPL Electric's proposed 50.78% common equity ratio is consistent with its recent historic levels of equity given the 50% equity weighting applied by rating agencies to preference stock.

d. Conclusion As To Capital Structure.

The ALJ applied the correct legal standard in rejecting I&E's and OCA's proposed hypothetical capital structures. PPL Electric has demonstrated that its actual equity ratio is necessary to support its expanded infrastructure program and support its bond rating. The ALJ's recommendation should be affirmed.

[4] Mr. Clelland explained that rating agencies classify Preference Stock as 50% debt and 50% equity. *See* PPL Electric St. 10-RJ, at 4-5. Moreover, the OCA has accepted this classification. *See* Tr. 261; OCA MB, p. 40.

2. I&E's and OCA's Exceptions Regarding Management Effectiveness Should Be Rejected. RD, pp. 84-89; PPL Electric IB, pp. 115-23; PPL Electric RB, pp. 73-75.

PPL Electric requested a 12 basis point (0.12%) increment to the ROE to reflect exemplary management performance. The RD correctly summarized PPL Electric's evidence of management performance, but recommended a 6 basis point increment for management performance relying on certain criticisms of PPL Electric. RD, pp. 85-88. Both I&E and OCA take exception to the RD, arguing that PPL Electric has done nothing more than meet its statutory requirements with statutory funding and, therefore, should not be awarded an adder for management effectiveness. I&E Ex., pp. 23-29; OCA Ex. No. 6. The Exceptions completely ignore and seriously misrepresent the record below and should be rejected.

"Section 523 of the Code, 66 Pa.C.S. § 523, directs the Commission to consider the efficiency, adequacy, and effectiveness of service in setting just and reasonable rates." *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 2004 Pa. PUC LEXIS 39 at *80, 236 P.U.R.4th 218 (July 23, 2004). Under the theory advanced by I&E and OCA, a utility is only entitled to an adder for management performance if the utility demonstrates that it is superior to other utilities or that it has paid for the associated costs with shareholder money. Nothing in Section 523 of the Public Utility Code or any order of the Commission supports this unprecedented position. I&E and OCA are improperly attempting to add a heightened, additional standard in Section 523 that was not provided by the General Assembly.[5]

A public utility clearly has a statutory duty to provide adequate, efficient, safe, and reasonable service and facilities at just and reasonable rates. 66 Pa.C.S. §§ 1301, 1501. Under

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[5] *See Melmark Home v. Workers' Compensation Appeal Board (Rosenberg)*, 946 A.2d 159, 162 (Pa. Cmwlth. 2008) (citation omitted) (agencies/courts have "no power to insert words into statutory provisions where the legislature has failed to supply them"); *Kmonk-Sullivan v. State Farm Mutual Automobile Insurance Co.*, 567 Pa. 514, 525, 788 A.2d 955, 962 (2001) (although a court must "listen to what a statute says[;] one must listen attentively to what it does not say").

Section 523, however, it is the efforts and manner in which the utility meets the statutory requirements that the Commission considers when determining if a management performance adder is appropriate. For example, the Commission awarded a 25 basis point adder to compensate a utility where it "promoted and accomplished cost efficiencies in several operational aspects, particularly its management of the necessity to meet [the Federal Clean Air Act] compliance." *Pa. P.U.C. v. West Penn Power Co.*, Docket No. R-00942986, 1994 Pa. PUC LEXIS 144 at *147 (Dec. 29, 1994). Likewise, the Commission awarded a 22 basis point adder where a utility's "managerial performance related to its water quality, customer service and low income program continues to be laudable." *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711, 2008 Pa. PUC LEXIS 50 at *63-64 (July 31, 2008).

Here, I&E and OCA ignore the record evidence of the exceptional manner in which PPL Electric has exceeded its statutory obligation to provide adequate, efficient, safe, and reasonable service and facilities at just and reasonable rates, including:

- New technology to improve productivity and including advanced meters.
- A smart grid distribution automation system.
- A work and asset management system, which is a new large scale software solution that will improve associated work management business processes.
- Several initiatives in response to the historic storms of 2011 to improve storm processes including call handling time and volume.
- Increased investment to address aging infrastructure.
- Capital investment in information systems to support customer choice and to provide expanded self-service options for customers.
- Testing and evaluating a variety of applications and features that will expand the capabilities of the current system and equipment over the next five years.
- PPL Electric is the only utility in the Commonwealth that has deployed smart meters to all of its customers.
- PPL Electric plans to deploy self-healing smart grid functionality to approximately 50% of all customers and circuits by 2019.
- The Company has successfully deployed a comprehensive family of programs to meet its requirements under Pennsylvania Act 129.

- PPL Electric implemented a highly successful pilot program that allows residential customers to use self-serve tools (IVR and the web) to establish payment agreements. No other utility has implemented such a program.
- In 2011, for the ninth time, PPL Electric was ranked highest among large electric utilities in the eastern United States in J.D. Power and Associates' annual study of business satisfaction.
- On July 12, 2012, the Company received its 18th J.D. Power and Associates award for being first in customer satisfaction in the eastern United States.
- PPL Electric has undertaken many activities and programs to provide an educational foundation to help consumers understand a variety of issues associated with shopping for electricity, the importance of energy efficiency and conservation, and the steps they can take to help them control the size of their electric bills.
- PPL Electric has been an active supporter of competition. PPL Electric has the highest percentage of total customers shopping in Pennsylvania among large EDCs.
- PPL Electric has been a leader in the development and implementation of universal service programs.

PPL IB, pp. 116-20. Clearly, the record evidence demonstrates that PPL Electric's management is effectively controlling costs, while at the same time, providing customers with high quality service and expanded service options.[6] PPL Electric's rate of return witness recommended a 12 basis point addition to the rate of return for management effectiveness. Given the Company's efforts described above, the requested 12 basis point adder clearly is modest and within the range previously awarded by the Commission. *See West Penn Power Company*, *supra*, (awarding a 25 basis point adder); *Aqua*, *supra*, (awarding a 22 basis point adder).

3. The RD Properly Rejected OCA's Proposal To Include Annualized Depreciation Expense In The Accumulated Reserve For Depreciation. RD, pp. 16-18; PPL Electric IB, pp. 20-23; PPL Electric RB, pp. 8-11.

The RD properly rejected OCA's proposal to calculate the accumulated reserve for depreciation as of December 31, 2012, by adding the annualized depreciation expense as of

[6] The OCA also references five instances over the last four years where PPL Electric paid a civil penalty. The OCA overlooks that PPL Electric has 1.4 million customers and millions and millions of annual interactions with these customers. In only four instances has any penalty been applied, and in three of those instances the Company settled the matter without any finding of any violation. In only one instance in the past four years has PPL Electric been found to have violated the Public Utility Code, and on that occasion it was assessed a civil penalty of $100.

December 31, 2012 to the depreciation reserve per books as of December 31, 2011.

The flaw in OCA's proposed adjustment is demonstrated by reviewing the other components of net plant as of December 31, 2012. The accumulated reserve for depreciation, plant in service and retirements as of December 31, 2012, all are determined by bringing forward the book balances as of December 31, 2011, by reflecting the projected plant additions, annual depreciation expense per books, projected retirements per books and projected net salvage per books. PPL Electric Ex. JJS-2, pp. III-6 through III-7; PPL Electric Ex. 1, Part V-A-3, pp. 1-3. OCA proposes to change one and only one element in determining net plant in service — the projected depreciation expense per books for 2012. Instead, OCA would use the annualized depreciation expense calculated based on plant in service as of December 31, 2012. The proposed use of the annualized depreciation expense would be a mismatch with every other component of net plant in service, all of which are based on projected transactions per books. There is no "annualized" level of plant in service as of December 31 or "annualized" retirements or "annualized" net salvage. OCA's proposed adjustment was properly rejected in the RD.

As PPL Electric's expert on depreciation, John Spanos, explained, PPL Electric's method of determining the accumulated reserve for depreciation has been utilized and approved in the prior PPL Electric rate proceeding and "has been universally accepted by this Commission for all major electric, gas and water public utilities." PPL Electric St. 13-R, p. 4.[7] OCA's proposed adjustment to the depreciation reserve should be rejected.

[7] Mr. Spanos has prepared depreciation studies for, among others, Peoples Natural Gas Company, T.W. Philips Gas & Oil Company, Penn Fuel Gas, Inc., Consumers Pennsylvania Water Company, York Water Company, Aqua Pennsylvania, Pennsylvania-American Water Company, National Fuel Gas Distribution Corporation, Duquesne Electric Company. PPL Electric St. 13, pp. 3-5.

4. The RD Properly Rejected I&E and OCA Proposals To Disallow One-Half Of Incentive Compensation Expenses. RD, pp. 26-28; PPL Electric IB, pp. 33-40; PPL Electric RB, pp. 15-18.

Both I&E and OCA proposed that one-half of PPL Electric's incentive compensation expense be disallowed because the incentive compensation program benefits both ratepayers and shareholders. This adjustment properly was rejected. First, it ignores the fact that almost everything PPL Electric does will benefit both shareholders and ratepayers. For example, reducing service outages benefits customers and enables PPL Electric to continue to deliver electricity to customers which produces revenues to the benefit of shareholders. Thus, providing reliable service benefits both ratepayers and shareholders.

Second, the adjustment is unlawful. A public utility is entitled to recover expenses reasonably necessary to provide service to customers and to earn a fair rate of return. *Western Pennsylvania Water Co. v. Pa. P.U.C.*, 54 Pa. Cmwlth. 187, 422 A.2d 906 (1980). Operating expenses include prudently incurred payroll costs. Neither I&E nor OCA has claimed that the total compensation expenses were unreasonable, imprudent, excessive or unnecessary. If an operating expense is prudently incurred to provide service to customers, a public utility is entitled to recover such expenses, even if there also is a benefit to shareholders. *Butler Township Water Co. v. Pa. P.U.C.*, 81 Pa. Cmwlth. 40, 43-44, 473 A.2d 219-21 (1984); *T.W. Phillips Gas and Oil Co. v. Pa. P.U.C.*, 81 Pa. Cmwlth. 205, 474 A.2d 355 (1984).[8]

In support of their proposals, OCA and I&E rely primarily upon three cases: *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, 82 Pa. PUC 488 (1984); *Pa. P.U.C. v. Roaring Creek Water Co.*, 81 Pa. PUC 285 (1985); and *Pa. P.U.C. v. Philadelphia Gas Works*, Docket No. R-00061931, 2007 Pa. PUC LEXIS 45 (Sept. 28, 2007). None of these cases, however, support

[8] I&E and OCA contend that these cases to not apply to incentive compensation because they dealt with rate case expense. However, neither I&E nor OCA offer any logical basis for distinguishing the two operating expenses.

what OCA and I&E propose here – a sharing of expenses between shareholders and ratepayers. Instead, in all three cases, 100% of the incentive compensation was disallowed because the utility did not demonstrate that the incentive compensation would benefit ratepayers **at all**. That is, these cases stand only for the proposition that expenses that provide no benefit for ratepayers should be disallowed in full. These cases have no application in this proceeding, where all parties agree that PPL Electric's incentive compensation program benefits ratepayers.

The Commission has repeatedly approved incentive compensation where it benefitted ratepayers. *See, e.g., Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2008 Pa. PUC LEXIS 50, Docket No. R-00072711 (July 31, 2008); *Pa. P.U.C. v. Duquesne Light Co.*, 63 Pa. PUC 337, 1987 Pa. PUC LEXIS 342 (March 10, 1987); *Pa. P.U.C. v. PPL Gas Utilities Corp.*, R-00061398, p. 40 (Feb. 9, 2007). More recently, the Commission even required Philadelphia Gas Works to propose an incentive compensation plan as a condition to the Commission's approval of an extraordinary rate increase to improve management inefficiencies. *Pa. P.U.C. v. Philadelphia Gas Works*, Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Dec. 19, 2008).

Here, it is uncontested that PPL Electric's incentive compensation program benefits ratepayers. Its three overarching objectives are to:

- Achieve Operational Excellence,
- Optimize workforce readiness and engagement and
- Increase shareholder value.

PPL Electric Ex. DAC-2. PPL Electric's incentive compensation program clearly is balanced and benefits ratepayers, as well as shareholders.[9] Clearly, PPL Electric's incentive compensation plan has not lost its customer focus. On July 12, 2012, PPL Electric won its 18th overall J.D. Power Award when J.D. Power & Associates ranked PPL Electric first in residential customer

[9] I&C complains that PPL Electric did not provide all the detail it wanted regarding the incentive compensation program. The granular detail sought by I&E, however, is unnecessary where the overall program clearly benefits ratepayers. I&E's complaint provides no basis for denying recovery of incentive compensation expenses.

satisfaction among electric utilities in the eastern United States. PPL Electric St. 3-R, p. 24.[10] I&E's and OCA's proposed adjustments to incentive compensation expense properly were rejected.

5. The RD Properly Included Regulatory Assessments As A Pre-Payment In The Working Capital Calculation. RD, pp. 22-23; PPL Electric IB, pp. 28-30; PPL Electric RB, pp. 11-13.

For many years, public utilities have included regulatory assessments as prepayments in the working capital calculations without controversy. *See, e.g., Pa. P.U.C. v. National Fuel Gas Distribution Corp.*, Docket No. R-00042991, 1994 Pa. PUC LEXIS 134 (Dec. 6, 1994). Despite decades of practice and despite the absence of any change in law or facts, I&E proposed to remove regulatory assessments from prepayments on the theory that assessments are for the prior calendar year and not for the Commission's next fiscal year. I&E's proposed adjustment is inconsistent with the Commission's own invoice for assessment, the relevant statutes and the manner in which Commission actually operates.

I&E's contention the regulatory assessments are not a prepayment is inconsistent with the actual invoice used by the Commission for regulatory assessment, which states as follows:

> "The Commission is submitting a request for **prepayment** of PPL Electric's estimated Public Utility Commission Assessment for the fiscal year 2012 – 2013. The requested **prepayments** amount is an estimate based on the revenues shown for your Company's GAO-11 submission and the Commission's **fiscal year 2012 – 2013 budget** request. When the assessment invoices are issued in August for the **fiscal year 2012 – 2013** your invoice will be adjusted to reflect the payment made in response to this letter."

PPL Electric Ex. BLJ-1 (emphasis added).

That the regulatory assessments are a prepayment is confirmed by Section 511(b) of the

[10] In an attempt to tar PPL Electric's incentive compensation plan, I&E refers to it as 10% of the Company's proposed rate increase and 15% of the ALJ's recommended revenue increase. I&E Exc., p. 10. A more apt comparison would be to compare the jurisdictional portion of the incentive compensation expense with jurisdictional revenues at proposed rates. That comparison indicates that the incentive compensation program is only about 1% of jurisdictional revenues at proposed rates. PPL Electric RB, p. 20, fn. 3.

Public Utility Code, 66 Pa.C.S. § 511(b), which provides that:

> All such assessments and fees, having been **advanced** by public utilities for the purpose of deferring the cost of administering this part, shall be held in trust solely for that purpose and shall be earmarked for the use of, and annually appropriated to, the Commission for disbursement solely for that purpose.

(Emphasis added). I&E's adjustment ignores reality. Under I&E's view, regulatory assessments are paid after the fact. If this were true, the Commission would have to borrow money to fund operations pending collection. This is not how the Commission works. I&E's proposed adjustment to remove regulatory assessments from prepayments properly was rejected.

6. The RD Properly Rejected OCA's Proposal To Adjust PPL Electric's Payroll Expense For Currently Vacant Positions Scheduled To Be Filled Before The End Of The Future Test Year. RD, pp. 40-41; PPL Electric IB, pp. 71-72.

PPL Electric based its future test year payroll budget on an employee complement of 2,002. OCA St. 1-Rev., p. 16. The unrebutted record evidence demonstrates that this number of employees is required to manage and maintain PPL Electric's transmission and distribution systems. PPL Electric St. 2-R, pp. 8-9. In computing its adjustment, OCA used the average number of employees over a 16-month period ended March 2012 and assumed that this number of employees would be the actual number at the end of 2012 and thereafter. OCA Ex. KC-1 Rev., Sch. 4, p. 3. The average number of employees used by OCA, however, was 59 fewer than PPL Electric needs.

OCA's adjustment failed to recognize current staffing level requirements and appropriate levels of staffing needed to maintain and manage PPL Electric's systems. Although PPL Electric has experienced vacancies, PPL Electric is striving to bring staffing to the budget level. As of June 30, 2012, PPL Electric had 1,942 employees, and PPL Electric was filling 106 additional positions. PPL Electric St. 2-R, p. 8. PPL Electric's current employee complement and its filling of vacant positions will enable it to attain the staffing level set forth in its 2012 budget and carry that level of employees forward into the future. PPL Electric St. 2-R, pp. 8-9. OCA's adjustment properly was rejected.

7. The RD Properly Approved PPL Electric's Cost Of Service Study. RB, pp. 104-08; PPL Electric IB, pp. 136-52; PPL Electric RB, pp. 75-86.

The RD recommended that the Commission adopt PPL Electric's cost of service study ("COSS") and reject OCA's alternative COSS. RD, p. 107-08. The OCA takes exception to the RD, arguing that OCA's COSS and minimum system study based are superior to PPL Electric's COSS. OCA Exception No. 7. PPL Electric's COSS is virtually identical to the methodology adopted by the Commission in the 2010 base rate proceeding, which was fully litigated on this issue. The Commission fully considered and rejected the OCA's proposal in the 2010 base rate proceeding.[11] The OCA has offered no change in law or fact that would warrant a departure from the Commission's decision in the 2010 base rate proceeding. OCA's arguments in support of its Exception properly was rejected. PPL IB, pp. 136-52; PPL RB, pp. 75-86.

8. The RD's Revenue Allocation Should Be Approved. RD, pp. 108-10; PPL Electric IB, pp. 152-57; PPL Electric RB, pp. 86-87.

PPL Electric's proposed revenue allocation follows the Company's COSS, PPL Electric Ex. JMK-2, and substantially moves of all rate classes toward the system average rate of return. PPL IB, pp. 152-54. The RD adopted PPL Electric's proposed revenue allocation, and rejected OCA's alternative revenue allocation because it was based on its own COSS that was rejected by the RD. RD, pp. 108-10. In its Exceptions, the OCA argues that the Company's revenue allocation should be rejected because the OCA's COSS is superior. OCA Ex., pp. 31-34. Because OCA's revenue allocation is premised on its flawed COSS, its resulting revenue

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[11] *See Pa. P.U.C. v. PPL Electric Utilities Corp.*, Docket No. R-2010-2161694, *et al.*, 2010 Pa. PUC LEXIS 2001 at *57-58 (Dec. 21, 2010) ("We have considered the OCA's position and Exceptions on this issue and find them to be contrary to prior Commission action in PPL Electric's 2004 and 2007 base rate proceedings and inconsistent with recommended COSS principles as outlined in the NARUC Manual.").

allocation properly was rejected. PPL IB, pp. 140-52; PPL RB, pp. 75-82.

9. The Scaleback In The RD Is Fair And Should Be Approved. RD, pp. 110-12; PPL Electric IB, pp. 156-57; PPL Electric RB, pp. 87-88.

The RD adopted the Company's and OCA's proposal that any scale back of revenues be applied proportionately to only those rate schedules which would be receiving increases. RD, pp. 111-12. Both OSBA and PPLICA contend that any scale back should be applied only to those rate schedules that currently are paying above cost of service rates. OSBA Ex. 1; PPLICA Ex. 1. The scale back recommended in the RD is the same method PPL Electric proposed in its 2010 base rate proceeding, which was fully litigated and adopted by the Commission.[12] Both the scaleback recommended in the RD and the scalebalck proposed by OSBA and PPLICA would move rate classes towards the system average return; however, as a matter of fairness, any scale back of revenues should be applied to those customer classes that would have received a rate increase under the Company's original proposal. PPL IB, pp. 156-57; PPL RB, p. 88.

10. Residential Customer Charge In The RD Should Be Approved. RD, pp. 112-15; PPL Electric IB, 162-73; PPL Electric RB, pp. 88-98.

PPL Electric originally proposed to increase the Rate Schedule RS customer charge from \$8.75 per month to \$16.00 per month based on its COSS and the underlying minimum size system study. In rebuttal, PPL Electric proposed an alternative Rate Schedule RS customer charge of \$14.09 per month based on the same type of direct and indirect cost components approved by the Commission in *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 236 P.U.R. 4th 218, 2004 Pa. PUC LEXIS 39 (Aug. 5, 2004). The RD adopted PPL Electric's alternative Rate Schedule RS customer charge of \$14.09 per month, concluding that it properly included customer-related cost elements that I&E and OCA ignored. RD, pp. 119-20.

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[12] *See Pa. P.U.C. v. PPL Electric Utilities Corp.*, Docket No. R-2010-2161694, *et al.*, 2010 Pa. PUC LEXIS 2001 at *74-75 (Dec. 21, 2010) (rejecting the very same proposal recommended by the OSBA and PPLICA in this proceeding). There, PPLICA supported PPL Electric's scale back proposal. *See id.* at *62-65.

Both I&E and OCA take exception to the RD's recommendation. They argue that the Commission's precedent establishes that the customer charge should include only direct meter and service costs and exclude all other customer costs. In support, I&E and OCA argue that PPL Electric's reliance on *Aqua* to include direct and indirect costs in its customer cost analysis is misplaced. I&E Ex., pp. 33-35; OCA Ex., pp. 35-36.

Unlike the case relied upon by I&E,[13] nothing in *Aqua* limits the Commission's holding only to that case. Indeed, the Commission clearly stated that requests to include allocated indirect costs, such as employee benefits, local and payroll taxes, and other general and administrative costs, should be reviewed on a case-by-case basis. *Aqua*, at *97-98; PPL IB, p. 171. Further, there is no order from either the Commission or the appellate courts overturning or otherwise limiting the Commission's conclusion in *Aqua*. PPL Electric followed the Commission's conclusion in *Aqua* and proposed to include the same type of direct and indirect cost components approved by the Commission in *Aqua*. Other than stating that *Aqua* is an outlier and limited only to the facts of that case, I&E and OCA failed to offer any criticisms or reasons to exclude from the customer cost study and customer charge the indirect costs that PPL Electric allocated for employee benefits, local and payroll taxes, and other general and administrative costs. For these reasons, the RD properly rejected the proposals of I&E and OCA to exclude such customer costs from recovery through the customer charge.[14]

The OCA also argues that the Rate Schedule RS customer charge approved by the RD

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[13] I&E conceded that its customer cost analysis in this proceeding is the same direct customer cost analysis it used in *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2010-2215623, 2011 Pa. PUC LEXIS 185, 293 P.U.R. 4th 235 (Oct. 14, 2011), which was limited solely to the facts of that case and was not intended to be used in other proceedings that present viable rate mechanisms. *Id.* at *80-83; Tr. 540-41.

[14] I&E argues that, even if *Aqua* applied, the $12,678,000 for customer call center-related expense included by PPL Electric was not addressed in *Aqua*. I&E Ex., p. 35. PPL Electric explained that, although the $12,678,000 for customer call center-related expense was not specifically addressed in *Aqua*, it is consistent with expenses included in the customer charge in *Aqua* because it is a directly assignable customer service-related expense, and it varies with the number of customer calls and the number of customers. PPL Electric St. 8-RJ (Part 2), p. 8.

has a disproportionate impact on low income/low usage customers. OCA Ex., p. 36. PPL Electric acknowledges that increasing the monthly charge while essentially maintaining the usage charge at its current level will result in a greater than average percentage increase to low use customers, regardless of their income level. However, as a utility with an obligation to serve customers, PPL Electric must provide infrastructure to serve the needs of those customers. Utility rates should be designed based upon cost of service, not customers' income levels. Ability to pay issues should be addressed through universal service programs, not by setting rates that disregard cost of service. PPL IB, pp. 165-66; PPL RB, pp. 90-91.

11. I&E's Exception Regarding Non-residential Customer Charges Is Based On A Flawed Analysis. RB, pp. 120-21; PPL Electric IB, pp. 173-74; PPL Electric RB, pp. 98-99.

The RD adopted PPL Electric's proposed customer charges for Rate Schedules GS-1, GS-3, LP-4, and LP-5 because they were based on the Company's COSS, which is virtually identical to the COSS study adopted by the Commission in PPL Electric's 2010 base rate proceeding. RD, pp. 120-21; PPL IB, pp. 163, 167-69. I&E excepts to the RD's recommendation, arguing that the Company's non-residential customer charges were based upon its initial COSS and, unlike the customer charge for Rate Schedule RS, PPL Electric did not present an alternative customer cost study. I&E Ex., p. 36. PPL Electric acknowledges that it has the burden of proof to establish that its <u>proposed</u> non-residential customer charges are just and reasonable and to defend its claims if challenged; however, the Company is not required to develop and present alternatives that it does not support.[15] Further, the record evidence demonstrated that I&E's non-residential customer charges are based on its own direct customer

[15] Although the burden of proof does not shift from the utility seeking a rate increase, a party proposing a ratemaking adjustment bears the burden of presenting some evidence or analysis that the adjustment is reasonable. *See, e.g., Pa. P.U.C. v. PECO*, Docket No. R-891364, 1990 Pa. PUC LEXIS 155 (May 16, 1990); *Pa. P.U.C. v. Breezewood Telephone Co.*, Docket No. R-901666, 1991 Pa. PUC LEXIS 45 (Jan. 31, 1991).

cost analysis in the *Columbia* case, which was limited solely to the facts of that case and was not intended to be used in other proceedings that present viable rate mechanisms. PPL IB, pp. 169-73; PPL RB, pp. 94-98.

12. Dominion's And Direct's Exceptions Regarding the POR Discount Rate Are Meritless. RD. pp. 129-34; PPL Electric IB, pp.183-94; PPL Electric RB, pp. 99-115.

PPL Electric has proposed to update the purchase of receivables ("POR") discount rates for the residential customers and small C&I customers to 2.23% and 0.23%, respectively. PPL Electric St. 8, p. 28. The RD recommended that any increase in the discount rate be deferred until the Company provides data indicating the uncollectible accounts expense attributable to shopping customers. RD, p. 142. Dominion Retail, Inc., d/b/a Dominion Energy Solutions ("Dominion") and Direct Energy Services, LLC ("Direct") except to this recommendation.

Direct contends that the RD erred in rejecting its proposal to rebundle the uncollectible accounts expense into a "non-bypassable" distribution charge. In support, Direct contends that PPL Electric cannot calculate the uncollectible accounts expense for shopping customers. Direct Ex. No. 1. PPL Electric fully explained why Direct's non-bypassable proposal should be rejected, including the fact that the Commission recently considered and rejected the very same proposal in PPL Electric's 2010 base rate case. PPL Electric IB, pp. 189-193; PPL Electric RB, pp. 109-113. Moreover, if the RD is approved by the Commission, the Company can and fully intends to promptly comply with the recommendation to track and separately determine the uncollectible accounts expense for shopping customers. The fact that the Company has not yet done a study does not mean that PPL Electric should be required to use a non-bypassable charge that has previously been rejected by the Commission.

Both Dominion and Direct argue that, during the interim period when PPL Electric obtains data, the POR discount rates should be set at the 1.7% three-year average of uncollectible accounts expense proposed by I&E and accepted in the RD. Dominion Ex. 1; Direct Ex., pp. 11-12. As explained in PPL Electric's Exception No. 4, the 1.7% uncollectible accounts expense percentage understates PPL Electric's projected uncollectible accounts expense.

Both Dominion and Direct argue that the RD erred in rejecting their proposal to use late payment charges to reduce the POR uncollectible account percentages. Dominion Ex. 2; Direct Ex., pp. 12-15. These parties continue to argue that late payment charges from shopping customers offset or reduce uncollectible accounts expense. They do not; they are an addition to a utility's revenues and offset accounts receivable. Late payment charges are actually paid by customers and the revenues received from late payments are, by definition, not uncollectible. Dominion's and Direct's proposal would result in double counting of late payment revenues by crediting these revenues to customers twice. PPL IB, pp. 188-89; PPL RB, pp. 107-09.

Dominion incorrectly states that late payment fee revenues are being used to subsidize the cash working capital costs related to energy supply purchases for default service. Dominion Ex., p. 5. Late payment charges are assessed to <u>both</u> shopping and default service customers that carry an overdue balance for <u>any</u> service provided by PPL Electric, <u>not</u> just the generation portion of the bill. Late payment charges are imposed to offset the carrying costs of those overdue accounts receivable. PPL Electric St. 8-RJ (Part 2), p. 8.

Direct argues that the RD erred in rejecting its proposal to refund all amounts received under the administrative component of the POR discount percentage because, according to Direct, the Company has not incurred the incremental expenses that it anticipated. Direct Ex., p. 15-17. Direct ignores the record evidence that the Company has incurred incremental expenses with its POR program. PPL Electric St. 8-RJ, p. 11; Tr. 417-21; PPL Electric Ex. JMK 8. Further, the POR is a Section 1308 rate and cannot be retroactively changed. PPL IB, p. 193.

13. The RD Properly Rejected CEO's Proposal To Increase Funding Of PPL Electric's LIURP. RD, p. 44-46; PPL Electric IB, pp. 77-80; PPL Electric RB, pp. 39-40.

In proposing that funding for PPL Electric's Low Income Usage Reduction Program, known as "WRAP," be increased, CEO ignores funding from other sources. From 2008 through 2011, total expenditures for WRAP have increased by 128.4% from $7.71 million to $17.61 million. This increase includes both traditional WRAP and Act 129 WRAP starting in 2010. From 1985 through 2011, PPL Electric has expended approximately $128.4 million to provide weatherization services to nearly 70,000 households. In addition, through Act 129 WRAP, PPL Electric will expend an additional $29.2 million by May 31, 2013 to assist another 13,000 households. PPL Electric also has proposed to continue Act 129 WRAP into Phase II of Act 129, which will provide additional funding of about $16 million – $8 million from WRAP and an additional $8 million from the Act 129 WRAP. PPL Electric St. 9-R, p. 7.

CEO also criticizes the RD because it noted that the Commission now prefers to address universal service issues, including budgets, in triennial Universal Services and Energy Conservation Plan proceedings, where all appropriate parties, including the Commission's Bureau of Consumer Services, can participate and all issues related to the universal service program can be fully reviewed. PPL Electric St. 9-R, pp. 2-3. CEO claims that universal service funding has been addressed in base rate proceedings in the past. CEO is factually correct, but it ignores changed circumstances.

Universal service issues were considered in PPL Electric's 2004 and 2007 base rate cases. Prior to 2008 PPL Electric recovered all universal service costs through base rates, and it was appropriate for funding levels to be considered in such proceedings. Commencing January 1, 2008, however, PPL Electric has recovered universal service expenses through the Universal Service Rider. *Pa. P.U.C. v. PPL Electric Utilities Corp.*, Docket No. R-00072155, Slip Op. at

10, 2007 Pa. PUC LEXIS 57 (Dec. 6, 2007). Because PPL Electric's universal service expenses are no longer recovered through base rates, it is no longer appropriate for funding levels to be addressed in base rate cases. CEO's proposed increase to WRAP funding properly was rejected.

14. The RD Properly Approved PPL Electric's Proposed Competitive Enhancement Rider. RD, pp. 126-28; PPL Electric IB, pp. 205-10; PPL Electric RB, pp. 115-16.

OCA and OSBA have challenged PPL Electric's competitive enhancement rider ("CER"). OSBA argues that the CER is unnecessary. To the contrary, the CER is appropriate for three principal reasons. First, such automatic adjustment clauses are appropriate for expenses that are substantial, vary and are beyond the utility's control. *See, e.g.*, *Popowsky v. Pa. P.U.C.*, 869 A.2d 1144 (Pa. Cmwlth. 2005), *appeal denied*, 586 Pa. 761, 895 A.2d 552 (2006); *Pennsylvania Industrial Energy Coalition v. Pa. P.U.C.*, 653 A.2d 1336 (Pa. Cmwlth. 1995). Here, CER annual expenses initially will total more than $6 million and, therefore, are substantial. They are subject to variation because they will change depending on Commission mandates in the Retail Markets Investigation ("RMI") and other proceedings, and they are beyond PPL Electric's control because such expenses are incurred under Commission directives. PPL Electric St. 5-R, pp. 29-30.

Second, a CER permits a more flexible approach because it can be adjusted annually should the need for spending levels change in the future. Such flexibility is not available if such expenses are recovered through base rates. Third, other EDCs are employing Commission-approved rider mechanisms to recover expenses incurred in response to the RMI. PPL Electric St. 5, pp. 37-38.

OCA and OSBA expressed concern that the CER could result in double recovery of costs. On the contrary, use of a specific reconcilable rider for all customer education expenses would assure that all costs are recovered only once. The possibility of double recovery would be eliminated because PPL Electric's customer education expenses all would be reviewed annually in one reconciliation proceeding, and CER expenses and revenue would be trued-up annually to make sure that only actual expenses are recovered. PPL Electric St. 5-R, pp. 34-35.

OCA also contends that the CER should be redesigned to recover costs on an energy basis. Customer education costs, however, should be recovered as PPL Electric proposes on a per customer basis. This approach is consistent with cost causation because it costs the same to send a notice to an industrial customer as to a residential customer. PPL Electric St. 5-R, p. 31.

OSBA also contends that issues related to the CER should be addressed in PPL Electric's default service proceeding at Docket No. P-2012-2302074. OSBA's proposal is impractical for two reasons. First, it is too late for such matters to be considered in the default service proceeding because the evidentiary record is closed, all briefs have been submitted, and a recommended decision has been issued. Second, it is important for PPL Electric's proposed CER to be considered in this base rate proceeding because, if it is adopted, it will have a direct impact on the level of base rates charged to customers. If the CER is approved, competitive enhancement costs would be recovered through the CER. If not, the cost would have to be recovered through base rates. PPL Electric's CER properly was approved.

15. The Commission Should Not Adopt OCA's Proposals For Additional CAP Outreach. PPL Electric IB, pp. 194-205.

The OCA recommends that PPL Electric be required to increase CAP outreach for payment-troubled, low-income customers because, in OCA's opinion, PPL Electric's enrollment for its CAP is low. OCA's recommendations should be rejected.

OCA's proposal is unnecessary and would increase CAP expenses borne by other residential customers. Through an enhanced process for CAP referrals, PPL Electric has more than doubled the number of referrals to approximately 113,000 annually. Its CAP enrollment has increased by 52.3% from December 31, 2008 to 35,491 customers as of June 30, 2012. PPL Electric's annual CAP expenditures have risen from about $24 million in 2008 to more than $53 million in 2011, an increase of 120%. PPL Electric St. 9-R, pp. 15-16. Most importantly, the overwhelming majority of residential low-income customers with past due accounts contact the Company and are informed of the CAP. PPL Electric St. 9-RJ, pp. 2-3.

III. CONCLUSION

Wherefore, for all the foregoing reasons and reasons set forth in the Recommended Decision and PPL Electric Utility Corporation's Initial and Reply Briefs, the Exceptions of other parties should be denied.

Respectfully submitted,

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