



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

January 24, 2013

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
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 please find the Bureau of Investigation and Enforcement's **Answer to the Office of Consumer Advocate Petition for Reconsideration or Clarification** in the above-captioned proceeding.

Copies are being served on all active parties of record as evidenced in the attached Certificate of Service. If you have any questions, please feel free to contact me at (717) 783-6155.

Sincerely,

Regina L. Matz
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. #42498

Enclosure
RLM/snc

cc: Honorable Susan D. Colwell
Parties of Record

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**BUREAU OF INVESTIGATION AND ENFORCEMENT
ANSWER TO THE
OFFICE OF CONSUMER ADVOCATE
PETITION FOR RECONSIDERATION OR CLARIFICATION**

The Bureau of Investigation and Enforcement (I&E) of the Pennsylvania Public Utility Commission (PUC or Commission), pursuant to Section 5.572 of the Commission's regulations, 52 Pa. Code §5.572, respectfully submits this Answer to the Petition for Reconsideration or Clarification filed by the Office of Consumer Advocate (OCA) on January 14, 2012, at the above docket.

I. INTRODUCTION

OCA seeks reconsideration or clarification of the final order entered by the Commission on December 28, 2012, with respect to an issue raised by I&E witness Dorothy Morrissey in the PPL Electric Utilities Corporation (PPL or Company) fully litigated \$104.6 million base rate case. Regarding PPL's purchase of storm damage insurance from its affiliate PPL Power Insurance Limited, the Commission adopted the recommendation of Administrative Law Judge Susan D. Colwell requiring the establishment of a storm damage reserve account. However, as noted by the OCA, the

final order entered by the Commission resolves the issue by directing PPL to file a rider for storm damage expense recovery. OCA seeks clarification or reconsideration that the Commission's requirement that PPL meet with the statutory advocates to develop a rider within ninety days of Order entry also include consideration of a storm reserve as advanced by I&E and adopted by the ALJ. I&E supports OCA's request.

II. The Issue Below

From I&E's perspective, the gravamen of the issue before the Administrative Law Judge was whether PPL should be required to cease pursuing a storm risk management strategy of purchasing storm damage insurance from its affiliate and in its stead implement a storm reserve or rider.

A. I&E's Position

Questioning the economic benefit and prudence of purchasing storm insurance from an affiliate, I&E witness Dorothy Morrissey recommended a recalculated annual budgeted amount based upon a five-year average of storm expenses for the year 2012. However, aware of the volatility of storm damage expenses, Ms. Morrissey further recommended that "[t]o avoid financial statement impact for year to year fluctuations, a reconcilable storm reserve account would provide an alternative solution." I&E St. 2 at 32-33.

In her surrebuttal testimony, Ms. Morrissey elaborated as follows:

As an alternative to the disallowance of the 2012 storm insurance claim, I recommended the use of reserve accounting treatment for storm costs, which would result in PPL being self-insured strictly within the regulated

organization. This would preserve any benefits of any excess accumulated storm reserves and allow them to be passed onto ratepayers through mitigation of future rate increases or as a credit toward future major storm costs. It would also avoid an unfavorable impact on the Company's financial statement that could result from year-to-year fluctuations in actual storm costs.

* * *

Several states allow utilities to self-insure by accumulating budgeted base rate storm expense amounts in a storm reserve account, specifically utilizing FERC Uniform System of Accounts, Account 228.1, Accumulated provision for property insurance. The accumulated provision account provides a vehicle for insulating utility financial statements from the impact of major storms when storm expenses can be accrued against an accumulated self-insurance balance.

I&E St. 2SR at 39, 41.

Finally, in surrebuttal, upon further review and explanation of I&E's position regarding its position that prospectively PPL terminate its strategy of insuring with affiliate and instead pursue a reserve, I&E witness Morrissey stated as follows:

If PPL had utilized a risk management approach with a storm reserve account within the regulated utility, its profitability would not have been impacted by the storm costs that exceeded the insurance limit as the storm reserve account's accumulated balance would have shielded PPL from the large storm expenses encountered in 2011.

I&E St. 2SSR at 6.

In both its Main and Reply Briefs, I&E argued that a storm reserve account or rider should be employed. *See e.g.* I&E M.B. at 43, 54-55; I&E R.B. at 32, 41-42.

B. The ALJ's Disposition

As the Commission accurately summarized in its Order, the ALJ adopted I&E's proposal to compel PPL to establish a reserve account for storm damage expenses:

The ALJ recommended that PPL be directed to establish a storm damage reserve account, as proposed by I&E, to be submitted to the Commission for approval. R.D. at 39. If approved by the Commission, the ALJ found that the reserve account should be implemented when the insurance coverage provided by PPL's present provider expires. The ALJ also recommended that the statutory advocates be included in the development of this storm damage reserve account. R.D. at 39.

December 28, 2012 Order at 36.

C. The Commission's Order

While PPL contested I&E's grounds for recommending the prospective termination of the purchase of storm damage insurance from its affiliate, in Exceptions it nonetheless acquiesced, reciting that "the RD's recommendation that PPL Electric file for a reserve/tracker mechanism with reconciliation for over and under collections should be approved[,]” and that, as noted by OCA, “[a] reserve/tracker mechanism for storm damage expense is clearly appropriate.”¹ In its Replies to Exceptions, I&E responded to PPL's claims regarding the prospective termination of its storm insurance, and restated its recommendation “that PPL be required to discontinue the insurance and instead use a

¹ PPL Exceptions at 23; OCA Petition at 5.

storm reserve account or a storm rider[,]" a strategy that allowed PPL to recover storm damage expenses while avoiding the affiliate transactions that I&E questioned.²

In its disposition, the Commission adopted the ALJ's recommendation, stating as follows:

Based upon our review of the record and the Parties' Exceptions and Replies to this issue, we agree with the ALJ's recommendation to adopt I&E's proposal for PPL to propose a Storm Damage Expense Rider for Commission review. R.D. at 39. The issues to be discussed between PPL and the public advocates shall include, but not be limited to, the following: (1) provisions for interest on under and over collections; (2) timing of reconciliation; (3) reporting of storm damage expenses and revenue for their recovery; (4) methods for adjusting the annual level of the expense in rates; and (5) exact categories of storm damage expense that would be subject to the reconciliation. Additionally, we approve I&E's recommendation, and so direct, that PPL file a rider for storm damage expense recovery within ninety days of the date of entry of this Opinion and Order. PPL has stated its intention to file as soon as practicable after the Commission's entry of a final decision in this proceeding.

Order at 37-38.

D. Summary

I&E's recommendation focused on the prospective termination of PPL's storm risk management strategy that comprised the purchase of insurance through an affiliate in favor of adoption of a funding mechanism, either a reserve or rider, which was reconcilable in order to best match PPL's ratepayers' storm expense exposure to PPL's actual storm damage expense incurred. I&E believes that the ALJ rightly recommended

² I&E Replies to Exceptions at 11-12.

I&E's position, which the Commission adopted, and that PPL should collaborate with the public advocates to develop the mechanism that would best accomplish that goal. To the extent the December 28, 2012 Order can be interpreted as narrowing the ALJ's recommendation, however, and clarification or reconsideration is deemed necessary, I&E supports OCA's request that this collaboration should be ordered to include consideration of **both** a reserve and rider consistent with I&E's position throughout this proceeding.

III. CONCLUSION

The Bureau of Investigation and Enforcement supports the clarification requested by the Office of Consumer Advocate and welcomes the opportunity to engage in productive discussions with both the OCA and the Company to best protect the public interest with respect to PPL's prospective recovery of storm damage expenses.

Respectfully submitted,



Regina L. Matz

Prosecutor

PA Attorney I.D. #42498

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265

Dated: January 24, 2012

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Answer to the Office of Consumer Advocate Petition for Reconsideration or Clarification** of the Bureau of Investigation & Enforcement upon the persons and in the manner indicated below:

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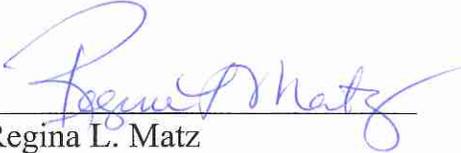
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Dated: January 24, 2013