COMMONWEALTH OF PENNSYLVANIA

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April 18, 2013

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17101

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

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Comments Regarding PPL's Storm Damage Expense Rider in the above-referenced proceeding.

Copies have been served upon all parties of record as shown on the attached Certificate of Service.

Sincerely yours,

Darryl A. Lawrence
Assistant Consumer Advocate
PA Attorney I.D. # 93682

Enclosures
cc: Honorable Susan D. Colwell
Certificate of Service
155413.DOC

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF THE OFFICE OF CONSUMER ADVOCATE

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DATED: April 18, 2013

I. INTRODUCTION

The Office of Consumer Advocate (OCA) submits these Comments urging rejection of PPL Electric Utilities Corporation's (PPL or Company) proposed Storm Damage Expense Rider (SDER or Rider). A rider for collection of normal, ongoing storm damage expense is contrary to sound ratemaking principles, including the principles against single-issue ratemaking and retro-active ratemaking, and such a rider is unsound public policy. PPL's proposed SDER would disassemble the carefully crafted ratemaking process for recovery of storm damage expenses that has achieved just and reasonable rates.

Moreover, PPL's proposed SDER is significantly flawed in many respects that warrant its rejection. Specifically, PPL's proposed Rider suffers from the following flaws:

- The Rider improperly amortizes major storm damage expenses, including extraordinary storm damage expenses, over a three-year period even if the amounts incurred do not exceed the amount for storm damage expenses embedded in base rates;
- The Rider lacks differentiation between major storm damage expenses and extraordinary storm damage expenses;
- The Rider improperly removes the long-standing process for requesting deferral accounting for extraordinary storm damage expenses by permitting an automatic amortization of such expenses over a pre-determined three-year period of time;
- The Rider improperly includes interest on storm damage expenses, which is not typically permitted;
- The Rider lacks a review process to determine that storm damage expenses incurred are reasonable; and

- The Rider inappropriately includes storm damage expenses deferred by the Pennsylvania Public Utility Commission's (Commission) Order entered February 14, 2013, at Docket No. P-2012-2338996 (Superstorm Sandy expenses), which have not yet been reviewed and found to be reasonably and prudently incurred.

PPL's proposed Rider should be rejected for the reasons discussed herein. If the Commission wishes to entertain any form of extraordinary ratemaking treatment for PPL's normal, ongoing storm damage expenses prior to PPL's next base rate case, which the Company stated will be filed by March 31, 2014,[1] the Commission should set this matter for further hearings.

II. PROCEDURAL HISTORY

On March 30, 2012, PPL filed Supplement No. 118 to Tariff – Electric Pa. P.U.C. No. 201, containing proposed changes in rates, rules and regulations calculated to produce an additional $104.6 million in annual revenues. In its filing, PPL's future test year (FTY) claim for annual storm damage expenses, storm damage insurance premiums and deductibles was $37,125,000. I&E St. 2 at 35. Additionally, PPL requested a five-year amortization of $26,622,371 in extraordinary storm damage expenses from storms in 2011 that were the subject of two Petitions for Deferred Accounting at Docket Nos. P-2011-2270396 (Hurricane Irene Petition) and P-2011-2274298 (Halloween Snowstorm Petition).[2]

In her Direct Testimony, Bureau of Investigation and Enforcement (I&E) witness Dorothy Morrissey opposed PPL's procurement of storm damage insurance from its affiliate, testifying that it was no longer beneficial to ratepayers because the premium to coverage ratio

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[1] See Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-2012-2290597, Order at 46-48 (Dec. 28, 2012) (December 28, 2012 Order).

[2] The Commission permitted deferrals until PPL's next base rate case of the storm damage expenses from the 2011 storms in Orders dated December 15, 2011.

was very low (41% in 2010 and 48% in 2011). See I&E St. 2 at 32-34. Ms. Morrissey testified that the Commission should deny PPL's storm damage expense claim and "recalculat[e] an annual budget amount to reflect a five year average of storm expenses to account for yearly fluctuations in storm expenses," which annual budgeted amount was $23,785,000. Id. at 32, 35.

PPL and I&E witnesses continued to litigate PPL's continued procurement of storm damage insurance and hence, the proper amount of storm damage expense through the remainder of the case. In her Recommended Decision, Administrative Law Judge Susan D. Colwell (ALJ) agreed with I&E that PPL's procurement of storm damage insurance was not being used to benefit ratepayers and should be stopped. R.D. at 39. The ALJ further recommended that in lieu of PPL's procurement of insurance, the Company "should be directed to develop a plan for the establishment of a storm damage reserve account and to submit it for approval." Id.

The issue of storm damage insurance, however, became moot prior to the Commission's December 28, 2012 Order in this matter. In its Exceptions to the Recommended Decision, PPL stated that "reinsurance will not be available on terms and conditions similar to the reinsurance policy presently in effect." PPL Exc. at 23. Based on this new development, PPL revised its annual storm damage expense claim to $23,199,000 in Exceptions, which amount included $3,175,000 for annual non-reportable storm damage expenses, $9,450,000 for annual reportable storm damage expenses, $5,250,000 for the operating expense portion of annual storm damage no longer covered by insurance (totaling $17,875,000), and $5,324,000 for the amortization of the 2011 extraordinary storm damage expenses. PPL Exc. at 24-26. The Commission adopted PPL's proposed storm damage expense claim of $23,199,000 in base rates. December 28, 2012 Order at 38.

The Commission also directed PPL to file a storm damage expense "rider" in accordance with the ALJ's recommendation within 90 days of the December 28, 2012 Order. December 28, 2012 Order at 36-38. See also R.D. at 38-39. The ALJ's recommendation, however, was to explore the development of a storm damage expense "reserve account," not "rider."[3] On January 14, 2013, the OCA filed a Petition for Reconsideration or Clarification of the Commission's adoption of the ALJ's recommendation to explore a "rider" mechanism for collection of storm damage expense when the ALJ recommended that the Company and public advocates "develop a plan for establishment of a storm damage reserve account." See R.D. at 39. The Commission granted the OCA's Petition by Order entered January 24, 2013. By Order entered February 28, 2013, the Commission directed that the Company and statutory advocates consider a rider mechanism and a reserve account mechanism for recovery of storm damage expenses.

PPL initiated the required storm damage expense collaborative on March 6, 2013. The collaborative consisted of three conference calls – March 6, March 15 and March 27 – which were convened to discuss PPL's proposal for a reconcilable rider. The Company, I&E, OCA and OSBA participated in the conference calls. No consensus was reached. On March 28, 2013, PPL filed its proposed SDER with the Commission.

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[3] Further, the ALJ's recommendation stemmed from her finding that PPL's use of storm damage insurance was not being used to the benefit of ratepayers. R.D. at 39. As already discussed, PPL's procurement of insurance for storm damage expenses became moot just prior to the entry of the Commission's December 28, 2012 Order.

III. COMMENTS

A. Introduction.

PPL's proposed SDER, although not specifically set out as such, appears to be structured as a 1307 type automatic adjustment mechanism. As the OCA understands PPL's proposed SDER, the key points include:

- All qualifying expenses for "reportable storms," as defined in 52 Pa. Code § 67.1, will be included in the SDER;
- The annual expenses included in the SDER will be offset by the $14.7 million included in PPL's base rates for reportable storm damage expenses;
- The SDER proposes to recover not only the costs of all "reportable storms" that do not rise to the level of a major or extraordinary storm events, but also costs of "major storms," as defined in 52 Pa. Code § 57.192, and extraordinary storms in that category;
- Cost recovery for all major storm events, including those categorized as extraordinary storms, will be amortized over three years;
- Cost recovery for major storm events will include carrying charges for the period of amortization in the form of interest;
- The SDER charges will go into effect without prior Commission review for reasonableness and prudence;
- Interested parties will have no opportunity to review SDER charges for reasonableness and prudence; and
- There is no cap on the amount of expenses that PPL can include for automatic recovery through the SDER.

The OCA submits that PPL's SDER is fatally flawed and should not be approved. If the Commission wishes to entertain any form of extraordinary ratemaking treatment for PPL's normal, ongoing storm damage expenses prior to PPL's next base rate case, which the Company stated throughout its 2012 base rate case will be filed on or before March 31, 2014,[4] the Commission should set this matter for further hearings.

B. PPL's Proposal Is Contrary To Sound Ratemaking Principles and Sound Public Policy.

The OCA submits that PPL's SDER should not be approved as it is currently being proposed. The SDER is inconsistent with the limited situations where an automatic rate-adjusting mechanism could be authorized by the Commission under Section 1307 of the Code, 66 Pa. C.S. § 1307, and as such, raises retroactive and single-issue ratemaking concerns. In addition, approval of the SDER would not represent sound public policy.

Section 1307 does not authorize the Commission to approve surcharges other than in limited circumstances. See Popowsky v. Pa. PUC, 869 A.2d 1144, 1160 (Pa. Cmwlth. 2005), appeal denied, 895 A.2d 552 (Pa. 2006) (Popowsky 2005); see also Pennsylvania Industrial Energy Coalition v. Pa. PUC, 653 A.2d 1336, 1349 (Pa. Cmwlth. 1995), aff'd per curiam, 670 A.2d 1152 (Pa. 1996) (PIEC). In both cases, the Court cautions against an overuse of automatic adjustment clauses that would tend to "disassemble" the general ratemaking process. As explained in Popowsky 2005, the General Assembly has authorized the Commission to approve automatic adjustment clauses only in limited circumstances, for easily identifiable expenses beyond a utility's control, such as tax rate changes (§1307(g.1)) or changes in the cost of fuel (§1307(c), (d), (f)). More recently, the Commonwealth Court reviewed a proposed Section 1307

[4] Throughout its 2012 base rate case, which PPL filed on March 30, 2012, PPL asserted it would be necessary to file another base rate case within two years. See e.g. PPL Exc. at 35. The Commission accepted PPL's assertion. December 28, 2012 Order at 48.

surcharge in the case of Newtown Artesian Water Company (NAWC). Popowsky v. Pa. PUC, 13 A.3d 583 (Pa. Cmwlth. 2011) (Newtown).[5]

The Newtown Court reviewed the general rule that a surcharge may be appropriate where the expense is expressly authorized for recovery by the General Assembly in Section 1307, or where the expense is easily identifiable and beyond the utility's control. Newtown at 591. After a review of the cases, the Newtown Court went on to provide additional guidance that the lack of an express reservation by the General Assembly for recovery is not dispositive of the issue, but rather that:

> [o]nly where the "mathematical" review performed under Section 1307(a) of the Code is inadequate to determine whether a surcharge is "just and reasonable," is express statutory authority required for surcharge recovery.

Newtown at 591, citing Masthope Rapids Property Owners Council v. Pa. PUC, 581 A.2d 994, 1000 (Pa. Cmwlth. 1990).[6]

Importantly, PPL's proposed SDER has no limit on the level of expense that the utility can seek to recover from ratepayers on a fully-reconcilable, dollar-for-dollar basis.[7] Arguably, PPL could experience the "storm of the century" and under its proposal, pass 100% of those costs through to ratepayers without ever having the need to file a Section 1308 base rate case or undergo any further review to determine whether the collection of such expenses would result in

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[5] The Court ultimately approved the Purchased Water Adjustment Clause surcharge at issue in that case, but such approval was derived from markedly different facts than are presented by PPL's proposed SDER. See Newtown at 591-593.

[6] PPL's level of storm damage expense is made up of a myriad of cost categories and complex inputs, unlike the very simple purchased water expense in Newtown. Such costs do not lend themselves to the simple "mathematical review" as discussed in Newtown. Also, dissimilar to the facts in Newtown, PPL already has a mechanism to record and potentially collect extraordinary storm damage expense, as was reviewed and authorized in this docket as to the 2011 storms. See December 28, 2012 Order at 38.

[7] This unlimited recovery proposal is also unlike the cap on cost recovery as discussed in Newtown. See Newtown at 593.

just and reasonable rates.[8] This is exactly the scenario that the Commonwealth Court has warned of on several occasions as to the misuse of surcharges resulting in a "disassembly" of the traditional ratemaking process.

PPL's SDER also raises concerns that such a proposal would represent impermissible retroactive and/or single-issue ratemaking. To address the concern over retroactive ratemaking, the facts must indicate that the expense subject to recovery was the result of an event that was, extraordinary, non-recurring, and unanticipated – essentially a "one-time" event. See Popowsky v. Pa. PUC, 868 A.2d 606, 611 (Pa. Cmwlth. 2004). The facts presented by PPL's SDER are not in accord with these necessary elements.

PPL and all other utilities experience storm damage costs on a regular, recurring basis. As PPL's March 28 Cover Letter to its proposed SDER indicates, there is currently $14.7 million embedded in base rates to account for ordinary, recurring, reportable storm damage expenses. PPL Letter at 2. This level of expense in base rates is based on the Company's actual experience over a number of years and going forward, may be less than or more than PPL will actually expend on reportable storm expenses. This fact is inherent and consistent with rate base/rate of return ratemaking. PPL's SDER, however, includes not only average, ordinary, recurring reportable storm damage expenses, but also includes what PPL labels as "major storm events." PPL Letter at 2. By bundling all "reportable" storm damage expenses together in the SDER, PPL has necessarily blurred the line between what might or might not be reasonably anticipated in its service territory.

PPL's SDER also raises concerns as to single-issue ratemaking. The general rule is that if the expense item in question is normally considered in a base rate case, then singling that item

[8] In addition, under PPL's proposed SDER all "major storm events" are treated the same for purposes of collection from ratepayers as the costs would be amortized over three years. This is true whether such costs are $20 million or $200 million.

out for recovery outside of a base rate case is prohibited. See Newtown at 593; PIEC at 1350. In contrast to the costs at issue in PIEC or Newtown, an increase in storm damage expense should not be subject to special rate treatment, as storm damage expense is an item that is traditionally reviewed in a base rate case. PPL's proposed SDER includes ordinary, recurring storm damage expenses from reportable storms, which PPL currently has $14.7 million in base rates to address. PPL's proposed SDER also includes expenses incurred from "major storm events," such as the 2011 October Snowstorm and Hurricane Irene, which were just considered and authorized for recovery in PPL's 2012 base rate case. Permitting this automatic adjustment clause for a base rate expense would tend to "disassemble" the base rate process. See, e.g., Popowsky 2005 at 1160; PIEC at 1349.

In 2006, Met-Ed and Penelec (Companies) proposed a Storm Damage Rider (SDR) that would recover storm damage O&M expenses above the amount of $4,500,000 for Met-Ed and $4,400,000 for Penelec, already embedded in the Companies' base rates. According to the Companies, their storm damage expenses were substantial, highly volatile and beyond the Companies' control. Pa. PUC v. Met-Ed, et al. Merger Savings Remand Proceeding Recommended Decision, Pa. PUC LEXIS 116, *1 (2006) (Merger Remand R.D.). I&E (then OTS), OSBA, OCA and the Industrials (IECPA) (collectively Intervenors), all argued against the authorization of the SDR. Merger Remand R.D. at *303.

The Intervenors argued that the Companies' proposal would represent impermissible single-issue ratemaking and that the Companies had no real bar to collecting such extraordinary costs, if indeed such costs were found to be extraordinary, by using the Commission's well-established practice of seeking deferral of such costs until their next rate case. Merger Remand R.D. at *303-311. A review of the Intervenors' arguments there and the descriptions of the

proposed SDR provide that the Companies' proposal is substantially similar to PPL's proposed SDER. Administrative Law Judges Weismandel and Salapa (ALJs) declined to recommend acceptance of the SDR, stating:

> We find that the arguments of OTS, OCA, OSBA, and MEIUG and PICA and IECPA are persuasive and that the Companies have not borne their burden of proof as to the adoption of their proposed SDR. The normalized level of storm damage expense recovered through base rates is sufficient to account for yearly fluctuations in storm damage expenses. In the event of unusual storm damage, the Companies can file a petition with the Commission for deferred accounting and seek recovery of the expense in its next base rate filing. This established process serves the public interest because it ensures that utilities are not precluded from obtaining recovery for unusual events simply because it occurred outside the test year, while at the same time it keeps recovery in base rates so that all of the utility's revenues and expenses are examined through the traditional rate base/rate of return regulation.

Merger Remand R.D. at *311-312. No exceptions were filed as to this issue, and accordingly, the Commission adopted the ALJs' recommendation, providing:

> No party excepted to the ALJs' recommendation on this issue. We concur with the ALJs that the Companies did not meet their burden of proving that the SDR is in the public interest. As noted by the ALJs, in the event of unusual storm damage, the Companies can file a petition with the Commission for deferred accounting and seek recovery of the expense in its next base rate filing. As such, we will deny the Companies' proposed SDR.

Pa. PUC v. Met-Ed, et al. Merger Savings Remand Proceeding, Docket No. R-00061366, Order at 177 (Jan. 11, 2007) (Merger Savings Order).

The Companies' SDR and PPL's proposed SDER are very similar in design. Importantly, the ALJs and the Commission both found that Met-Ed and Penelec had not met their burden to show that their proposed SDR was "in the public interest." The OCA questions whether PPL has made such an affirmative showing in this matter. The OCA submits that PPL's proposal in this regard provides ample benefits to the Company, yet the OCA is unable to see

how adoption of such a proposal would in any way conform to being "in the public interest," as the ALJs and the Commission both held was required in the Merger Savings case.

Further, the OCA submits that the SDER as proposed represents poor public policy. As the OCA understands the mechanics of the SDER, customers could see a line item on their bill for "storm damage expense." The OCA finds it particularly unreasonable that customers could start seeing increased expense for storm damage on their bills at the very same time they are recovering from the storm.

C. PPL's Proposed Rider Is Fatally Flawed.

1. PPL's Proposed Rider Improperly Alters the Commission's Procedure for Review and Recovery of Extraordinary Storm Damage Expense.

PPL's SDER states that it "provides for recovery of qualified storm damage expenses incurred by the Company from storms reportable to the [Commission]." SDER at 19Z.20. According to the SDER, "qualified storm damage expenses" include expenses related to reportable storms, which are those "that cause unscheduled service interruptions in a single event to 2,500 or more customers for 6 or more consecutive hours." Id. Expenses from any major storm events, which are storms causing interruption of electric service to "at least 10% of the Company's customers during the course of the event for a duration of 5 minutes each or greater," will be recovered over three years. SDER at 19Z.21.

The OCA submits that PPL's proposed SDER is unreasonable because it provides for an automatic amortization of all major storm damage expenses over three years. First, expenses from major storms will not necessarily be over and above the $14,700,000 amount for storm damage expenses embedded in base rates. Therefore, in a year where PPL incurs less than $14,700,000 in storm damage expenses but also incurs major storm damage expenses, the proposed SDER would have the Company return to customers the remaining unspent portion of

storm damage expenses but also collect one-third of the major storm damage expenses plus interest. The OCA submits that this is an unnecessarily complicated result for collection of an expense that is traditionally collected through base rates, especially when there was no showing in the 2012 base rate case that PPL was not fully collecting its storm damage expenses in base rates. See R.D. at 40.

Second, under PPL's proposal major storm damage expenses encompasses extraordinary storm damage expenses. Such expenses are generally the subject of a petition to defer the expenses until the company's next base rate case. See e.g. Petition of PPL Electric Utilities Corporation For Authorization to Defer, For Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage, Docket No. P-2012-2338996, Order (Feb. 14, 2013) (Superstorm Sandy Deferral Order); Hurricane Irene Petition, Order (Dec. 15, 2011); October Snowstorm Petition, Order (Dec. 15, 2011). The standard that a company must meet in seeking authorization for deferral accounting is whether, based on Commission precedent, the expense item claimed appears to be within the scope of the type of items the Commission has allowed as an exception to the general rule prohibiting retroactive recovery of expenses. See e.g. Petition of PPL Electric Utilities Corporation for Authority to Defer for Accounting and Financial Reporting Purposes certain Losses from Extraordinary Winter Storm Damage and to Amortize such Losses, Docket No. P-00052148, Order at 8 (Aug. 26, 2005).

In granting such petitions, the Commission does not determine if the expenses were reasonably and prudently incurred because no record is developed. Superstorm Sandy Deferral Order at 3. The Commission merely determines whether the company has met the standard that the expense item claimed appears to be within the scope of the type of items it has allowed as an exception to the general rule prohibiting retroactive recovery of expenses. Id. In the company's

next base rate case, the parties are given an opportunity to examine such expenses for reasonableness, as occurred in PPL's 2012 base rate case. See December 28, 2012 Order at 35-36. PPL's proposed SDER effectively eliminates the process of requesting deferral of extraordinary storm damage expenses until the Company's next base rate case, thereby eliminating the opportunity for interested parties to review the expenses for reasonableness in that rate case.

Third, PPL's proposed SDER establishes a defined three-year amortization period for major storm damage expenses. As explained above, major storm damage expenses may also be extraordinary storm damage expenses. The amortization period for extraordinary storm damages expenses generally depends on the severity of the storm and how often it is believed such a storm event would occur in a company's service territory. For instance, in PPL's 2012 base rate case, the Company claimed recovery of $26,324,000 for the unreimbursed portion of the Hurricane Irene and October Snowstorm extraordinary storm damage expenses and proposed that the amount be amortized over five years. See R.D. at 39. The Commission approved the amount claimed and the five-year amortization period. December 28, 2012 Order at 38. See also Petition of West Penn Power Company for Authority to Defer for Regulatory Accounting and Reporting Purposes Certain Losses from Extraordinary Storm Damage, Docket No. P-2010-2216111, Order (Apr. 1, 2011) (West Penn Deferral Order); reconsideration denied by Order entered July 18, 2011 (The Commission directed West Penn to amortize extraordinary storm damage expenses incurred in February 2010 over ten years).

In its Petition seeking deferral accounting for storm damage expenses related to Superstorm Sandy in 2012, PPL indicated that Superstorm Sandy was the most damaging storm in PPL's service territory since records have been kept. Superstorm Sandy Deferral Order at 2.

Given the rarity of storms as severe as Superstorm Sandy, the OCA submits that PPL and/or parties to PPL's next base rate case may seek an amortization period longer than the pre-established three years in PPL's proposed SDER. It is long-standing Commission procedure to adopt an amortization schedule for reasonably and prudently incurred storm damage expenses, deferral of which has been approved, on a storm-by-storm basis in the context of a base rate case, as was done for the 2011 extraordinary storm damage expenses in PPL's 2012 base rate case. Further, the OCA submits that it is improper to include PPL's Superstorm Sandy expenses in the SDER, as discussed in more detail below in Section C.4.

The OCA submits that there is no basis under the facts adopted in the 2012 PPL base rate case for changing the long-standing procedure for seeking deferred accounting of extraordinary storm damage expenses. For the reasons discussed above, PPL's proposed SDER should be rejected.

2. PPL's Proposed SDER Inappropriately Includes Interest on Storm Damage Expense.

PPL's proposed Rider states that interest will be included on expenses for major storm events that are subject to amortization. SDER at 19Z.21. The interest "shall be computed monthly at the average rate of interest specified for residential mortgage lending by the Secretary of Banking . . .." Id. Typically, no interest is charged on amortizations and deferred expenses, especially storm damage expense deferrals. See e.g. Butler Township Water Co. v. Pa. PUC, 81 Pa. Commw. 40, 47, 473 A.2d 219, 223 (1984) (The Commonwealth Court upheld the Commission's disallowance of carrying charges on unamortized balance of, *inter alia*, flood and freeze-up damages). In its orders permitting deferral of extraordinary storm damage expenses, the Commission states that the "authorization is limited to [the company's] actual operations and maintenance costs for the damage caused by the storm." Superstorm Sandy Deferral Order at

Ordering Para. 1(e); West Penn Deferral Order at Ordering Para. 1(d). Furthermore, in the 2012 base rate case, PPL did not include interest on the Company's proposed amortization of the deferred extraordinary storm damage expenses from the 2011 storms. See PPL St. 2-R at 4, Exh. Future 1-Rev at D-9.

The OCA submits that collecting interest on storm damage expenses subject to amortization is improper and will not result in rates that are just and reasonable. Long-standing Commission practice requires that PPL's proposal to charge interest on storm damage expenses subject to amortization be rejected.

3. PPL's Proposed SDER Lacks a Review Process To Determine that Storm Damage Expenses Are Reasonably and Prudently Incurred.

According to PPL's proposed Rider, PPL will file its proposed Rider charges by December 1 for rates going into effect the following January 1. SDER at 19Z.24. The charges filed on December 1 may include estimated data. Id. PPL's proposed SDER further provides:

> [T]he Company will file with the Commission by January 30 of each year a reconciliation of the sum of SDER revenues and base rate revenues for recovery of storm damage expenses and qualifying storm damage expenses for the preceding calendar year.
>
> Application of the SDER shall be subject to review and audit by the Commission at intervals that it shall determine. The Commission may review the level of charges produced by the SDER and the costs included therein.

SDER at 19Z.24. The annual Rider surcharge would be partially calculated using estimates and go into effect before the Commission has the opportunity to review the expenses claimed. Furthermore, there is no process by which interested parties could review the expenses claimed and oppose expenses not believed to be reasonably and prudently incurred.

The OCA submits that the near total lack of review of PPL's proposed Rider amounts would remove any incentive for PPL to contain its expenses related to storm damage because

recovery of any and all storm damage expenses would be virtually guaranteed. Without such parameters, it follows that the SDER would continually increase each year, thereby saddling customers with storm damage expenses even during times when they may be experiencing an outage due to a storm. The OCA submits that there was no claim or demonstration in PPL's 2012 base rate case that the Company was not adequately and fully recovering its storm damage expenses in base rates. See R.D. at 40. There is, therefore, no need for PPL's proposed Rider, and it should be rejected.

4. PPL's Proposed SDER Improperly Includes Superstorm Sandy Expenses.

PPL's proposed Rider states: "Qualifying expenses from major storm events during 2012 that were the subject of deferral petitions which subsequently were approved by the Commission shall be recovered over three application years commencing in 2014." SDER at 19Z.21. The OCA is aware of only one deferral petition filed by PPL relating to major storm events in 2012, that being the Superstorm Sandy Petition at Docket No. P-2012-2338996. In its Order granting deferral accounting of Superstorm Sandy expenses, the Commission noted that in its Petition, *PPL requested deferral until the Company's next base rate case.* Superstorm Sandy Deferral Order at 1. (Emphasis added). The Commission also noted that PPL *estimated* that it experienced approximately $20 to $30 million in net distribution-related storm damage expenses. Id. at 3. (Emphasis added).

In its Superstorm Sandy Petition, PPL indicated that *Superstorm Sandy was the most damaging storm in PPL's service territory since records have been kept.* Superstorm Sandy Deferral Order at 2. (Emphasis added). In granting PPL's petition, the Commission directed PPL to begin expensing the deferred amounts *on a reasonable amortization schedule.* Id. at

Ordering Para. 1(c). (Emphasis added).[9] As discussed above in Section C.1, the amortization period for extraordinary storm damage expenses depends on the severity of the storm and how often it is believed such a storm event would occur in a company's service territory.

The OCA submits that it is improper for PPL to include Superstorm Sandy expenses in the SDER for several reasons. First, the expenses have not been reviewed for reasonableness and prudence and approved in the context of a base rate case. Although the Commission directed PPL to claim the deferred expenses at the Company's first available opportunity (see Superstorm Sandy Deferral Order at Ordering Para. 1(b)), PPL's proposed Rider is not the appropriate "first available opportunity." Instead, PPL's next base rate case is the appropriate "first available opportunity." Second, the Company has only provided estimated expenses to date, and there is no indication that PPL will provide its actual expenses incurred and/or supporting data. Last, PPL chose an unsupported three-year amortization period for expenses related to the most damaging storm in PPL's service territory since records have been kept, when the Commission approved a longer five-year amortization period for extraordinary storm damage expenses related to the 2011 storms and has required even longer amortization periods for storm damage expenses. See December 28, 2012 Order at 38; West Penn Deferral Order at Ordering Para. 1(c).

For the foregoing reasons, PPL's proposal to collect Superstorm Sandy-related expenses through the Rider should be rejected.

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[9] As an example, in the West Penn Deferral Order, the Commission determined that 10 years was a reasonable period over which to amortize extraordinary storm damage expenses from February 2010 storms that required the "largest restoration event" in West Penn's history. West Penn Deferral Order at Ordering Para. 1(c).

IV. CONCLUSION

For the foregoing reasons, the OCA respectfully requests that PPL's proposed SDER be rejected. In the alternative, the OCA respectfully requests that this matter be remanded to the Office of Administrative Law Judge for scheduling of evidentiary hearings in order to fully develop the record on this issue.

Respectfully Submitted,

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Dated: April 18, 2013
167534

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the Office of Consumer Advocate's Comments Regarding PPL's Storm Damage Expense Rider, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 18th day of April 2013.

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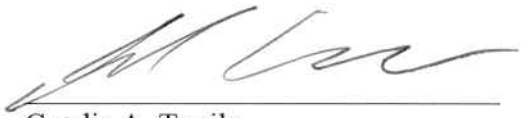

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