



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
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IN REPLY PLEASE
REFER TO OUR FILE

April 18, 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 (I&E) **Comments** 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** :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Comments** dated April 18, 2013, in the manner and upon the persons listed below, in accordance with the requirements of § 1.54 (relating to service by a party):

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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
COMMENTS TO
PPL ELECTRIC SUPPLEMENT NO. 130**

The Bureau of Investigation and Enforcement (I&E) of the Pennsylvania Public Utility Commission (PUC or Commission), pursuant to the directions provided in an April 5, 2013 Secretarial Letter in the above docket respectfully submits these Comments to the Storm Damage Expense Rider (Rider), Supplement No. 130 (Supplement No. 130) to PPL Electric Utilities Corporation (PPL) Tariff – Electric Pa. P.U.C. No. 201, issued by PPL on March 28, 2013 with a proposed effective date of January 1, 2013.

I. INTRODUCTION

A. The Commission Orders Governing The Collaborative

In the PPL base rate case at the above docket number concluded by Commission Order entered December 28, 2012,¹ I&E contested PPL's continued purchase of storm damage insurance from its affiliate, PPL Power Insurance Limited, an offshore subsidiary of PPL's parent company, PPL Corp., which is subject to the regulatory jurisdiction of

¹ *Pa. P.U.C. v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Order entered December 28, 2012) (*December 2012 Order*).

Bermuda, as a means of recovering expenses for major storms. I&E recommended that PPL be required to discontinue the affiliated insurance and in its stead use a storm reserve account.

The ALJ agreed with I&E.² As recognized in the *December 2012 Order* citing the Recommended Decision, the Commission stated as follows:

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 39.³

The Commission agreed with and adopted the ALJ's recommendation, further 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

² R.D. at 39.

³ *December 2012 Order* at 36 (emphasis added).

intention to file as soon as practicable after the Commission's entry of a final decision in this proceeding.

Recovery of PPL's revised FTY storm damage expenses of \$23.199 million shall be through base rates. Any recovery through a Storm Damage Rider shall be permitted only to the extent that such expense exceeds the amount included within base rates.⁴

OCA sought clarification or reconsideration of the Commission's Order, specifically seeking confirmation that PPL not construe the *December 28, 2012 Order* as limiting PPL to development of a rider, but also consider in collaboration with the statutory advocates development of a storm reserve. As described above, the concept of a reserve was specifically advanced on the record by I&E, adopted by the ALJ after thorough consideration of the record, and sanctioned by the Commission in its final resolution of the issue.⁵ Consequently I&E supported OCA's request as it comported with I&E's position in the proceeding below before the ALJ.⁶

On reconsideration, the Commission stated:

Accordingly, we shall grant the OCA's request for clarification and direct that PPL include both mechanisms within the discussions held in the collaborative process.

* * *

PPL Electric Utilities Corporation is directed to include both a storm damage expense rider and a storm damage reserve account as funding mechanisms within the discussions held in the collaborative process directed by our *December 2012 Order*.⁷

⁴ *December 2012 Order* at 37-38 (emphasis added).

⁵ See OCA Petition for Reconsideration or Clarification, Docket No. R-2012-2290597, filed January 14, 2013.

⁶ See I&E Answer to OCA Petition for Reconsideration or Clarification, Docket No. R-2012-2290597, filed January 24, 2013.

⁷ *Pa. P.U.C. v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Order on Reconsideration entered February 28, 2013) (*February 2013 Reconsideration Order*).

In response to these Commission Orders, on March 28, 2013, PPL filed Supplement No. 130, following a brief series of discussions and exchanged proposals among the statutory advocates and PPL.

B. The “Collaborative”

While I&E appreciates PPL’s interpretation that it was obliged to comply with the Commission’s direction within 90 days of the *December 2012 Order* by filing Supplement No. 130, I&E is disappointed in the level of consideration PPL afforded reserve funding within the “collaborative.” Supplement No. 130 largely mirrors the scope of the original proposal PPL circulated among the statutory advocates on February 25, 2013, which exclusively considered a “Section 1307(e)”-type rider.

On March 6, 2013, PPL and the statutory advocates engaged in initial discussions over PPL’s February 25th proposal. On March 8, 2013, I&E issued a set of informal questions regarding PPL’s proposal, which included the following question and answer:

7. Has the Company considered carrying forward a regulatory liability for years in which storm expenses are less than the \$14.7M budgeted amount in order to minimize future need to amortize large regulatory assets and to mitigate the recovery rate? If not, is this something the Company would consider?

Response: Under the Company’s SDRR, it would refund to customers any portion of the \$14.7M not utilized to cover the expenses for PUC reportable storms in the applicable year. Nevertheless, the Company would consider reasonable alternatives.

On March 15, 2013, I&E circulated among parties a redlined version of PPL’s proposal (as it was modified slightly by PPL on March 11, 2013, following the parties’ March 6th collaborative). In this I&E proposal, I&E accepted a substantial portion of

PPL's language, including the creation of a regulatory liability if the amount of storm damage expenses incurred in a year were less than the amount of expenses identified by PPL as allowed by the Commission for storm damage in the *December 2012 Order*, as modified to reflect elimination of the insurance.

However, keeping in concert with I&E's proposal adopted by the ALJ, as further vetted with PPL through the collaborative, I&E proposed that that funding continue as a reserve going forward to mitigate rate increases in future years where storm expenses exceeded the revenues built into base rates. Through a reserve, ratepayers would experience a greater level of rate stability while remaining assured that the rates they continued to pay in less volatile storm years would accumulate for PPL's dedicated use for storm expenses prospectively. I&E also proposed to maintain a "rider" component to the reserve to keep the Company current in expense recovery during volatile storm years and to be used as a guide in evaluating the level of storm damage expense in future base rate cases.

PPL's only response to I&E in the "collaborative" was circulated among parties on March 22, 2013, and was the subject of discussions among the parties on March 27, 2013, the day before Supplement No. 130 was filed. Questioning whether authority exists under the Public Utility Code for the Commission to approve a reserve method of recovering an expense such as storm damage expense, PPL rejected I&E's reserve proposal.

I&E disagrees with PPL's assessment that this Commission lacks authority to approve a reserve form of accounting for purposes of PPL's recovery of storm damage

expenses. In these Comments, I&E addresses the substance of PPL's proposal and provides as Attachment A to these Comments a redline version of PPL's Supplement No. 130 for Commission consideration. For reasons stated herein, I&E urges the Commission to adopt the proposal advanced by I&E during the litigation of this proceeding, recommended by the ALJ, and adopted by this Commission. Namely, "PPL Electric should be directed to develop a plan for establishment of a storm damage reserve account and to submit it for approval[,]"⁸ as modified to provide a rider to size the reserve and recovery.

If PPL doubted the Commission's authority to approve reserve accounting for recovery of storm expenses, it should have raised that issue in response to I&E's direct testimony and briefed the issue for consideration by the ALJ. It did not, nor did it question that authority when it finally acquiesced to a "reserve/tracker mechanism" for recovering storm damage expenses in Exceptions. Rejection of reserve accounting on that basis should be considered waived. Nonetheless, as I&E submits more fully below, the Commission has the power under its general ratemaking authority to approve reserve accounting and I&E's proposed modifications to PPL's Supplement No. 130 should be approved.

II. THE PPL AND I&E PROPOSALS

In Supplement No. 130, PPL proposes to establish what it identifies as a Storm Damage Expense Rider (SDER). PPL provides no substantive discussion of its proposal to which parties may respond. Rather, the only description provided of its tariff

⁸ Recommended Decision at 39.

supplement is a bullet list of principal components included in the cover letter accompanying the filing. Accordingly, in order to best indicate I&E's areas of agreement and disagreement with PPL's proposal, I&E addresses the principal components identified in PPL's cover letter seriatim, and then follows with a substantive discussion of I&E's proposed modification in the attached redlined version of Supplement No. 130.

A. PPL's Supplement No. 130 Compliance Filing

- 1. There will be no change in rates in 2013 related to storm damages.**

I&E agrees.

I&E's intent in proposing a change in funding mechanisms from the purchase of affiliated insurance to a reserve was to address storms occurring prospectively when storm damage insurance was no longer in effect. Since the base rate case included a budgeted storm amount, it is unnecessary to establish additional funding through the rider for the year 2013.

- 2. The SDER provides for recovery of damage from storms that are reportable under 52 Pa. Code 67.1. Damages from smaller storms will continue to be recovered through base rates.**

I&E agrees.

- 3. Extraordinary damages from storms prior to 2012 will continue to be recovered through base rates.**

I&E agrees.

Recovery of 2011's Halloween Snowstorm and Hurricane Irene was approved for recovery as amortized expenses in the underlying base rate case. Recovery of expenses

related to these storms should continue through base rates and not be affected by any new funding mechanism.

4. **The SDER recognizes that base rates prospectively provide for recovery of \$14.7 [million] in reportable storms. The SDER will recover from customers or refund to customers, as appropriate, only storm damage expenses that are less than or greater than \$14.7 million annually. Base rates will not change under the SDER.**

I&E agrees and disagrees.

For purposes of initial funding, I&E agrees with PPL's calculated level of allowed storm damage expense from the 2012 base rate case of \$14.7 million. As stated below, however, I&E disagrees with the use of a Section 1307(e)-type rider without consideration of a reserve, and therefore proposes modifications to Supplement No.130 to provide a reserve/tracking mechanism that better corresponds to I&E's proposal in the underlying proceeding and PPL's acceptance in Exceptions before the Commission.⁹

5. **In order to mitigate rate volatility, costs of major storm events, as defined in 52 Pa. Code 57.192, will be amortized over three years.**

I&E agrees and disagrees.

I&E agrees with PPL's proposal to amortize the costs of major storm events as defined in the Commission's regulations. However, for reasons explained more thoroughly below, I&E disagrees with PPL's proposed amortization period and recommends use of a five-year amortization.

6. **Interest will be paid to, or recovered from, customers on over and under collections and deferred amounts from major storm events at the residential mortgage rate.**

⁹ See *infra* note 16.

I&E disagrees.

For reasons explained more thoroughly below in I&E's proposal, I&E disagrees with PPL's proposal to pay interest to or recover interest from customers.

7. **Interim adjustments to the SDER are permitted subject to the Commission's approval.**

I&E disagrees.

For reasons explained more thoroughly below in I&E's proposal, I&E disagrees with PPL's proposal to provide for interim adjustments as part of the rider.

8. **The SDER does not provide for recovery of damages to transmission facilities or capitalized amounts. Transmission storm damage expenses will continue to be recovered through transmission rates, and capitalized amounts will be included in rate base in future rate proceedings.**

I&E agrees.

9. **Straight time wages and benefits incurred to repair storm damage will continue to be recovered through base rates.**

I&E agrees.

Recovery of straight time wages and benefits through base rate expense recovery for normal wages is consistent with existing Commission petition practice that excludes straight time wages and benefits from the calculation of extraordinary storm losses.

10. **SDER revenues and expenses will be reported to the Commission and will be subject to audit.**

I&E agrees, although for reasons explained more thoroughly below in I&E's proposal, I&E proposes additional language to PPL's proposed Audits and Accounting Sections to reflect I&E's inclusion of a reserve to PPL's proposed rider.¹⁰

- 11. PPL Electric will be permitted to record on its books of account a regulatory asset or liability for amounts that will be recovered or refunded to customers in the future under the SDER.**

I&E agrees and disagrees.

I&E agrees with the recording of a regulatory asset or regulatory liability for amounts by which the amount of revenues generated through base rates to recover PUC-reportable storms differs from actual incurred reportable storm expenses. For reasons stated more thoroughly below, I&E disagrees with PPL's proposal to reconcile and recover or refund annually on a dollar-for-dollar basis these amounts through a Section 1307(e)-type rider.

- 12. Hurricane Sandy - PPL proposes that recovery of expenses from Hurricane Sandy that occurred in 2012 be included in whatever recovery is approved in this compliance filing. PPL is concerned that if it did not claim recovery of Hurricane Sandy expenses in this proceeding, other parties may contend that it waived recovery of these expenses.**

I&E agrees. Since recovery of expenses related to Hurricane Sandy storm damage is not yet reflected in base rates, I&E agrees that PPL can seek recovery through the new reserve/tracker recovery mechanism.

B. I&E's Proposal

- 1. I&E's Position In The Underlying Proceeding**

¹⁰ Supplement No. 130 Original Page No. 19Z.25, REPORTS AND AUDITS, ACCOUNTING.

In the base rate case, I&E reviewed five years of transactions between PPL and its insurance affiliate and concluded that the Company's purchase of storm insurance from its affiliate did not benefit ratepayers. Consequently, I&E recommended that PPL be required to discontinue the insurance and instead prospectively use a storm reserve account. In this way, PPL would be allowed sufficient recovery of storm damage expenses in high storm years while building on the reserve to ratepayer benefit in low storm years, all while avoiding the appearance of questionable affiliate transactions.

In its direct case, I&E 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, I&E elaborated that "[t]o avoid financial statement impact for year to year fluctuations, a reconcilable storm reserve account would provide an alternative solution."¹¹ I&E's witness confirmed this position in surrebuttal testimony, stating:

[In direct testimony,] I questioned the economic benefit and prudence of PPL's management strategy to insure against storm damage by purchasing insurance from an affiliate in light of the data that has become available now that all parties have gained experience with that management strategy. Accordingly, I recommended denying the storm insurance expense and recalculating an annual budget amount to reflect a five year average of storm expenses. I recommended the use of a storm reserve account for the accruing of budgeted storm amounts to be offset by experienced storm costs.¹²

I&E's witness elaborated on her proposal as follows:

As an alternative to the disallowance of the 2012 storm insurance claim, I recommended the use of reserve

¹¹ I&E St. 2 at 32-33.

¹² I&E St. 2-SR at 23.

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.¹³

Finally, in supplemental surrebuttal, I&E's witness 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 2011.¹⁴

While PPL strenuously contested I&E's basis for recommending the prospective termination of the purchase of storm damage insurance from its affiliate, PPL did not oppose a reserve. In rebuttal testimony, while PPL suggested that a rider could be considered, it opposed that method on procedural grounds, alleging that I&E "did not provide sufficient details regarding a possible damage expense rider or make a specific

¹³ I&E St. 2-SR at 39, 41.

¹⁴ I&E St. 2-SSR at 6:10-11, 12:10-11, 13:10-11, 14:10-11.

proposal that can be evaluated in this proceeding [and there was] simply not sufficient time in this proceeding to address the main details of a storm damage expense rider[.]”¹⁵

In Exceptions, PPL acquiesced, asserting 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 “[a] **reserve/tracker mechanism** for storm damage expense is clearly appropriate.”¹⁶ 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 storm reserve account or a storm rider[,]”¹⁷ a strategy that allowed PPL to recover storm damage expenses, gave ratepayers the benefit of revenues accrued in low storm years, and avoided the affiliate transactions that I&E questioned.

As described above, I&E consistently identified a reserve, modeled after FERC Account 228.1, as an alternative funding mechanism to insurance. While PPL raised the prospect of a rider in rebuttal, it stated no opposition to a reserve and provided no details for a rider. The first time PPL proposed a Section 1307(e)-type rider was in its March 28, 2013 compliance filing. Even in its Exceptions where PPL first averred that affiliate insurance would no longer be available, PPL proposed a “reserve/tracker mechanism” and not a Section 1307(e) rider. For parties to see the details of PPL’s rider only in a compliance filing renders it subject to the same infirmity it wrongly leveled at I&E. The difference, however, is that I&E’s reserve proposal *was openly and transparently vetted*

¹⁵ PPL St. 8-R at 48.

¹⁶ PPL Exceptions at 23 (emphasis added). PPL acquiesced to use of a reserve/tracker on the basis of its off-the-record assertion that its private insurance would no longer be available.

¹⁷ I&E Replies to Exceptions at 11-12.

on the underlying record and adopted by the ALJ, whose recommendation was in turn adopted by the Commission.

That said, I&E does *not* oppose a rider *if used in conjunction with the reserve* as a means of properly sizing the reserve and also better protecting the Company from volatile storm expenses between base rate cases. Accordingly, in the following section, I&E sets forth a description of its proposed changes to PPL's Supplement No. 130 as they are reflected in I&E's redlined version of Supplement No. 130 attached to these Comments. The effect of I&E's proposal is to account for PPL's budgeted PUC-reportable storm damage expenses as part of a property insurance reserve similar to a FERC Account 228.1, while incorporating a rider to assure sufficient funding of the reserve.

In sum, while I&E generally agrees with a substantial part of PPL's proposed tariff language, I&E's proposed modifications reflect its disagreement with PPL's creation of a Section 1307(e) rider and rejection of the use of a reserve; PPL's proposal of a three-year amortization for recovery of major storm expenses; PPL's provision for interest; and PPL's proposal to authorize interim rider rate adjustments.

2. I&E's Proposed Modifications to PPL's Supplement No. 130

- a. PPL should establish a reserve based upon PPL's allowed budget for storm damage expense, with a rider SDRR (Storm Damage Reserve Rider) used to resize the reserve within rate cases and adequately recover PPL's reportable storm damage expenses between base rate cases, as necessary.**
 - i. Creation of a fully reconcilable annual Section 1307(e) rider is unnecessary and inappropriate.**

PPL wholly rejects establishment of a storm expense reserve and instead proposes to create a reconcilable rider under Section 1307(e) of the Public Utility Code.¹⁸ I&E submits that a fully reconcilable annual Section 1307(e) rider is both unnecessary and inappropriate. According to PPL's Rider Matrix, if approved as filed, Rider SDER will constitute PPL's eighth reconcilable expense rider,¹⁹ coming on top of the Company's Competitive Enhancement Rider, Rider CER, approved in the *December 2012 Order*, which allowed PPL to recover expenses related to Commission mandates flowing from the Retain Markets Investigation (RMI).

Even though PPL is a base rate regulated entity, through the application of multiple reconcilable riders to recover costs ranging from universal service to smart meters to Act 129, it enjoys increasingly unprecedented rate revenue security. No Pennsylvania utility currently enjoys 100% recovery of PUC-reportable storm expenses through a Section 1307(e) reconcilable rider. If PPL's Supplement No. 130 is approved as filed, however, I&E expects other utilities to follow suit. Accordingly, I&E proposes modifications to PPL's tariff supplement intended to moderate and better balance both ratepayer and shareholder impacts.

In approving recovery of consumer education costs related to competition through approval of PPL's Rider CER, the Commission acknowledged the grounds that should exist before approving expense recovery through use of a rider:

Commission mandates must be funded. With regard to the recovery of Act 129 costs, we believe that it is proper to recover these costs through a rider to base rates. It is

¹⁸ Supplement No. 130 Original Page No. 19Z.24, REPORTS AND AUDITS.

¹⁹ Supplement No. 130 Fifth Revised Page No. 14D, RIDER MATRIX (excluding Rider NM – net metering).

unknown whether the Act 129 expenses discussed in this section will be in place for many years or for only a few years, which supports recovery through a rider to base rates. Accordingly, we shall approve the education costs incurred in carrying out RMI mandates as expenses to be recovered through the CER Rider.²⁰

The Commission allowed dollar-for-dollar recovery of CER costs to avoid an unfunded mandate under the Retail Markets Investigation. Storm expenses are a cost of doing business and not the result of a Commission or statutory mandate. Also unlike storm expenses, Act 129 costs and universal service costs, which are recovered through Section 1307(e) riders, are specifically mandated by statute and consequently enjoy specific statutory support authorizing Section 1307(e) rider recovery.²¹ PPL enjoys no such statutory authority to support approval of a Section 1307(e) guaranteed full recovery of storm-related expenses. Revenue guarantees that are wholly extraordinary to the traditional ratemaking equation, particularly for a utility recently allowed a 10.4% return on equity, should be approved sparingly and should be supported by statute. PPL's proposed Rider SDER, providing full and complete guaranteed recovery, with interest, of storm related expenses, is simply not supported or warranted.

However, because storm costs are volatile and the public interest demands timely recovery from outages, I&E does not oppose an enhancement to traditional rate base/rate

²⁰ *December 2012 Order* at 54.

²¹ PPL's Universal Service Rider, for example, has statutory support in Section 2804(9) of the Electricity Generation Customer Choice and Competition Act (66 Pa. C.S. §§2801-2815 ("Electric Competition Act")). Similarly, PPL's Act 129 riders enjoy unequivocal statutory support: "An electric distribution company shall recover on a full and current basis from customers, through a reconcilable adjustment clause under Section 1307, all reasonable and prudent costs incurred in the provision or management of a plan provided under this section(;) " (66 Pa. C.S. §2806.1(k)) and "An electric distribution company may recover smart meter technology costs . . . on a full and current basis through a reconcilable automatic adjustment clause under section 1307." (66 Pa. C.S. §2807(f)(7)(ii)). *See also* Section 2807(e)(3.9) of the Public Utility Code for similar express statutory language authorizing the section 1307 recovery of default service provider costs (66 Pa. C.S. §2807(3)(3.9)).

of return recovery for storm damage expense through a reserve/tracker mechanism to better balance the interests of all parties. As I&E contended before the ALJ and further demonstrates below, a reliable but cost-effective means of expense recovery is a storm expense reserve.²² Other jurisdictions employ storm expense reserves with supplemental funding between rate cases as necessary similar to I&E's proposal in its modifications to PPL's Supplement No. 130.

For example, the New Hampshire Public Utilities Commission authorized the establishment of a major storm cost reserve account for the Public Service Company of New Hampshire, and specifically allowed interim funding of the reserve between rate cases upon petition by the utility when the reserve became underfunded due to two major storms in 2007.²³ A similar order was for the Granite State Electric Company when its underfunded reserve was impacted by an "extraordinary ice storm" in 2008.²⁴ Florida utilities account for storm damages through a reserve formally established by regulation to fund storm damage expenses through base rates, which reserve is augmented by utility petition as necessary following large storms or other storm-related expense mandates.²⁵

Arkansas has a statute directly on point authorizing reserve accounting for storm restoration costs²⁶ and providing that the reserve shall be credited with amounts recovered through rates but not spent by the utilities in low storm years, a mechanism

²² See I&E Ex. 2-SR, Sch. 5 and the referrals to I&E testimonies identified above.

²³ *Re Public Service Company of New Hampshire*, 93 N.H.P.U.C. 289, 2008 WL 2640069 (N.H.P.U.C.).

²⁴ *Granite State Electric Company d/b/a National Grid*, De 10-096, Order No. 25,125 (Order entered June 30, 2010).

²⁵ See *In Re: Petition of Progress Energy Florida, Inc. for Expedited Approval of the Deferral of Pensions Expenses, the Authorization of Charge Storm Hardening Expenses to the Storm Damage Reserve, and the Variance or Waiver of Rule 25-6.0143*, 2009 WL 1990946 (Fla. P.S.C.); Florida Administrative Code, Title 25, Chapter 25-6, Part II, Section 2506.0143, use of Accumulated Provision Accounts 228.1, 228.2, and 228.4 (for Property Insurance).

²⁶ See Arkansas Code Annotated (A.C.A.), Title 23, Section 23-4-112 (providing that the initial amount included in the storm cost reserve shall be the amount currently being recovered through approved rates for storm damage expenses to be adjusted in future rate cases based upon historical costs).

very similar to I&E's proposal. While utilities are authorized to accrue simple interest on the account, the Arkansas Public Service Commission may also adjust the utilities' authorized rates of return due to the "increased certainty of recovery of the electric public utility's storm restoration costs as a result of establishing a storm cost reserve account[.]"²⁷

Three other jurisdictions are particularly instructive, two for what they did and the other for what it did not do, with respect to reserve accounting for major storm damage expenses. First, while PPL's recent storm history is certainly colored by 2011's Halloween Snowstorm and Hurricane Irene and 2012's Hurricane Sandy, those same storms affected neighboring New Jersey utilities. Despite incurring expenses estimated in the range of \$130 to \$230 million (cumulative), New Jersey's electric utilities maintained the traditional rate base/rate of return ratemaking with deferred accounting for extraordinary storm losses.²⁸ In other words, despite similar weather hazards, the New Jersey utilities have not gone so far as to seek guaranteed dollar-for-dollar recovery of those expenses from their Commission.

On the other hand, another neighboring jurisdiction, New York, has allowed for reserve accounting for major storm recovery since 1997. Following the experience of two major snow storms in 1997, Central Hudson Gas & Electric, with the concurrence of its external auditors, established a reserve for major storms. Two years later Tropical Storm Floyd ravaged New York as well as Pennsylvania, causing damage in an amount that

²⁷ 23 A.C.A. §23-4-112(d)(1).

²⁸ See *In The Matter of the Petition of Public Service Electric and Gas Company and Atlantic City Electric Company's Request for Deferral Accounting Authority for Storm Damage Restoration Costs*, 2013 WL 792421 (N.J. Bd. Reg. Com.)

exceeded Central Hudson's reserve balance. Central Hudson petitioned for, and received approval from, the New York Public Service Commission to offset its extraordinary storm expense against its accrued excess earnings as a means of adequately funding the reserve,²⁹ essentially adhering to the same I&E proposal of a reserve subject to funding adjustments as necessary.

The third jurisdiction, Mississippi, is notable for three reasons. First, it confirms the legal argument that the Pennsylvania Commission has the authority to approve a storm reserve within the scope of its general ratemaking authority under the Public Utility Code without specific enabling legislation such as was enacted in Arkansas. Second, it establishes a funding mechanism that substantively mirrors the type of "reserve/tracker" mechanism PPL ostensibly accepted in Exceptions and conforms to the type of reserve/rider funding contemplated by I&E. Third, the storm reserve is subject to a regular schedule of annual audits.

Mississippi faces many of the same weather hazards as Pennsylvania – ice, hurricane, thunderstorm, hail, wind, and tornado, with Pennsylvania experiencing perhaps less tornado and more snow. All, however, are capable of causing devastation of substantial magnitude. In Mississippi, as I&E proposes in Pennsylvania for PPL, the Mississippi Public Service Commission (PSC) authorized the maintenance of a storm damage reserve under authority of PSC orders issued under the general ratemaking authority of the PSC, and consistent with FERC reserve accounting under Account 228.1. The reserve, Mississippi found, "provides a uniform and systematic means of managing

²⁹ See *Re Central Hudson Gas & Electric Corporation*, 2000 WL 990865 (N.Y.P.S.C.)

storm restoration costs so that they will not be concentrated unduly in a particular year or years.”³⁰ Further, as the Mississippi PSC made clear, “[t]he Mississippi Supreme Court has upheld the establishment of a storm reserve noting that ‘it is common practice for public service commissions to permit as an item of expense chargeable to ratepayers the establishment of a reserve for storm damage and to authorize, as a legitimate expenses of operation, annual contributions to those storm reserves.’”³¹

Moreover, Mississippi’s reserve funding, as I&E proposes for PPL, is subject to the operation of a “Storm Damage Rider,” a funding mechanism that allows affected utilities to change rates to increase funding to the reserve where active storm patterns render the existing reserve balance insufficient. As described by the Mississippi PSC when Entergy changed rates in July 2012, the company had maintained a negative balance of \$30.1 million in the reserve since September of 2008 due to experience of an extraordinary level of storm activity and increased restoration costs. Finding that “the level of monthly accruals that currently are being collected under the Company’s storm damage rider are not sufficient for the Company both to recover its ongoing storm restoration costs and to recover the negative balance that currently exists in the storm reserve[,]”³² the PSC authorized the amortization of a portion of the negative storm reserve balance through approval of a new rider rate to “help to provide customers with an adequate and appropriate reserve [and] help to level out over time the costs of

³⁰ *In Re: Notice of Intent of Entergy Mississippi, Inc. to Change Rates by Implementing Storm Damage Rider Schedule SD-8 to Supersede Storm Damage Rider Schedule SD-7 (Entergy Mississippi)*, 2012 WL 3265080 (Miss.P.S.C.), slip opinion at 1.

³¹ *Entergy Mississippi*, slip opinion at 1, note 1 (citation omitted).

³² *Entergy Mississippi*, slip opinion at 2.

repairing facilities and restoring service to customers after storm events.”³³ This substantially mirrors the reserve/tracker mechanism I&E proposes through its modifications to PPL’s Supplement No. 130.

Finally, the company’s storm damage expense recovery remains subject to PSC review and audit. As the PSC noted when revising the rider rates, “Entergy Mississippi’s actions taken and costs incurred in preparation for the storm and in the restoration of its electric system following the storm were reasonable and necessary, prudently incurred, and recoverable storm costs.”³⁴

Recent action in Indiana just two months ago also confirms the reasonableness and timeliness of I&E’s reserve proposal. In a February 2013 order, the Indiana Utility Regulatory Commission (Indiana URC) approved the Major Storm Damage Restoration Reserve proposed by the Indiana Michigan Power Company (I&M) over the opposition of parties who opposed “special accounting treatment attached to a single expense account” and who wanted to limit the use of “riders and tracking mechanisms because they shift regulatory risk from investors to customers.”³⁵ In approving the reserve, the Indiana URC recognized the same concerns raised by I&E in support of proposing a reserve for PPL:

Timely and safe service restoration following a major storm is vital to the ongoing operation of a utility. At times, the costs of such restoration may greatly exceed the

³³ *Entergy Mississippi*, slip opinion at 3.

³⁴ *Entergy Mississippi*, slip opinion at 2.

³⁵ *Petition of Indiana Michigan Power Company, an Indiana Corporation, for Authority to Increase Its Rates and Charges for Electric Utility Service, for approval of: Revised Depreciation Rates; Accounting Relief; Inclusion in Basic Rates and charges of the Costs of Qualified Pollution control Property; Modifications to Rate Adjustment Mechanisms; and Major Storm Reserve; and for Approval of New Schedules of Rates, Rules and Regulation, 2013 WL 653036 (Ind. U.R.C.) slip opinion at 57 (Indiana Michigan Power).*

amount of expense included in Petitioner's revenue requirement. This is one of the risks of engaging in the utility business, and that risk is traditionally borne by shareholders. **In the past, the Commission has allowed a utility to seek recovery of extraordinary storm restoration expenses through a separate proceeding,** but only when the storm at issue was a worst-case scenario. ... **Of course, the opposite situation also occurs, where the costs of storm restoration may be substantially less than the amount of expense included in Petitioner's revenue requirement. In those instances, ratepayers have essentially over-paid for that particular expense, and the utility has the use of the excess revenues to support other expenses or to include as a return to shareholders.**

The accounting proposed by the Company to record under- or over-recoveries on a monthly basis as a regulatory asset or liability addresses both of these situations. Under the proposal, Petitioner's revenue requirement will include a base amount of storm damage expense, and the Company will record its actual expenses on an annual basis. In its next basic rate case filing, the Company will summarize the major-storm damage restoration reserve revenues and the major-storm restoration expenses. Once the Commission has reviewed those revenues and expenses and issued an order in that case, basic rates will be adjusted to resolve any under/over recovery positions and more closely align revenue recovery with expected expenses. And if the amount of imbedded storm damage expense exceeds the actual expense incurred, ratepayers will receive the benefit of the overpayment. Other parties to the subsequent rate case will retain the ability to challenge the reasonableness of the storm expenses included in the reserve account. By following that approach, the Commission is once again able to consider issues associated with the Reserve in the context of a rate case in which it has before it a variety of issues to consider in establishing I&M's revenue requirement and setting its rates.

The proposed accounting treatment will smooth out the impacts of major storms, thereby mitigating the financial consequences of a major storm. The availability of a reserve does not remove or diminish the Company's separate obligation to reasonably establish the level of storm costs and

to manage that expense. In other words, it does not excuse the Company from prudently managing expenses associated with major storm expense. Therefore, based on the discussion above, we approve Petitioner's proposal to establish a Major Storm Damage Restoration Reserve.³⁶

I&E submits that Supplement No. 130 as modified by I&E provides greater protection to PPL and its customers than PPL currently enjoys and that is provided to utilities in neighboring jurisdictions with similar weather risks. Shareholders will enjoy the greater protection of knowing that when devastating storms occur, PPL will have an accumulated storm reserve subject to incremental funding in between rate cases to allow for timely recovery of major storm expenses. Ratepayers will enjoy the greater protection of knowing that the rates they have paid in low storm years will be available, augmented as necessary, to provide their utility the financial means to correct widespread outages. No longer will ratepayers be subject to the “heads I win, tails you lose” proposition where PPL petitioned for deferred accounting and subsequent recovery of extraordinary storm costs in active storm years, but did nothing to reserve for future use revenues earmarked in prior base rate cases for storm expense recovery in lean storm years. A rider *with a reserve* as proposed by I&E should be approved.

- b. A five-year amortization period for recovery of expenses due to major storms should be used rather than PPL's proposed three-year amortization period.**

In Supplement No. 130, PPL proposes a three-year amortization period.³⁷ I&E proposes to modify PPL's amortization period to a five-year amortization. I&E's

³⁶ *Indiana Michigan Power*, slip opinion at 59 (emphasis added).

³⁷ Supplement No. 130 Original Page No. 19Z.21.

proposal is more appropriate because it comports with prior Commission orders authorizing PPL's amortization of extraordinary storm costs and ameliorates rate spikes.

To account for recovery of expenses related to Hurricane Isabel in 2003, PPL proposed a five-year amortization. The Commission rejected PPL's proposal and determined that a ten-year amortization period was more reasonable given that PPL had described Hurricane Isabel as an "80-year storm" and because a ten-year amortization period had been approved for recovery of costs associated with Hurricane Agnes.³⁸ In 2005, only two years after Hurricane Isabel, the Commission similarly authorized a ten-year amortization period for PPL's recovery of 2005's snow and ice storms.³⁹ Most recently, in the 2012 base rate case, the ALJ recommended and the Commission approved a five-year amortization of \$5.324 million for the extraordinary losses incurred in 2011 due to Hurricane Irene and the Halloween Snowstorm.⁴⁰

With the exception of the *2005 Ice Storm Order*, in which the Commission ordered a ten-year amortization, the Commission has consistently stated that amounts are to be expensed over a reasonable amortization period with the appropriate amortization period deferred to the next base rate case. In all cases with the exception of the most recent for 2011 storms, the Commission authorized a ten-year amortization period. Even in 2011, the amortization period was five years, not the three PPL currently proposes going forward. While the petition for approval to defer accounting for expenses related to

³⁸ *Pa. P.U.C. v. PPL Electric Utilities Corporation*, Docket No. R-00049255 (Order entered December 22, 2004), slip opinion at 29, *reversed on appeal as to Isabel recovery in Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1024 (Pa. Commw. 2006).

³⁹ *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 entered August 26, 2005), slip opinion at 9, Ordering Paragraph 2.c (*2005 Ice Storm Order*).

⁴⁰ *December 2012 Order* at 37.

Hurricane Sandy at Docket No. P-2012-2338996 was approved, a reasonable amortization period has yet to be determined. Thus, there is no precedent for PPL's requested three-year amortization period under its proposal.

Further, I&E's proposal to authorize an amortization period longer than three years also ameliorates rate spikes for customers. An illustration is presented on Attachment B to these Comments, which calculates the rider rate increases that result under scenarios using both a three-year and a five-year amortization period for recovery of the storm damage expenses approved for recovery in 2011 due to Hurricane Irene and the Halloween Snowstorm, and approved for deferral and pending recovery at the next available opportunity due to Sandy in 2012.

Looking at the "example year" 2011, the rider rate increase that would have resulted to recover the costs of 2011's storm under a three-year amortization would have been 16.26% higher than the increase ultimately approved under a five-year amortization.⁴¹ If expenses related to Sandy are added to PPL's proposed rider recovery, the resulting rider rate increase is 27.13% higher under a three-year amortization than it would be under a five-year amortization.⁴² Thus the difference in amortization periods used for the 2011 and 2012 known storm years creates highly volatile rate spikes. Moreover, on an individual basis, the storm damage expense from Hurricane Sandy was significantly greater than either of the two major storms in 2011.⁴³ If the magnitude of

⁴¹ See Attachment B, page 3, column T, calculating the comparative rider rate increases using data from PPL's base rate case filing, PPL Exhibit Future 1, Schedule D-3, page 2, as revised by PPL in July 2012.

⁴² See Attachment B, page 3, column V.

⁴³ *Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Relating to Storm Damage*, Docket No. P-2012-2338996 (Order entered February 14, 2013), slip opinion at 2-3.

storm damage and costs is trending towards more major storms like Sandy, the impact of using three-year amortizations versus five-year amortizations will be even more significant.

PPL's proposed three-year amortization is unreasonable and unprecedented. I&E's proposed modification to a five-year amortization should be approved.

c. Interest should not be included as a component of the storm reserve/tracker.

In Supplement No. 30, PPL proposes interest on both over and undercollections in keeping with its strict construct of an exclusive Section 1307(e)-type rider.⁴⁴ I&E proposes that no interest be required either to be paid to customers on an overcollection, or to be collected from customers on an undercollection. In lean storm years, PPL will have the opportunity to utilize overcollections and earnings on overcollections at its discretion. Conversely, in high storm years, the Company will absorb the carrying costs associated with payment of direct storm expenses. I&E's construct should be acceptable for three reasons.

First, under the traditional methodology for recovery of deferred assets, expenses granted extraordinary recovery earn no return or interest until they are accepted as a reasonable and prudently incurred expense in a subsequent base rate case. Thus, providing for interest in a reserve/tracker funding mechanism places PPL in a better financial position interest-wise than it would be under traditional ratemaking. Plus storm expense recovery is rendered both more certain and more timely simply through the addition of the rider.

⁴⁴ Supplement No. 130 Original Page Nos. 19Z.21-22.

Second, if its premium was determined by an independent actuary to equal the average cost of losses over time as PPL professed in the proceeding below,⁴⁵ exclusion of interest from the reserve/tracker mechanism to be deployed by PPL has no different financial impact on PPL than what the actuary intended to place into effect for PPL's insurance affiliate under its prior insurance strategy. Employing a reserve/tracker as proposed by I&E, and accepting as true PPL's prior independent actuary premium calculations, interest would be completely irrelevant because the asset and liability would balance over time.

Finally, because the starting point for PPL's reserve is the \$14.7 million already embedded in base rates and, therefore, part of the revenue requirement approved in the base rate case below, the risk mitigation resulting from the conversion of a large and volatile expense from recovery through base rates to recovery through a reserve/tracker was not considered in approving a 10.4% return on equity. Allowing a further interest recovery on storm expenses is not warranted and would border on overcompensation considering the risk mitigation provided by the storm reserve rider. As I&E noted above, while Arkansas allows interest, it also allows for an adjustment of the utility's authorized rate of return

d. Authorization to make interim adjustments is not necessary.

Supplement No. 130, either as proposed by PPL or as proposed to be modified by I&E, is a recovery mechanism that is far superior to any type of previously existing

⁴⁵ PPL Exceptions at 25 ("Determining the level of storm damage expense based on the insurance premium is appropriate even though the insurance will not be renewed because the premium was calculated by an independent actuary to equal average covered losses over time.").

coverage or expense recovery available to PPL for storm expenses. As proposed by either PPL or I&E, the longest PPL will ever have to wait to adjust a rate determined to be insufficient is a year, much less than PPL would experience under any prior scenario. A single annual review and establishment of the subsequent year's rate change, if any is warranted, is adequate. Any type of accelerated or earlier recovery through an interim adjustment would only further complicate the equation and likely confuse customers who would be exposed to multiple rate changes. In the highly unlikely event that PPL's losses would be so great that recovery in less than a year would be financially threatening, PPL may always petition the Commission for interim relief. That prospect, however, does not need to be built into the formula.

III. CONCLUSION

The Bureau of Investigation and Enforcement, as the party proponent of the proposal accepted by both the Administrative Law Judge in her October 19, 2012 Recommended Decision and the Commission in its December 28, 2012 Order, respectfully requests that the Commission approve PPL's Supplement No. 130 *as modified by I&E in these Comments and reflected on the attached redline version of Supplement No. 130*. I&E contends that the Commission has the requisite authority to establish reserve accounting with an attendant rider to fund it as necessary, and that the resultant "reserve/tracker" recovery mechanism embodied in I&E's modified supplement best protects the public interest with respect to PPL's prospective recovery of storm damage expenses.

Upon review of the operation of the reserve/tracker through experience of PPL's continuing storm history in subsequent base rate cases, I&E may propose modifications to either the amount or the construct. This is due not only to the fact that implementation of the rider/reserve is novel and as such should be considered a pilot appropriately subject to review as experience is gained under the proposal, but also because the funding mechanism is subject to various moving parts, the least known of which is the future storm experience.

For all of these reasons, I&E asserts that Supplement No. 130 as modified by I&E represents the construct of a new extraordinary storm expense funding mechanism that best balances the interests of ratepayers and shareholders. I&E remains committed to continued collaboration with PPL, particularly with respect to resolving amicably ancillary issues such as interest and an appropriate amortization period. However, in order for any collaboration to be productive, PPL must include a storm expense reserve account in conjunction with a rider, inclusion PPL has so far rejected.

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: April 18, 2013

Attachment A



PPL Electric Utilities Corporation

GENERAL TARIFF

**RULES AND RATE SCHEDULES
FOR ELECTRIC SERVICE**

In the territory listed on pages 4, 4A, and 4B
and in the adjacent territory served.

ISSUED: March 28, 2013

EFFECTIVE: January 1, 2013

GREGORY N. DUDKIN, PRESIDENT

Two North Ninth Street
Allentown, PA 18101-1179

NOTICE

THIS TARIFF MAKES (CHANGES) IN EXISTING RATES. SEE PAGE TWO.

LIST OF CHANGES MADE BY THIS SUPPLEMENT

CHANGES:

Rider Matrix

Page No. 14D

The Rider Matrix was revised to show the applicable Riders in the Tariff.

Storm Damage ~~Expense Reserve~~ Rider
(~~SDERSDRR~~)

Page Nos. 19Z.20, 19Z.21, 19Z.22,
19Z.23, 19Z.24, and 19Z.25

The ~~SDER-SDRR~~ was added to provide recovery of ~~applicable-qualified~~ storm damage expenses incurred by the Company that are not otherwise currently recovered through its base rates.

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RIDER MATRIX (C)

Rate Schedule	EEC	USR	NM	MBC	ACR	MFC	SMR	CER	SDER <u>SDRR</u>
RS		X	X	X	X	X	X	X	X
RTS (R)		X		X	X	X	X	X	X
GS-1			X	X	X	X	X	X	X
GS-3	X		X	X	X	X	X	X	X
LP-4	X		X	X	X		X	X	X
LP-5	X			X	X		X	X	X
LPEP	X			X	X		X	X	X
IS-1 (R)				X	X	X	X	X	X
BL				X	X	X	X	X	X
SA				X	X	X	X	X	X
SM (R)				X	X	X	X	X	X
SHS				X	X	X	X	X	X
SE				X	X	X	X	X	X
TS (R)				X	X	X	X	X	X
SI-1 (R)				X	X	X	X	X	X
GH-2 (R)				X	X	X	X	X	X
Rule 6/6A				X	X	X	X	X	X

Rider Titles

- EEC = Emergency Energy Conservation Rider
- USR = Universal Service Rider
- NM = Net Metering for Renewable Customer-Generators
- MBC = Metering and Billing Credit Rider
- ACR = Act 129 Compliance Rider
- MFC = Merchant Function Charge Rider
- SMR = Smart Meter Rider
- CER = Competitive Enhancement Rider
- ~~SDER~~ SDRR = Storm Damage ~~Expense Reserve~~ Rider

(C) Indicates Change

STORM DAMAGE ~~EXPENSE RESERVE~~ RIDER

PURPOSE

The Storm Damage ~~Expense Reserve~~ Rider (~~SDERSDRR~~) shall be applied to bills of all retail customers of the Company. The SDER provides for recovery of qualified storm damage expenses incurred by the Company from storms reportable to the Pennsylvania Public Utility Commission (Commission) that are not otherwise currently recovered through its base rates.

STORM DAMAGE EXPENSES

Storm damages for purposes of this ~~SDER-SDRR~~ are those resulting from direct physical loss or damage to property from wind, tornado, hurricane, tropical storm, tropical depression, rain, snow, hail, sleet, ice, lightning, flood, fire resulting from any of these perils, and similar causes. Storm damage expenses consist of those expenses incurred to remediate storm damage to the Company's distribution system, including, but not limited to, overtime and premium wages of the Company's employees, costs of outside service providers and mutual aid utilities employed by the Company during storm restoration efforts, materials and supplies used to repair or replace damaged property, overhead charges associated with storm damage expenses, including wages and benefits, transportation, purchasing and stores charges, expediting expenses for the reasonable and extra costs to make temporary repairs and to expedite the permanent repair or replacement of damaged property, and expenses of providing services to customers whose electric service has been interrupted by any of the perils listed above. Straight-time wages and benefits and expenses reimbursed by others will be excluded from the ~~SDERSDRR~~, and capitalized costs of repairing or replacing facilities damaged by the perils listed above, will be excluded from the ~~SDERSDRR~~.

FACTOR DEFINITION

Net storm damage expenses to be recovered in the ~~SDER-SDRR~~ shall be equal to:

$$\del{SDER-SDRR} = (C - R) + E,$$

Where C equals the Cost factor, R equals the Base Rate factor and E equals the Experience factor.

The C Factor = For purposes of calculating ~~SDER-SDRR~~ charges, storms will be categorized as reportable or non-reportable storms. Reportable storms are those that cause unscheduled service interruptions in a single event to 2,500 or more customers for 6 or more consecutive hours; non-reportable storms are all other storms. See 52 Pa. Code § 67.1(b). Storm damage expenses from non-reportable storms will be recovered through base rates and not through the ~~SDERSDRR~~.

(Continued)

STORM DAMAGE ~~EXPENSE RESERVE~~ RIDER (Continued)

FACTOR DEFINITION (Continued)

In order to calculate the C factor for each application year starting with 2014, the Company will include in the ~~SDER-SDRR~~ all qualifying storm damage expenses caused by reportable storms incurred during the 12-month period prior to the application year, except that all qualifying expenses caused by major storm events, defined as an interruption of electric service resulting from conditions beyond the control of the Company which affects at least 10% of the Company's customers during the course of the event for a duration of 5 minutes each or greater (see 52 Pa. Code §57.192), will be recovered over ~~three-five~~ years and reflected in ~~SDER-SDRR~~ rates commencing in the application year after the storm occurred.

Qualifying expenses from major storm events occurring during 2012 that were the subject of deferral petitions, which subsequently were approved by the Commission, shall be recovered over ~~three-five~~ application years commencing in 2014. The C factor will not include interest or carrying charges for major storm events that are subject to amortization, ~~as provided above. Such interest shall be computed monthly at the average rate of interest specified for residential mortgage lending by the Secretary of Banking in accordance with the Act of January 30, 1974 (P.L. 13, No. 6 referred to as the Loan Interest and Protection law, 41 P.S. §§ 101 et seq.), from the month the amortization begins to the effective month that the full amount of the amortization is recovered.~~

The C factor may contain estimated data where actual data are not yet available. Estimated data will be replaced by actual data when they become available with differences between estimated and actual expenses reconciled through the E factor in the next December 1 filing.

The R Factor = The R factor is the amount of applicable storm damage expense reflected in the Company's base rates plus the balance of any regulatory liability maintained in the associated property insurance reserve account identified in the Accounting section below. The ~~R-factor~~ storm damage expense reflected in the Company's base rates for 2013 and thereafter, unless modified by the Commission in a subsequent base rate case, shall equal \$14,700,000, which for purposes of this ~~SDER-SDRR~~ constitutes the amount of expense from reportable storms currently recovered through base rates, excluding previously approved amortization allowances for expenses for extraordinary storms that currently are reflected in the Company's base rates.

(Continued)

STORM DAMAGE ~~EXPENSE RESERVE~~ RIDER (Continued)

FACTOR DEFINITION (Continued)

The E Factor = The E factor is the amount of any under or over collections during the year prior to the application year resulting from: (1) differences between actual and projected billing units and (2) differences between estimated qualifying storm damage expenses used to calculate ~~SDER-SDRR~~ rates for the prior application year and actual qualifying storm damage expenses for the same period. Interest shall not be assessed on either ~~be computed monthly at the average rate of interest specified for residential mortgage lending by the Secretary of Banking in accordance with the Act of January 30, 1974 (P.L. 13, No. 6 referred to as the Loan Interest and Protection law, 41 P.S. §§ 101 et seq.), from the month the over or under collection occurs to the effective month that the over or under collection is recouped or refunded.~~

PRICING PROVISION

The ~~SDER-SDRR~~ shall be computed separately for each of the following four customer classes:

- (1) Residential: Consisting of Rate Schedules RS and RTS (R),
- (2) Small Commercial and Industrial (Small C&I): Consisting Rate Schedules GS-1, GS-3, IS-1 (R), BL, SA, SM (R), SHS, SE, TS (R), SI-1 (R), and GH-2 (R),
- (3) Large Commercial and Industrial - Primary (Large C&I - Primary): Consisting of Rate Schedule LP-4, and
- (4) Large Commercial and Industrial – Transmission (Large C&I – Transmission): Consisting of Rate Schedules LP-5, LPEP, and L5S.

The ~~SDERSDRR~~, as computed using the formulae described below, shall be included in the distribution charges of the monthly bill for each customer receiving distribution service from the Company and shall be reconciled on an annual basis ~~for undercollections and overcollections experienced during the previous year~~. Charges set forth in the applicable rate schedules in this tariff have been adjusted to reflect application of the currently effective ~~SDERSDRR~~.

Net storm damage expenses to be recovered in each application year (C-R+E) will be allocated among these four customer classes using the method in the cost allocation study approved by the Commission in the Company's most recent base rate proceeding.

The ~~SDER-SDRR~~ for the Residential class shall be computed using the following formula:

$$\del{SDER-SDRR} = [\text{RASDE} / \text{D}] \times 1 / (1-T)$$

The ~~SDER-SDRR~~ for the Small C&I class shall be computed using the following formula:

$$\del{SDER-SDRR} = [\text{SASDE} / \text{D}] \times 1 / (1-T)$$

(Continued)

STORM DAMAGE EXPENSE RESERVE RIDER (Continued)

PRICING PROVISION (Continued)

The SDER-SDRR for the Large C&I - Primary class shall be computed using the following formula:

$$\text{SDER-SDRR} = [\text{LASDEP} / \text{DM}] \times 1 / (1-T)$$

The SDER-SDRR for the Large C&I – Transmission class shall be computed using the following formula:

$$\text{SDER-SDRR} = [\text{LASDET} / \text{DM}] \times 1 / (1-T)$$

Where:

RASDE = Net storm damage expenses allocated to Residential customers

SASDE = Net storm damage expenses allocated to Small C&I customers

LASDEP = Net storm damage expenses allocated to Large C&I - Primary customers

LASDET = Net storm damage expenses allocated to Large C&I – Transmission customers.

D = The Company's total billed kWh sales in each customer class that receives distribution service under this Tariff (including distribution losses), projected for the computation year.

DM = The Company's total billed kW demand in each customer class that receives distribution service under this Tariff (including distribution losses), projected computation year.

T = The total Pennsylvania gross receipts tax rate in effect during the billing period, expressed in decimal form.

RECOVERY PERIOD

Beginning January 1, 2013 and continuing through December 31, 2013, the SDER-SDRR charges will be \$0.000 per kWh or kW, unless otherwise ordered by the Pennsylvania Public Utility Commission (Commission).

(Continued)

STORM DAMAGE ~~EXPENSE RESERVE~~ RIDER (Continued)

RECOVERY PERIOD (Continued)

For 2014 and subsequent years, the ~~SDER-SDRR~~ charges together with supporting data will be filed with the Commission no later than December 1 of the preceding year. The filing may contain estimated data. Estimated data will be replaced by actual data when they become available with differences between estimated and actual expenses reconciled through the E factor in the next December 1 filing. The ~~SDER-SDRR~~ charges shall become effective for service rendered on and after the following January 1.

~~Upon a determination that an SDER charge, if left unchanged, would result in a material over or under-collection of all SDER expenses incurred or expected to be incurred during the current 12-month application period, the Company may file with the Commission a request for an interim revision of the SDER to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.~~

REPORTS AND AUDITS

~~Pursuant to 66 Pa.C.S. § 1307(e), t~~The Company will file with the Commission by January 30 of each year a reconciliation of the sum of ~~SDER-SDRR~~ 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-SDRR~~ 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-SDRR~~ and the costs included therein.

Reports, filings, and audits shall serve as a measure to evaluate storm expense budget amounts and property insurance reserve account sizing in subsequent base rate cases.

ACCOUNTING

Beginning on January 1, 2013, ~~the Company will record base rate revenues received to recover the budgeted Commission-reportable storm damage expense approved by the Commission shall be accrued to a property insurance reserve account as a regulatory liability, and qualifying storm damage expenses shall be accrued to the property insurance reserve account as a regulatory asset. When the net balance of the property insurance reserve account results in a regulatory asset at the December 1 filing, it shall be subject to recovery pursuant to the provisions of the SDRR. When the net balance of the property insurance reserve account results in a regulatory liability at the December 1 filing, the regulatory liability shall remain in the reserve account, and it shall be used to offset qualified storm damage expenses as part of the R factor in subsequent filings. No interest shall be due from customers on any regulatory asset; no interest shall be due to customers on any regulatory liability.~~any qualifying storm damage expenses from reportable storms in excess

~~of the \$14,700,000 included in base rates, to a regulatory asset for inclusion in the SDER. If the amount of storm damage expense incurred is less than the \$14,700,000 included in base rates, the Company will record a regulatory liability for inclusion in the SDER.~~

(Continued)

STORM DAMAGE EXPENSE RESERVE RIDER (Continued)

STORM DAMAGE EXPENSE RESERVE RIDER CHARGE

Charges under the SDER-SDRR for the period January 1, 2013 through December 31, 2013, as set forth in the applicable Rate Schedules.

Customer Class	Large I&C - Transmission	Large I&C - Primary	Small I&C	Residential
Rate Schedule / Charge	L5S, LP-5, and LPEP \$0.000/KW	LP-4 \$0.000/KW	GS-1, GS-3, IS-1 (R), BL, and GH-2 (R) \$0.00000/KWH	RS and RTS (R) \$0.00000/KWH

Small I&C – Street Lights									
Rate Schedule/ Charge	SA	SM (R)		SHS		SE	TS (R)	SI-1 (R)	
	\$/Lamp	Nominal Lumens	\$/Lamp	Nominal Lumens	\$/Lamp	\$/KWH	\$/Watt	Lumens	\$/Lamp
	0.000		3,350	0.000	5,800	0.000	0.00000	0.00000	600
		6,650	0.000	9,500	0.000	1,000			0.000
		10,500	0.000	16,000	0.000	4,000			0.000
		20,000	0.000	25,000	0.000				
		34,000	0.000	50,000	0.000				
		51,000	0.000						

Attachment B

Source: PPL Exhibit Future 1, Schedule D-3, Page 2 of 4 (Revised July 2012)

Rate	Average Customer Count	Sales kWh	SDER Rate Group	SDER Rate Group Avg Count	Sales kWh	SDER Rate Group Avg Usage
RS	1,212,974	13,414,922,507	Residential	1,225,379	13,713,350,569	11,191
RTS	12,226	294,659,356				
RTD	179	3,768,706				
GS-1	144,938	1,938,987,188	Small Commercial & Industrial	177,007	10,753,721,271	60,753
GS-3	28,641	8,629,453,501				
IS-1	1	1,406,766				
BL	43	6,855,294				
SA	0	20,829,717				
SM	69	3,474,379				
SHS	1,316	54,085,509				
SE	100	37,600,289				
TS	8	301,128				
SI-1	3	82,975				
GH-2	1,888	60,644,526				
LP-4	1,169	6,409,746,249	Large Commercial & Industrial - Primary	1,169	6,409,746,249	5,483,102
LP-5	144	5,696,451,508	Large Commercial & Industrial - Transmission	145	5,789,328,405	39,926,403
LPEP	1	92,876,897				
Total		36,666,146,494			36,666,146,494	

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V
1	2014 Starting Rate Due to Sandy																					
2	Reported information:																					
3	PPL stated in the petition to defer costs associated with Sandy that there would be \$13M available in insurance coverage.																					
4	PPL stated on March 27, 2013 conference call that Sandy costs subject to deferral were \$43M.																					
5	Such that, estimated balance subject to deferral is \$30M (\$43M - \$13M)																					
6	Per rider, amortization period is 3 years, such that Sandy deferral is \$10M/Year (\$30M/3Years).																					
7	Calculation of 2014 rider starting rate due to only Sandy:																					
8																						
9		Class	Share		Annual Deferred Expense	Deferred Expense by Class	Class Usage	Sandy SDER Rate (\$/kWh, \$/kW)	Class Annual Average Usage	Annual per Customer Cost												
10	16	Residential	69.770%	X	\$10,000,000	\$6,977,000	13,713,350,569	\$0.0005652	11,191	\$6.33												
11	17	Small C&I	25.600%	X	\$10,000,000	\$2,560,000	10,753,721,271	\$0.0002645	60,753	\$16.07												
12	18	Large C&I Primary	4.441%	X	\$10,000,000	\$444,100	6,409,746,249	\$0.0000770	5,483,102	\$422.06												
13	19	Large C&I Transmission	0.189%	X	\$10,000,000	\$18,900	5,789,328,405	\$0.0000036	39,926,403	\$144.81												
14	20																					
15	21																					
16	22																					
17	23																					
18	24																					
19	25	Calculation of 2014 rider with Sandy deferral if another 2011 were to repeat:																				
20	26	Reported information:																				
21	27																					
22	28																					
23	29																					
24	30																					
25	31	Per R-2012-2290597, PPL Exceptions, 2011 storm costs included \$31.2M in normal and reportable storm costs and \$26.622M in major storm costs.																				
26	32	Since we have no breakout for normal vs. reportable storm costs, for simplicity, we'll assume all \$31.2M was reportable storm costs.																				
27	33	Using the 3 year amortization period from the rider, the major storm costs would result in a deferred annual expense of \$9.874M (\$26.62M/3Years).																				
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