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May 6, 2013

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA ELECTRONIC FILING

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

Dear Secretary Chiavetta:

Please find enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") the Reply Comments of the PP&L Industrial Customer Alliance ("PPLICA") in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to the proceeding are being duly served with a copy of the document. Thank you.

Very truly yours,

McNEES WALLACE & NURICK LLC

By 
Adeolu A. Bakare

Counsel to the PP&L Industrial Customer Alliance

AAB/sar

Enclosure

c: Certificate of Service

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Adeolu A. Bakare

Counsel to PP&L Industrial Customer Alliance

Dated this 6th day of May, 2013, at Harrisburg, Pennsylvania.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REPLY COMMENTS OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE**

I. INTRODUCTION

On March 28, 2013, PPL Electric Utilities Corporation ("PPL" or "Company") filed Tariff Supplement No. 130 to PPL Electric Utilities Corporation Tariff – Electric Pa. P.U.C. No. 201 ("Supplement No. 130") with the Pennsylvania Public Utility Commission ("PUC" or "Commission") proposing to establish a Storm Damage Expense Rider ("SDER").¹ PPL submitted Supplement No. 130 pursuant to the Commission's Opinion and Order entered on December 28, 2012, at the above-captioned docket ("December Order").

On April 18, 2013, the PP&L Industrial Customer Alliance ("PPLICA") filed Comments in opposition to the proposed SDER. Additionally PPLICA received Comments filed by the Bureau of Investigation and Enforcement ("I&E") and the Office of Consumer Advocate ("OCA"). Consistent with PPLICA's Comments, OCA also opposed PPL's proposed SDER. I&E's Comments focused on the establishment of a Reserve Account ("Reserve"), but did not oppose approval of a modified SDER used in conjunction with the Reserve. As stated in PPLICA's Comments, storm damage expenses should be subject to review in base rate proceedings and are inappropriate for recovery

¹ In addition to Supplement No. 130, PPL also filed a letter outlining certain details of the proposed SDER ("SDER Letter").

through a rider mechanism. Accordingly, PPLICA hereby submits the below Reply Comments, requesting that the Commission deny I&E's proposal to attach a rider to the recommended Reserve.

II. COMMENTS

A. **The Commission Should Deny the Proposed Reserve Rider any Proposal to Recover PPL's Storm Damage Expenses Through a Reconcilable Mechanism**

Like PPL's originally proposed SDER, I&E's dual proposal for implementation of a Reserve Account in conjunction with a Storm Damage Reserve Rider ("Reserve Rider") must be denied as an unjust and unreasonable cost recovery mechanism. Although intended as a moderation of PPL's originally proposed SDER, I&E's proposal suffers from the same critical flaw. As an initial step, I&E proposes that PPL establish a Reserve to record regulatory assets or liabilities. This element of I&E's proposal is not opposed by PPLICA. However, in addition to proposing the Reserve, I&E also confirms non-opposition to establishment of a Reserve Rider to recover storm damage expenses exceeding amounts annually recovered through PPL's base rates and any balance in the Reserve. As addressed at length in PPLICA's Comments and further underscored by I&E's own analysis, allowing PPL to recover potentially unlimited storm damage expenses on a current basis through a reconcilable rider would deprive parties of the opportunity to determine whether such costs were prudently incurred in the context of a base rate case. Therefore, I&E's proposal to implement a Reserve Rider must be denied to ensure that any charges assessed for recovery for storm damage expenses are just and reasonable.

As a standalone measure, I&E's proposed Reserve appears to be a reasonable mechanism for managing PPL's storm damage expenses, but the accompanying proposal to add a Reserve Rider would unreasonably guarantee current recovery of storm damage expenses for PPL while eliminating the opportunity to review the underlying costs in a base rate proceeding. Unlike PPL's proposed SDER, which would recover or refund storm damage expenses on a current basis, I&E's proposed Reserve would allow PPL to record a regulatory asset or liability depending on whether the Company

incurred storm damage expenses above or below the \$14.7 million base rate allocation for storm damage costs. I&E Comments, Attachment A, p. 19Z.25. Use of the Reserve could provide some revenue security for PPL by requiring the Company to book a regulatory liability in years of minimal storm damage and apply the balance to costs incurred in subsequent years of high storm damage. *Id.* However, the reasonableness of I&E's proposed Reserve is marginalized by the inclusion of a Reserve Rider. As proposed, the Reserve Rider would allow PPL to recover, on an amortized basis, storm damage expense costs exceeding the \$14.7 million base rate allocation and the cumulative regulatory liability currently recorded to the Reserve. *Id.* While I&E's proposal would amortize costs recovered through the Reserve Rider over five years as opposed to the three year amortization proposed for recovery of costs through PPL's SDER, both riders would similarly allow PPL to recover storm damage costs in excess of amounts determined to be just and reasonable through a base rate proceeding.

As originally set forth in PPLICA's Comments, recovery of storm damage expenses through a reconcilable rider eliminates customer protections and grants undue revenue security to PPL. PPLICA's Comments submitted that storm damage costs appear subject to substantial discretion of the part of PPL. PPLICA Comments, p. 5. This observation distinguishes the control PPL has over the occurrence of storms, from the control PPL maintains over the costs incurred in responding to storm damage, *e.g.*, workforce management, vendor selection, and other managerial decisions impacting the costs ultimately incurred for each storm event. *Id.* at 5. Additionally, PPLICA referenced the increasing amount of PPL's revenues derived from surcharges and the adverse impacts on customers required to pay increasing costs above base rates. *Id.* at 6. As with PPL's proposed SDER, I&E's proposed Reserve Rider would require customers to not only remit additional revenues through yet another rider, but also pay for storm damage expenses that were neither subject to review in a base rate proceeding nor otherwise authorized by statute.

Paradoxically, I&E apparently recognizes that guaranteed recovery of storm damage expenses is inappropriate, but fails to reconcile this statement with its proposed Reserve Rider. In recommending that the Commission reject PPL's proposed SDER, I&E offers the following:

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.*

I&E Comments, p. 16. [Emphasis added].² Moreover, I&E cites to several precedents from other jurisdictions, *none* of which have approved a mechanism similar to the Reserve Rider proposed by I&E. I&E references reserve account mechanisms for recovery of storm damage expenses approved by the New Hampshire Public Utilities Commission, the Arkansas Public Service Commission, the New York Public Service Commission, the Mississippi Public Service Commission ("Miss. PSC"), and the Indiana Utility Regulatory Commission ("Ind. URC"). I&E Comments, pp. 17-21. Notably, each of these proposals preserves substantive review of all storm damage expenses prior to recovery of costs through a reserve or rider. *Id.* at 17-21. For example, the Ind. URC approved an accounting method allowing a utility to track and record storm damage expenses and revenues on a monthly basis for *review and reconciliation in the utility's next base rate case.* I&E Comments, p. 6. Specifically, the Ind. URC emphasized that the "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 [the utility's] revenue requirement and setting its rates." I&E Comments, p. 22.

Similarly, the Miss. PSC approved a reserve with a Storm Damage Rider, but limited recoveries through the rider to previously approved expenses. *In re: Notice of Entergy Mississippi,*

² I&E's proposed Reserve Rider would not include interest on over or undercollections. I&E Comments, p. 26. While PPLICA opposes I&E's proposed Reserve Rider, PPLICA concurs with I&E and OCA that any rider approved for recovery of storm damage expenses should exclude interest on over or undercollections. *See id.*; *see also* OCA Comments, p. 14.

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. The Miss. PSC cited the following specific circumstances for approving additional revenues to be recovered through the Storm Damage Rider:

However, given the recent drop in natural gas prices, the Company and Staff stipulated that it is in the public interest to accelerate the amortization of a portion of these storm costs while customers are experiencing the benefits of low natural gas prices, in order to allow the Company to make efforts to replenish its storm reserve while ensuring rate stability for customers. Consequently, the Commission, in accordance with the Joint Stipulation, finds that \$14.9 million of prudently incurred storm costs, which represents a portion of the current deficient in the storm damage reserve, should be amortized over five months and recovered through the Schedule SD-8 (Revised).

Entergy Mississippi, slip opinion at 3. As stated above, these proposals allow utilities to recover costs through a rider only after regulatory review of the prudence and reasonableness of the expenses.

To the contrary, I&E's Reserve Rider would allow PPL to recover any storm damage expenses exceeding the present balance of its Reserve as of December 1 of each year. I&E Comments, Attachment A, p. 19Z.25. I&E's proposal includes provisions for PUC audits of the Reserve Rider, but lacks a prudence review. *Id.* PPL is required only to submit a tariff supplement on December 1 of each year, showing the costs to be recovered through the Reserve Rider effective January 1 of the following year. *Id.* This proposal is in stark contrast to I&E's prior statement that guaranteed recovery of storm damage expenses is inappropriate. I&E Comments, p. 16. Additionally, the proposed Reserve Rider is a significant and harmful departure from the accounting methods approved by the Ind. URC and the Miss. PSC. *See* I&E Comments, pp. 17-21.

Because the proposed Reserve Rider fails to preserve an opportunity for review of storm damage expenses, it must be rejected for the same reasons as PPL's proposed SDER. Despite the compelling evidence favoring review of storm damage expenses in a base rate case, I&E claims that

the proposed Reserve Rider should be approved "to ensure sufficient funding of the reserve." I&E Comments, p. 14. While PPL should be permitted to recover prudently incurred storm damage expenses, the Company should not be permitted to recover storm damage expenses on a current basis, without submitting the expenses for review in a base rate proceeding. *See* PPLICA Comments, pp. 5-6. If the Commission approves I&E's proposed Reserve, any storm damage expenses exceeding amounts recovered through PPL's base rates and available in the Reserve should remain eligible for deferral and review in a base rate case, consistent with the Commission's past practice. *See* I&E Comments, p. 12. Consequently, I&E's proposal to implement a Reserve Rider must be rejected.

III. CONCLUSION

WHEREFORE, the PP&L Industrial Customer Alliance respectfully requests that the Pennsylvania Public Utility Commission consider and adopt, as appropriate, the foregoing Comments.

Respectfully submitted,

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By 

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