

COMMONWEALTH OF PENNSYLVANIA



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May 6, 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 Reply 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,

A handwritten signature in cursive script that reads "Candis A. Tunilo".

Candis A. Tunilo
Assistant Consumer Advocate
PA Attorney I.D. # 89891

Enclosures

cc: Honorable Susan D. Colwell
Certificate of Service
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I. INTRODUCTION

The Office of Consumer Advocate (OCA) submits these Reply Comments to the Comments submitted by the Bureau of Investigation and Enforcement (I&E) and the PP&L Industrial Customer Alliance (PPLICA) to PPL Electric Utilities Corporation's (PPL or Company) proposed Storm Damage Expense Rider (SDER or Rider). As discussed in OCA's Comments to PPL's proposed SDER, a rider for the 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. Further, PPL's proposed SDER would disassemble the carefully crafted ratemaking process for recovery of storm damage expense that has achieved just and reasonable rates. As such, PPL's proposed SDER should be rejected. The OCA incorporates its Comments herein.

In its Comments, I&E proposed modifications to PPL's proposed SDER. The OCA appreciates I&E's efforts in this regard. The OCA submits, however, that I&E's proposed modifications do not resolve the issues identified with PPL's proposed SDER. Moreover, in using PPL's proposed SDER as the starting point, I&E's proposal differs from its proposal in the Company's base rate case. As such, neither PPL's nor I&E's proposal should be adopted. If the Commission wishes to entertain any form of extraordinary ratemaking treatment for PPL's normal, ongoing storm damage expense prior to PPL's next base rate case, the Commission should set this matter for further hearings.

II. REPLY COMMENTS

A. PPL's Proposed SDER And I&E's Proposed Modifications Should Not Be Approved.

In their Comments, I&E and PPLICA assert that, based on the procedural history of this case, PPL lacks the basis to now claim that the Commission directed the Company to collect its

storm damage expenses through a reconcilable rider. See I&E Comments at 4-6; PPLICA Comments at 2-4. I&E further asserts that any claim now by PPL that the Commission lacks the authority to require reserve accounting for storm damage expenses should be rejected because PPL “acquiesced to a ‘reserve/tracker mechanism’” in its Exceptions. I&E Comments at 6. Additionally, I&E asserts that PPL’s proposed SDER, a Section 1307(e) rider, lacks statutory authority and must be rejected. I&E Comments at 16. The OCA supports these assertions by I&E and PPLICA.

In addition, the OCA submits that the issues presented by PPL’s proposed SDER have not been fully vetted, and the proposed rider should, therefore, be rejected. As I&E points out, the issue before the Commission during PPL’s base rate case was PPL’s use of storm damage insurance, not the use of a reconcilable rider or PPL’s inability to fully recover storm damage expenses through base rates. See I&E Comments at 10-13; see also OCA Comments at 2-3. As raised in the OCA’s Comments, the use of a reconcilable rider for the collection of normal, ongoing storm damage expenses is contrary to sound ratemaking principles and represents unsound public policy. See gen’ly OCA Comments at 6-11. Furthermore, it would disassemble the carefully crafted ratemaking process for recovery of storm damage expenses that has achieved just and reasonable rates. Id. at 11-17. 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, the Commission should set this matter for hearings.

In its Comments, I&E supports a reserve accounting mechanism but then attempts to modify PPL’s proposed SDER to achieve this end. See gen’ly I&E Comments at 4-6, 14-28. I&E’s proposed modifications include establishing a storm damage reserve account and providing a rider component to the reserve account “to size the reserve and recovery.” I&E

Comments at 6. These proposed modifications do not resolve the issues that OCA identified in its Comments regarding PPL's proposed SDER being contrary to sound ratemaking principles and contrary to sound public policy. As such, I&E's proposed modifications should also be rejected. Should the Commission wish to consider I&E's proposal further, the OCA submits that I&E's proposed modifications raise material issues needing further review.

While the OCA appreciates that I&E put forth proposed modifications to PPL's proposed SDER, this fact alone indicates that there are material issues in dispute requiring hearings if the Commission determines not to reject PPL's and I&E's proposals on their merits. The OCA agrees with many points raised by I&E about the problems with PPL's SDER. The OCA, however, submits that while I&E's proposed modifications may be an improvement to PPL's proposed SDER, the modifications also present many of the same issues as PPL's proposal. These material issues of fact and policy must be thoroughly examined if the Commission does not reject PPL's and I&E's proposals.

Specifically, as noted in I&E's Comments, I&E witness Morrissey testified in the base rate case that many states permit utilities to self-insure for base rate storm expenses by utilizing FERC Uniform System of Accounts, Account 228.1,¹ indicating that such a mechanism could be used by PPL rather than procuring storm damage insurance. See I&E Comments at 12, citing

¹ FERC Account 228.1 provides:
228.1 Accumulated provision for property insurance.

A. This account shall include amounts reserved by the utility for losses through accident, fire, flood, or other hazards to its own property or property leased from others, not covered by insurance. The amounts charged to account 924, Property Insurance, or other appropriate accounts to cover such risks shall be credited to this account. A schedule of risks covered shall be maintained, giving a description of the property involved, the character of the risks covered and the rates used.

B. Charges shall be made to this account for losses covered, not to exceed the account balance. Details of these charges shall be maintained according to the year the casualty occurred which gave rise to the loss.

I&E St. 2-SR at 39, 41. The OCA submits that it is not clear that FERC Account 228.1 operates in the way that I&E proposes here. For instance, FERC Account 228.1 appears to permit a reserve mechanism, but it does not provide for a rider mechanism to resize the reserve mechanism like the modifications proposed by I&E in its Comments.

In Comments, I&E included a review of storm reserve accounts from a number of other jurisdictions. See I&E Comments at 17-23. After review, the OCA agrees that the handling of storm restoration expenses in other states provides useful information for the Commission to consider. The OCA also agrees with I&E that the treatment of these storm restoration costs in the jurisdictions reviewed does not lend any support to the use of a 1307(e)-type automatic adjusting rider as proposed by PPL. The OCA submits, however, that these cases also portray a different procedure than the modifications proposed by I&E to PPL's reconcilable Rider. I&E's modifications would establish a reserve mechanism similar to these other states but would allow a rider to automatically replenish the reserve account if depleted by reportable storms. In these other jurisdictions, there is no rider mechanism or automatic recovery of amounts above the funding levels. Rather, these cases show that adjustments to the reserve funding levels can only be made in a base rate case or upon separate petition. See e.g. I&E Comments at 21-23, citing In re Indiana Michigan Power Company, 2013 Ind. PUC Lexis 43 (2013) (The company sought establishment of a storm damage reserve account, and the IN Commission approved a major storm reserve account with a base level of funding and a tracker mechanism that would then enable the IN Commission and parties to review and propose adjustments in the company's next base rate case). See also ARK. CODE ANN. § 23-4-112 (2009) (AR Commission may authorize the creation of a storm restoration expense reserve account, the annual level of which must be set in a base rate case with tracking procedures for additional debits and credits to the account,

which are resolved in a company's next base rate case); I&E Comments at 17, citing In re Public Service Company of New Hampshire, 2008 N.H. PUC Lexis 54 (2008) (The annual funding of the reserve account was determined as part of a settlement, and the company was required to file a petition seeking NH Commission approval for an increase in the annual level of funding); I&E Comments at 19-21, citing In re Entergy Mississippi, Inc., 2013 Miss. PUC Lexis 4 (2013) (Pursuant to MS Commission order, the company maintained a storm damage reserve account and was required to seek any increase to the account by petition); I&E Comments at 18-19, citing In re Central Hudson Gas & Electric Corporation, 2000 N.Y. PUC Lexis 710 (2000) (In a prior base rate case, the NY Commission required the company to set aside excess earnings of which the company sought to use to offset extraordinary storm damage expenses from Tropical Storm Floyd and which the NY Commission permitted after review of the claimed expenses); I&E Comments at fn 25, citing In re Progress Energy Florida, Inc., 2009 Fla. PUC Lexis 582 (2009) (Company filed a petition to include pre-emptive storm costs in its storm reserve account, which reserve account was permitted by regulation, and the FL Commission denied the company's request); In Re Granite State Electric Company d/b/a National Grid, 2010 N.H. PUC Lexis 63 (2010) (Annual funding of the company's Storm Fund was set by settlement agreement in a prior base rate case, and the company was required to file a petition to seek an increase in funding thereof, which the NH Commission set for hearings).

These cases do not support PPL's proposed SDER or I&E's proposed modifications. As such, PPL's and I&E's proposals should be rejected. If, however, 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, the Commission should set this matter for further hearings.

B. Altering the Commission's Procedure for Review and Recovery of Extraordinary Storm Damage Expenses Is Unsound.

As part of its proposed rider component, I&E recommends that the Commission adopt a five-year amortization period for PPL's recovery of major storm damage expenses instead of the three-year amortization period in PPL's proposed SDER. I&E Comments at 23-26. As discussed in OCA's Comments, it is not reasonable to automatically amortize storm damage expenses from major storms over a pre-specified period of time. See OCA Comments at 11-12. The unique circumstances of each storm should be considered in determining a proper amortization period for extraordinary storm damage expenses. Further, it may not be appropriate to amortize storm damage expenses from a major storm if the total annual amount of storm damage expenses embedded in base rates has not been exhausted or if the expense amount is not significant.

Additionally, under PPL's proposed three-year automatic amortization period in its SDER and I&E's proposed modification to use an automatic five-year amortization period for major storm damage expenses, extraordinary storm damage expenses could be recovered over a short time without review. The generally accepted procedure for seeking recovery of extraordinary storm damage expenses is for a company to file a petition seeking Commission approval to defer the expenses until the company's next base rate case. 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 (Aug. 26, 2005). This procedure is the preferred approach for holding such expenses over until a company's next base rate case because in the base rate case, the expenses can be thoroughly reviewed and the impact thereof can be reviewed in the context of the company's entire range of expenses and revenues. Additionally, the appropriate

amortization period given the magnitude of the storm and expenses can be determined. As such, PPL's and I&E's proposals for automatic amortization periods for major storm damage expenses should be rejected.

C. It Is Improper To Include Superstorm Sandy Expenses In PPL's Proposed SDER.

In its Comments, I&E agrees with PPL's proposal to collect its extraordinary storm damage expenses from Superstorm Sandy through the Company's proposed SDER. I&E Comments at 10. I&E states that it would be appropriate for PPL to collect these extraordinary storm damage expenses through a reserve/tracker mechanism because they are not yet reflected in base rates. Id. I&E asserts, however, that PPL should amortize its Superstorm Sandy expenses over five years instead of the three-year amortization that PPL proposed in its SDER. I&E Comments at 23-26.

The OCA submits that it is not appropriate for PPL to collect Superstorm Sandy expenses through a reserve/tracker mechanism unless and until the parties and the Commission have had an opportunity to review the claimed expenses for reasonableness and prudence, and the Commission has approved the expenses as well as the amortization period. As explained in the OCA's Comments, the proper time for PPL to seek amortization of its Superstorm Sandy expenses is in PPL's next base rate case, as contemplated by PPL in filing its Petition for Deferred Accounting of Superstorm Sandy expenses. See OCA Comments at 16-17. See also 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 at 1 (Feb. 14, 2013) (Superstorm Sandy Deferral Order).

Section 315 places the burden of proof on the utility "to show that the rate involved is just and reasonable." 66 Pa. C.S. § 315(a). To date, PPL has provided only an estimate of \$20 to

\$30 million in net distribution-related storm damage expenses that the Company incurred due to Superstorm Sandy. See Superstorm Sandy Deferral Order at 3. The parties and Commission do not know the total of PPL's Superstorm Sandy-related expenses and have not had an opportunity to review the expenses for reasonableness and evaluate the appropriate amortization period for such an extraordinary storm. As such, PPL's and I&E's proposals to include in the Company's proposed SDER its expenses incurred as a result of Superstorm Sandy should be rejected.

Additionally, the OCA submits that a five-year amortization of PPL's Superstorm Sandy expenses, as proposed by I&E in its Comments, may not be adequate. See I&E Comments at 25. As discussed in the OCA's Comments, the Commission directed PPL to begin expensing the deferred Superstorm Sandy amounts *on a reasonable amortization schedule*. See OCA Comments at 16-17, citing Superstorm Sandy Deferral Order at Ordering Para. 1(c). (Emphasis added). 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. PPL described Superstorm Sandy as the most damaging storm in its service territory since records have been kept. Superstorm Sandy Deferral Order at 2. For expenses incurred as a result of a similarly described storm, the Commission determined that 10 years was a reasonable period over which to amortize extraordinary storm damage expenses. See 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 (Company requested deferral of expenses incurred from February 2010 storms that required the "largest restoration event" in West Penn's history).

Furthermore, as noted by I&E in its Comments, the Commission has directed amortization of extraordinary storm damage expenses claimed by PPL in prior base rate cases over ten years. See I&E Comments at 24, citing 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 Ordering Para. 2(c) (Aug. 26, 2005). The OCA submits that there is no basis for changing the long-standing Commission procedure of adopting 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 such, any proposal to include PPL's Superstorm Sandy-related expenses in a reserve or rider mechanism should be rejected.

D. PPLICA's Proposal Regarding Collection Of Storm Damage Expense From Large Commercial & Industrial Customers May Not Properly Reflect The Treatment Of Such Expenses In PPL's 2012 Rate Case.

In its Comments, PPLICA notes that PPL's proposed SDER includes transmission voltage customers among the customer classes subject to SDER charges even though the proposed SDER states that transmission storm damage expenses will be recovered through transmission rates, with capitalized amounts included in rate base in future base rate cases. PPLICA Comments at 8, citing SDER at 19Z.22 and SDER Letter at 2. According to PPLICA, PPL's LP-5 customer class was allocated 0.2% of costs reflected in the Cost of Service Study in the base rate case. PPLICA Comments at 8. The OCA agrees that the LP-5 customer class's obligation in any approved reserve or rider mechanism should be clarified.

III. CONCLUSION

For the foregoing reasons and those detailed in the OCA's Comments submitted on April 18, 2013, the OCA respectfully requests that PPL's proposed SDER and I&E's proposed modifications thereto be rejected. If the Commission, however, 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, the OCA respectfully requests that the Commission set this matter for further hearings.

Respectfully Submitted,



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Dated: May 6, 2013
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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 Reply 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 6th day of May 2013.

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