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May 6, 2013

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
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Harrisburg, PA 17105-3265

Re: Storm Damage Expense Rider, Supplement No. 130 to PPL Electric Utilities Corporation Tariff – Electric Pa. P.U.C. No. 201, Issued March 28, 2013 and Effective on January 1, 2013 – Docket No. R-2012-2290597

Dear Secretary Chiavetta:

Enclosed please find the Reply Comments of PPL Electric Utilities Corporation for the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

John H. Isom

JHI/jl
Enclosures

cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: May 6, 2013

John H. Isom

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: Storm Damage Expense Rider, Supplement No. 130 to PPL Electric Utilities Corporation Tariff – Electric Pa. P.U.C. No. 201, Issued March 28, 2013 and Effective on January 1, 2013	:	Docket No. R-2012-2290597

REPLY COMMENTS OF PPL ELECTRIC UTILITIES CORPORATION

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Of Counsel:

Post & Schell, P.C.

Date: May 6, 2013

Table of Contents

Table of Authorities

Page

Pennsylvania Court Decisions

Pennsylvania Administrative Agency Decisions

Table of Authorities

Page

Pennsylvania Regulations & Statutes

Table of Authorities

Page

I. INTRODUCTION

PPL Electric Utilities Corporation ("PPL Electric") hereby submits its Reply Comments regarding the proposed Storm Damage Expense Rider ("SDER") that was contained in Supplement No. 130 to its Tariff – Electric Pa. P.U.C. No. 201. PPL Electric filed the SDER with the Pennsylvania Public Utility Commission ("Commission") on March 28, 2013, pursuant to the Commission's Opinion and Order in PPL Electric's 2012 base rate proceeding at Docket No. R-2012-2290597 (Dec. 28, 20120) ("Rate Case Order"). At pages 37 – 38 of the Rate Case Order, the Commission ordered PPL Electric to submit a "rider for storm damage expense recovery." The Commission stated:

> "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 advocate shall include, but not be limited to, the following: (1) provisions for interest on over and undercollections; (2) timing of reconciliation; (3) reporting storm damage expenses and revenues 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...."

The Commission also stated:

> "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."

PPL Electric complied with this order by filing the SDER together with a cover letter summarizing the content of the SDER.

PPL Electric's proposed SDER addresses each of the issues raised by the Commission. The principal components of the SDER are as follows:

1. Interest will be paid to or recovered from customers on over and undercollections and deferred amounts from major storm events at the average residential mortgage rate as published by the Secretary of Banking.

2. True-ups of storm damage expenses and revenues will be based on filings submitted by December 1 of each year and will become effective subject to Commission the following January 1.

3. SDER revenues and expenses will be reported to the Commission on January 30 of each year and will be subject to audit.

4. Rates, including the true-up, will be recalculated in filings submitted by December 1 of each year and become effective, subject to Commission approval, the following January 1.

5. The SDER provides for recovery of expenses from damages caused by storms that are reportable under 52 Pa. Code § 67.1. Damages from smaller, non-reportable storms will continue to be recovered through base rates. Recovery of from reportable storm costs will be limited to operating expenses caused by storms and will exclude straight wages and benefits. Capital expenditures, straight time wages and benefits incurred to repair storm damage will continue to be recovered through base rates. The SDER does not provide for recovery of damages to transmission facilities. Transmission storm damage expenses will continue to be recovered through transmission rates.

Other significant provisions of the SDER include the following:

1. The SDER provides only for recovery of actual, experienced storm damage expenses. No forecasts or projections of such expenses are involved.

2. As a transitional matter, the SDER provides for recovery of expenses from Hurricane Sandy that occurred in 2012. PPL Electric has provided for recovery of such expenses through the SDER due to the requirement in the Commission's Hurricane Sandy Deferral Order in *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, p. 4 (Feb. 14, 2013) that: "PPL Electric shall claim the deferred expenses at its first available opportunity."

3. The SDER recognizes that base rates currently provide for recovery of $14.7 million in expenses for reportable storms annually. The SDER will recover from customers or refund to customers, as appropriate, only applicable expenses from reportable storms that are less than or greater than $14.7 million annually. This amount excludes the allowance for smaller, non-reportable storms and the approved amortizations of damages from extraordinary storms prior to 2012.

4. Base rates will not change under the SDER.

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.

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

7. Damages from extraordinary storms prior to 2012 will continue to be recovered through base rates.

8. PPL Electric will be permitted to report on its books and account a regulatory asset or liability for amounts that will be recovered from or refunded to customers in the future under the SDER.

Before filing the SDER and pursuant to the Commission's Rate Case Order, PPL Electric conducted a collaborative with the Commission's Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA"). The collaborative included telephonic conferences, informal discovery and exchanges of draft forms of storm riders. Unfortunately, however, the parties to the collaborative were unable to achieve consensus regarding the SDER.

Pursuant to the procedures set forth in the Commission's Secretarial Letter dated April 5, 2013, I&E, OCA and the PP&L Industrial Customer Alliance ("PPLICA") submitted comments regarding the SDER, In its comments, I&E proposes changes to PPL Electric's proposed SDER, but does not contest the appropriateness of an automatic adjustment mechanism for recovery of storm damage expenses. OCA and PPLICA, in contrast, challenge the fundamental legality and appropriateness of using an automatic adjustment clause to recover storm damage expenses.

As explained below, the comments of I&E, OCA and PPLICA should be rejected, and PPL Electric's proposed SDER should be approved.

II. RATEMAKING BACKGROUND

Prior to 2008, PPL Electric recovered storm damage expenses for normal storms through a standard budget allowance. The costs of extraordinary storms were recovered through a deferral procedure under which PPL Electric would file a petition for permission to defer extraordinary storm damage expenses until its next base rate case. In that base rate case, PPL Electric would requests recovery of extraordinary storm damage expenses through amortization over a multi-year period starting when rates established in that base rate proceeding became

effective. The Commission commonly used this procedure for recovery of "extraordinary" expenses for storm damage expenses beginning with the expenses caused by Hurricane Agnes in 1972.

Over time, PPL Electric's storm damage expenses became substantial and highly variable from year to year. In order to address these issues, PPL Electric proposed that it be permitted to purchase insurance to level out the expense borne by PPL Electric and its customers. Due to the limited availability of storm damage insurance, PPL Electric proposed to purchase storm damage insurance from its affiliate, PPL Power Insurance, LTD ("PPL Insurance"), which would obtain reinsurance for a portion of the policy coverage in the reinsurance market. Costs incurred in excess insurance coverage were handled through the deferral and amortization mechanism described above. The Commission approved these proposals as part of a settlement of PPL Electric's 2007 base rate case at Docket No. R-00072155. I&E Exhibit 1, Schedule 22. The Commission's Order was entered on December 6, 2007. I&E Exhibit 1, Schedule 22.

In its 2012 base rate case, PPL Electric proposed to continue to obtain storm damage insurance for a portion of its expenses and recover the insurance premium through rates. Storm damage expenses not covered by insurance were to be recovered through an allowance for expenses subject to the insurance policy deductible, and PPL Electric proposed to continue to defer and amortize expenses from storms in excess of insurance liability limits.

I&E opposed a portion of PPL Electric's proposals. I&E generally contended that the storm damage insurance had not been cost-effective and amortizations were unnecessary because past allowances for storm damages in base rates have been sufficient to provide for recovery of extraordinary storms. I&E offered as an alternative to storm damage insurance that PPL Electric be permitted to establish a "storm rider" or a storm "reserve account." I&E Main Brief, p. 54.

The ALJ recommended that PPL Electric's storm damage expense, as revised to reflect the absence of storm damage insurance, be approved, but she recommended also that the storm damage insurance be dropped when the coverage expired on December 31, 2012 and be replaced by a "storm damage reserve account." Recommended Decision, pp. 38-39 (Oct. 19, 2012).

During 2011 and 2012, PPL Electric continued to experience substantial storm damage expenses. In 2011, PPL Electric's storm damage losses reached almost $100 million. Statement 14-R, p. 5. When Hurricane Sandy struck in October, 2012, that one storm caused damages in excess of $60 million and interrupted service to more than 440,000 customers. PPL Electric Exceptions, p. 22. As a result of these continuing losses, PPL Insurance and the reinsurers informed PPL Electric that storm damage insurance would no longer be available after 2012. PPL Electric's proposal to continue to purchase storm damage insurance became moot, and PPL Electric informed the Commission and the other parties of the lack of availability of storm damage insurance in its Exceptions, pp. 20-26 (Nov. 8, 2012).

In its Exceptions, PPL Electric also explained that it was not opposed to the establishment of a reserve/tracker mechanism, but that details had not been sufficiently developed in the evidentiary record for the Commission to make specific decisions on the provisions of such a mechanism. PPL Electric explained that it planned to submit a proposed reserve/tracker as soon as practical after the Commission decision in the rate proceeding. PPL Electric Exceptions, p. 23. The Commission's Rate Case Order was entered on December 28, 2012.

III. SUMMARY OF REPLY COMMENTS

PPL Electric's proposed SDER should be approved. The Commission has clearly stated in the Rate Case Order that PPL Electric should establish a rider for recovery of storm damage

expenses and has identified issues which should be addressed regarding the specific provisions of the rider.

Under Section 1307(a) of the Public Utility Code, 66 Pa.C.S. § 1307(a), the Commission has clear authority to approve such automatic adjustment clauses. *Popowsky v. Pa. P.U.C.,* 13 A.3d 583, 591 (Pa. Cmwlth. 2011). The only limitation that the appellate courts have imposed on the Commission's authority to approve such clauses is that they may not provide for the recovery of capital costs unless there is specific statutory authorization to do so. This limitation, however, simply does not apply to the SDER, which recovers only applicable operating expenses. No capital costs will be recovered in the SDER.

I&E proposed a reserve account method of treating storm damage expenses. The principal problem with I&E's proposal is that it is an automatic adjustment clause with only on-way reconciliation. Under I&E's proposal, PPL Electric would retain any over collection of as a reserve for payment of expenses from future storms. Section 1307(e) of the Public Utility Code, however, provides for annual two-way reconciliation, it is not clear that I&E's proposal is authorized by the Public Utility Code.

The parties also contest various specific provisions of the SDER. Their recommendations, however, are unnecessary, would be contrary to normal practice for automatic adjustment clauses, would produce unfair results or are not supported by the cost of service study approved by the Commission in PPL Electric's 2012 base rate case. They therefore should be rejected.

IV. REPLY COMMENTS

A. OCA AND PPLICA HAVE WAIVED THEIR ARGUMENTS THAT A RIDER FOR RECOVERY OF STORM DAMAGE EXPENSES SHOULD NOT BE ESTABLISHED

Despite the substantial controversY involving storm damage expense in PPL Electric's 2012 base rate case, neither OCA nor PPLICA took any position on these issues. Prior to the Rate Case Order, they took no position regarding I&E's proposal that PPL Electric be directed to file a "storm rider" or a reserve account. OCA first expresseD any opinion of the storm damage issue in a Petition for Reconsideration or Clarification that the storm damage collaborative should include consideration of a reserve account.[1]

The Commission has already decided that PPL Electric should submit, as it has, a "rider for recovery of storm damage expenses." Rate Case Order, pp. 37-38. The Commission directed PPL Electric and the other parties to address specific details of how the rider should operate and the specific provisions it should contain. It identified five specific subjects to be resolved in the rider. Rate Case Order, p. 37. Instead of focusing on these issues, as directed by the Commission, OCA and PPLICA have attempted to reopen the resolved issue of whether a "rider for recovery of storm damage expense" should be established.

OCA's and PPLICA's failure to file testimony, briefs, exceptions or replies to exceptions regarding any aspect of the storm damage issue throughout the 2012 PPL Electric base rate proceeding means that OCA and PPLICA have waived their objections to such mechanisms. 52 Pa. Code § 5.536. Their contention, that the SDER should be rejected in total, therefore re should be disregarded.

[1] The Commission granted the Petition in an order entered on February 28, 2013

B. USE OF AN AUTOMATIC ADJUSTMENT CLAUSE TO RECOVER STORM DAMAGE EXPENSES IS LAWFUL

Despite their previous silence on the issue, OCA and PPLICA both argue that PPL Electric's proposed storm damage expenses rider is unlawful. Their arguments are without merit and should be rejected.

Section 1307(a) of the Public Utility Code clearly states that, subject to Commission approval, a public utility may recover certain expenses or classes of expenses though automatic adjustment clauses. Section 1307(a) provides:

> **"General rule.--**Any public utility, except common carriers and those natural gas distributors with gross intrastate annual operating revenues in excess of $40,000,000 with respect to the gas costs of such natural gas distributors, may establish a sliding scale of rates or such other method for the automatic adjustment of the rates of the public utility as shall provide a just and reasonable return on the rate base of such public utility, to be determined upon such equitable or reasonable basis as shall provide such fair return. A tariff showing the scale of rates under such arrangement shall first be filed with the commission, and such tariff, and each rate set out therein, approved by it. The commission may revoke its approval at any time and fix other rates for any such public utility if, after notice and hearing, the commission finds the existing rates unjust or unreasonable."

The plain language of Section 1307(a) clearly provides the Commission with the statutory authority to approve PPL Electric's proposal.

Contrary to OCA's and PPLICA's contentions, the Commission has substantial discretion in determining whether an automatic adjustment clause should be established. In reaching this conclusion, the Commonwealth Court stated:

> Based on the foregoing cases, and keeping in mind that the PUC's interpretation of the Code will not be disturbed unless clearly erroneous, *Popowsky 1997, 550 Pa. at 462, 706 A.2d at 1203*, we find that the PUC has authority under *Section 1307(a) of the Code* to allow NAWC [Newtown Artesian Water Company] to implement the PWAC [Purchased Water Adjustment Clause]. While we recognize that a base rate filing under *Section 1308 of*

> *the Code* is the preferred method for a public utility to recover the costs of providing service, we cannot ignore the fact that the General Assembly envisioned the automatic adjustment of rates in enacting *Section 1307(a) of the Code.*

Popowsky v. Pa. P.U.C., 13 A.3d 583, 591 (Pa. Cmwlth. 2011) (Emphasis in original.) ("*Newtown*").

OCA's and PPLICA's contentions also contrary to Commission practice. Automatic adjustment clauses have been approved for purchased gas costs (*Re: Gas Costs Rate*, 52 Pa. PUC 217 (1978), costs of fossil fuels used to generate electricity (*Pa. P.U.C. v. Pennsylvania Electric Co.*, 45 Pa. PUC 275 (1971); *Pa. P.U.C. v. Pennsylvania Power & Light Co.*, 46 Pa. P.U.C. 33 (1972)), customer education expenses (*Joint Petition of Metropolitan Edison Co. and Pennsylvania Electric Company for their Default Service Plan*, 2009 Pa. PUC LEXIS 1700 (Recommended Decision, Aug. 25, 2009), *aff'd*, Docket No. P-2009-2093053 (Nov. 6, 2009)); customer assistance programs (*Pa. P.U.C. v, Pennsylvania Power Co.*, 1999 Pa. LEXIS 29 (April 1, 1999)), state taxes (*State Tax Procedure,* 44 Pa. PUC 545 (1970)) , competitive transition charges (*Application of Pennsylvania Power & Light Co. for Approval of its Restructuring Plan under Section 2806 of the Public Utility Code*, Docket No. R-00973954, pp. 13-14 (May 21, 1999)), Penn Vest loan repayments (*Pa. P.U.C. v. Rivercrest Public Service Co.*, 68 Pa. PUC 330 (1988)), energy efficiency and conservation charges (*Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company for Consolidation of Proceedings and Approval of Energy Efficiency and Conservation Plans*, 2009 Pa. PUC LEXIS 2255 (Oct. 22, 2009)), smart meter technologies (*Petition of PECO Energy Company for Approval of Smart Meter Technology Procurement and Installation Plan*, 2010 Pa. PUC LEXIS 161; 281 P.U.R.4th 140 (May 6, 2010)), non-utility generation charges (*In re: Application of Metropolitan Edison Company for Approval of Restructuring Plan*, 1998 Pa.

PUC LEXIS 85 (April 24, 1998)), solar voltaic requirement charges (*Joint Petition of Metropolitan Edison Company and Pennsylvania Electric Company for Approval of Their Default Service Programs*, 2009 Pa. PUC LEXIS 2306 (Nov. 6, 2009)), purchased water charges (*Newtown*) and many more. Nothing about storm damage expense distinguishes it from these various other expense items for which the Commission has approved Section 1307 automatic adjustment mechanisms.

Further, OCA's and PPLICA's objections in principle to an automatic adjustment clause for recovery of storm damage expenses fly in the face of the Commission's Rate Case Order. At pages 37 – 38 of the Rate Case Order, the Commission ordered PPL Electric to submit a "rider for storm damage expense recovery." The Commission stated:

> "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 advocate shall include, but not be limited to, the following: (1) provisions for interest on over and undercollections; (2) timing of reconciliation; (3) reporting storm damage expenses and revenues 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...."

The Commission also stated:

> "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."

Thus, the Commission has clearly stated that PPL Electric should establish a "rider for storm damage expense recovery." The purpose of the collaborative and this proceeding is to work out

the specific provisions for such a rider. PPL Electric has submitted the SDER which addresses each and every one of the issues raised by the Commission.

OCA's general objections to use of an automatic adjustment clause for recovery of storm damage expenses are set forth at pages 6 – 11 of its Comments. Initially, OCA contends that the SDER would unlawfully "disassemble" the ratemaking process. OCA contends that automatic adjustment clauses should be used only for expenses that are easily identifiable and beyond the utility's control. *Popowsky v. Pa. P.U.C.*, 869 A.2d 1144, 1160 Pa. Cmwlth. 2005, *appeal denied*, 895 A.2d 552 (Pa. 2006) ("*Popowsky 2005*"); *Pennsylvania Industrial Energy Coalition v. Pa. P.U.C.*, 653 A.2d 1336, 1349 Pa. Cmwlth. 1995, *affirmed per curium* 670 A.2d 1152 (Pa. 1996) ("*PIEC*"); *Newtown*; *Masthope Rapids Property Owners Counsel v. Pa. P.U.C.*, 581 A.2d 994, 1000 (Pa. Cmwlth 1990) ("*Masthope*"). OCA contends that expenses that can be determined to be "just and reasonable" only after extensive analysis can be recovered through an automatic adjustment clause only with specific legislative authorization.

OCA's contentions are without merit. OCA ignores decisions of the Pennsylvania appellate courts holding that automatic adjustment clauses are appropriate when expenses to be recovered through automatic adjustment clauses are substantial, are subject to variation and are beyond the control of the utility. The Courts have reached these conclusions in many of the same cases that OCA cites. *Popowsky 2005*, *PIEC* and *Newtown*. In addition, the Commission has reached the same conclusion. *Pa. P.U.C. v. Philadelphia Thermal Energy Corp.*, Docket No. R-911920, 1991 Pa. P.U.C. LEXIS 80 (May 3, 1991).

Obviously, storm damage expenses can be substantial can vary considerably from year-to-year and are beyond a utility's control. In 2011, PPL Electric's storm damage losses approached $100 million for the year. PPL Electric Statement 14-R, p. 5. In 2009, PPL

Electric's storm damage losses were only $10.4 million. I&E Exhibit 2, Schedule 25, p. 2. It also is obvious that no one can predict the timing or severity of storms.

OCA's contention, that automatic adjustment clauses are lawful only when a simple "cursory, mathematical" review is adequate to determine whether a surcharge is "just and reasonable," is neither realistic nor consistent with precedent. OCA admits that the State Tax Adjustment Surcharge ("STAS") is appropriate. OCA Comments, p. 6. State Corporate Net Income Taxes, Public Utility Realty Taxes, Gross receipts Tax, and Capital Stock Tax changes are recovered through the STAS. Surely, calculation of all of these taxes is not a simple matter, and the examination of all of the underlying data used in the tax calculation would require a full audit of a utility's total operations.

Similarly, for many years, electric utilities recovered fuel costs under an automatic adjustment clause, the Fuel Adjustment Clause ("FAC"),[2] even though such matters included costs of various grades of fuel oil, natural gas, manufactured gas, propane and various grades of coal, as well as transportation of fuels by truck, pipeline, barge, and rail and choices among these many options. Despite the complexity of the data used to compute the FAC, it was established pursuant to a statutory provision identical[3] to Section 1307(a) of the Public Utility Code, which provides the authority for the SDER. Therefore, costs of fuel for generating electricity were recovered through an automatic adjustment clause without specific statutory authorization before Section 307(c) of the Public Utility Law was adopted in 1975.

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[2] Automatic adjustments clauses for electric fuel costs were in effect for many electric utilities before Subsections 1307(c), specifically dealing with fuel cost adjustment clauses, was added to the Public Utility Law in 1975. Act of July 30, 1975, P.L. 151, No. 76, § 1. *See e.g., Pa. P.U.C. v. Pennsylvania Electric Co.*, 45 Pa. PUC 275 (1971).

[3] The statutory predecessor of the present Section 1307(a) of the Public Utility Code is Section 307(a) of the Public Utility Law, 66 P.S. § 1147(a).

Likewise, the Gas Cost Rate ("GCR") was established based on the statutory predecessor of Section 1307 of the present Public Utility Code, long before Section 1307(f) specifically addressing recovery of purchased gas costs, was adopted in 1984. Act of May 31, 1984, P.L. 370, No. 74. The GCR was established in 1978. 52 Pa. PUC 217 (1978).[4] Like the FCAC, the GCR involved complex determinations. Costs included purchases of natural gas from interstate pipelines, synthetic natural gas, local production, propane and choices among suppliers. Nevertheless, purchased gas costs were recovered through an automatic adjustment clause without specific statutory authorization for a gas cost automatic adjustment clause.

More recently, the Commission has approved automatic adjustment clauses that require extensive investigation to determine the justness and reasonableness of rates. The Transmission Service Charge requires determination of the total revenue requirement for transmission service, allocations to others using transmission services from PPL Electric's facilities, allocation of PPL Electric's portion of the revenue requirement among rate classes and final computation of rates. The Generation Service Charge requires determinations total costs of generation supplies from many different suppliers under different contracts purchased by PPL Electric in order to provide default service and allocation of those costs among rate classes. Determining charges under the Universal Service Rider requires determination of all costs of PPL Electric's several universal service programs (excluding internal administrative costs) from all of the various organizations, including Community Based Organizations and contractors who furnish conservation and energy efficiency services. One cannot simply sit at a desk and check arithmetic to determine that charges under these automatic adjustment clauses are just and reasonable.

[4] The GCR was established under Section 307(b) of the Public Utility Law, 66 P.S. § 1147(b) for mandatory automatic adjustment clauses. Prior to that time, automatic adjustment clauses for recovery of purchased gas costs were established on a company-by-company basis and contained in each company's tariff.

Further, the cases OCA cites, when examined, do not support its conclusion. Although the Pennsylvania Commonwealth Court rejected an automatic adjustment clause for recovery of revenue requirements from sewage collection system improvements in *Popowsky 2005*, the principal reason for the Court's ruling was that the surcharge provided for recovery of capital costs without a determination of whether the underlying facilities were "used and useful" in the furnishing of public utility service. The Court concluded that capital costs may not be recovered through an automatic adjustment clause without specific legislative authorization. This concern does not apply to the SDER because all capitalized costs are expressly excluded from SDER recovery. SDER, p. 19Z.20.

In *PIEC*, the Commonwealth Court approved the use of an automatic adjustment clause to recover expenses of demand side management programs, except that the Court ruled, as it did in *Popowski 2005*, that capital costs could not be recovered through an automatic adjustment clause without specific legislative authorization. As explained above, this ruling does not apply to the SDER.

Similarly, in *Masthope*, the water company filed with the Commission for expedited rate relief under Section 1307 of the Public Utility Code for a rate increase equal to the amounts required to repay a loan from the Water Facilities Loan Board. The Commonwealth Court concluded, however, that the water company failed to meet the requirements of the Water Facilities Restoration Act, 32 Pa.C.S. § 7501-18 for expedited rate relief. Section 7518 requires the Commission to establish expedited procedures for rate increases that are "necessary and appropriate" for the repayment of the loans. Such increases, however, are not to be "greater than necessary to accomplish the repayment of loans made pursuant to this chapter." The Commonwealth Court decided that all of the provisions of the Public Utility Code apply to

requests for expedited treatment of proposed rate increases for recovery of principal and interest payments on Water Act loans. The Commonwealth Court then held that an investigation under Section 1308 was required to make certain that a rate increase was necessary for the repayment of the loan, and therefore, the water company was not automatically entitled to an automatic adjustment clause under Section 1307 of the Public Utility Code to produce amounts equal to the required repayments of principal and interest of the loan. Clearly, however, the procedures under the Water Facilities Restoration Act do not apply to the SDER.

In *Newtown*, the Commonwealth Court approved use of an automatic adjustment clause to recover costs incurred by a water utility in purchasing water supplies from other providers. In reaching this conclusion, the Court stated:

> Based on the foregoing cases, and keeping in mind that the PUC's interpretation of the Code will not be disturbed unless clearly erroneous, *Popowsky 1997, 550 Pa. at 462, 706 A.2d at 1203*, we find that the PUC has authority under *Section 1307(a) of the Code* to allow NAWC [Newtown Artesian Water Company] to implement the PWAC [Purchased Water Adjustment Clause]. While we recognize that a base rate filing under *Section 1308 of the Code* is the preferred method for a public utility to recover the costs of providing service, we cannot ignore the fact that the General Assembly envisioned the automatic adjustment of rates in enacting *Section 1307(a) of the Code.*

Newtown, 13 A.3d at 591. The Commission clearly has the authority to approve an automatic adjustment clause for recovery of storm damage expenses.

OCA also argues that establishing an automatic adjustment clause for storm damage expenses would represent impermissible retroactive or single-issue ratemaking. OCA Comments, p. 8. OCA's argument is misplaced. Every automatic adjustment clause is designed to provide for recovery of a single expense or single group of expenses. Yet establishing an automatic adjustment clause has never been considered "single issue" rate making. Further,

establishing an automatic adjustment clause to address a single expense or a group of expenses is expressly authorized under Section 1307 of the Public Utility Code, 66 Pa.C.S. § 1307.

In making this argument, OCA is confusing standards for base rate recovery of "extraordinary" expenses with standards for establishing an automatic adjustment clause. As OCA admits, extraordinary expenses are those which are generally non-recurring. OCA Comments, p. 8. Obviously, this standard does not apply to recovery of expenses under automatic adjustment clauses since expenses properly recovered through those clauses include recurring expenses such as purchased gas costs, costs of fuels for generating electricity, and state taxes. Other examples of recurring costs recovered through automatic adjustment clauses include merchant function costs, universal service, costs of purchasing generation supplies, costs of providing transmission service, *etc.* Clearly, all of these expenses are "recurring." Further, even if the requirement that expenses be "extraordinary" were to apply to recovery of storm damage expenses through an automatic adjustment clause, the Pennsylvania appellate courts and the Commission have held on numerous occasions that storm damage expenses meet that criteria. *Pa. P.U.C. v. The Bell Telephone Co.*, 55 Pa. P.U.C. 97, 109-10 (1981) (hurricane); *Pa. P.U.C. v. Pennsylvania Gas & Water Co.* 57 Pa. PUC 204, 229 (1983) (freezing); *Pa. P.U.C. v. Pennsylvania Gas & Water Co.*, 42 Pa. PUC 77, 102 (1978) (flooding from a hurricane).

In arguing that recovery of storm damage expenses through an automatic adjustment clause would constitute retroactive, single issue ratemaking, OCA cites the Recommended Decision in *Pa. P.U.C. v. Med-Ed, et al. Merger Savings Remand Proceeding*, Pa. PUC Lexis 116 *1 (2006) as well as the Commission Order at Docket No. R-00061366, p. 177 (Jan. 11, 2007) ("*Met-Ed*"). Significantly, however, in that proceeding, the public utilities abandoned their proposal for a storm damage automatic adjustment clause before the case reached the

Commission. As a result, they did not submit exceptions to the ALJ's recommendation that the clause be rejected. Further, in this proceeding, unlike *Met-Ed*, there is substantial evidence explaining the extreme variability of storm damage expenses in recent years and the fact that storm damage expenses have been so unpredictable and so substantial that commercial insurance is simply not available. *Met-Ed* has no precedential value.

OCA's contentions regarding retroactive and single-issue ratemaking are without merit. Contrary to OCA's contentions, the SDER is lawful and is authorized under Section 1307(a) of the Public Utility Code.

C. USE OF AN AUTOMATIC ADJUSTMENT CLAUSE TO RECOVER STORM DAMAGE EXPENSES IS APPROPRIATE

OCA and PPLICA argue that the SDER is contrary to sound ratemaking principles and the public interest. As explained below, the SDER is consistent with sound ratemaking principles and in the public interest.

More importantly, OCA's and PPLICA's argument is fundamentally at odds with relevant precedent which is summarized above. Storm damage expenses clearly meet the three-part test that automatic adjustment expenses be substantial, variable and beyond the utility's control. It is consistent with Commission practice which has approved many automatic adjustment clauses in the past. Storm damage expense is an ideal candidate for an automatic adjustment clause.

Both OCA and PPLICA contend that the review process for recovery of storm damages under the SDER is inadequate to provide interested persons with an adequate opportunity to investigate the reasonableness of the storm damage expenses incurred by PPL Electric. OCA Comments, pp. 7-8; PPLICA Comments, p. 5. OCA's and PPLICA's concerns are incorrect. If OCA's and PPLICA's concerns were valid, there would be no automatic adjustment clauses.

The essence of a Section 1307 automatic adjustment clause is that initially there is a cursory review in order to permit timely recovery in rates of a specific identifiable expense item with a more comprehensive analysis upon reconciliation of actual costs with previously projected costs used to establish the effective rate. The initial process is essentially a mathematical review followed by a more comprehensive analysis on reconciliation. *Masthope Rapids Property Owners Counsel v. Pa. P.U.C.*, 581 A.2d 994, 1000 (Pa. Cmwlth. 1990). Automatic adjustment clauses have been around as long as the Commission and its predecessors. They were authorized under the original Public Service Company Law, Act of July 26, 1913, P.L. 1374, No. 854, art. III, § 1, effective January 1, 1914.

Contrary to OCA's and PPLICA's contentions, however, the Pennsylvania Supreme Court has determined that the review process set forth in Section 1307 of the Public Utility Code is adequate and meets due process requirements. The Court concluded that the reconciliation proceeding allows an adequate opportunity for participation by all interested parties. Further, through refunds with interest, the statute provides an adequate remedy if the Commission were to determine that recoveries under the automatic adjustment clause were excessive. *Allegheny Ludlum Steel Corp. v. Pa. P.U.C.*, 459 A.2d 1218, 501 Pa. 71 (1983) ("*Allegheny Ludlum*"). In that proceeding, the Court considered recoveries by West Penn Power Company of costs of fossil fuels under the Energy Cost Rate ("ECR"). As explained above, the determination of the ECR is a complex matter taking into consideration costs of different fossil fuels from many different suppliers, choices among such fuels, alternate modes of transporting coal to generating stations and fuel handling and waste disposal of certain fuels.

In arguing for a cap on the SDER, PPLICA complains again about its perceived need for further review of the prudence of storm damage expenses. PPLICA Comments, pp. 9-10.

PPLICA's concerns are unwarranted for several reasons. First, the categories of storm damage expenses to be recovered through the SDER have been carefully defined. SDER, p. 19Z.20. Recoverable costs are only those resulting from direct physical loss or damage to property from Commission-reportable storms. Recoverable expenses include only those incurred to remediate storm damage, excluding straight time wages and benefits, expenses reimbursed by others and capitalized costs. Both the SDER and the Public Utility Code provide for an initial "mathematical" review of SDER filings but more importantly, they also provide for a more detailed after-the-fact review of expenses and revenues during the annual reconciliation proceeding. Such review is provided for in the SDER, at p. 19Z.24; as well as in the Public Utility Code, 66 Pa.C.S. § 1307(e).

It must be noted also that customers have remedies in addition to participation in the annual reconciliation proceeding. If a customer is concerned regarding PPL Electric's rates established under the SDER, the customer may file a complaint pursuant to Section 701 of the Public Utility Code, 66 Pa.C.S. § 701. Customers and their representatives have adequate protections under the Public Utility Code regarding automatic adjustment clauses.

PPLICA also argues that storm damage expenses should not be recoverable through an automatic adjustment clause because it is "unclear" whether storm damage expenses are beyond its control. PPLICA claims that PPL Electric "may possess significant discretion in controlling the costs of responding to storm events." PPLICA Comments, p. 4. PPLICA's argument is without merit. Even PPLICA's language describing its concern evidences its lack of conviction in its argument. Its concerns are expressed in speculative terms of "unclear" and "may."

In support of its contention, PPLICA argues that PPL Electric can control storm damage expenses by refusing to hire outside contractors and by restricting its employees to conduct

restoration activities during straight time hours so that overtime compensation is avoided. PPLICA Comments, p. 5. Of course, the result of such inaction by an electric distribution company in restoring service after a storm would result in extended power outages. Such inaction by PPL Electric or any other public utility would be directly contrary to their obligations under Section 1501 of the Public Utility Code, 66 Pa.C.S. § 1501, to provide safe, adequate and reliable service that is reasonably continuous and without unreasonable interruptions or delay. Certainly, extended power outages after a storm resulting from an electric distribution company's unwillingness to spend the funds reasonably required to restore service would meet a very unfavorable reaction from regulators. It is to be emphasized also that there is no basis in fact for PPLICA's argument. No party to this proceeding has produced any evidence that PPL Electric's efforts to restore service after storms have been inadequate in any way.[5]

Given its statutory obligation to provide reasonable continuous service without unreasonable interruptions or delays, PPL Electric cannot refuse to take all reasonable steps necessary to restore service promptly after an outage. PPL Electric's response to storm outages is far less discretionary than PPLICA's speculates. PPLICA's contention is without merit and contrary to public policy. Indeed, the SDER is consistent with PPL Electric's obligation to take all appropriate steps to restore service after storms because it will provide for prompt and full recovery of expenses of storm remediation. Under the present base rate deferral and amortization, PPL Electric can wait for as much as seven years to completely recover storm damage expenses.

[5] Indeed, utilities' efforts to restore service after Hurricane Sandy were praised by the Commission. Commission Press Release: Positive Story in hurricane Sandy Response, Examination and Steps to Improve Response Continues (Nov. 15, 2012).

D. I&E'S PROPOSED RESERVE ACCOUNT RIDER SHOULD NOT BE APPROVED

I&E's submitted a proposed Storm Damage Reserve Rider ("Reserve Rider"). I&E Comments, Attachment 1. I&E's SDRR differs from PPL Electric's proposed SDER in several ways. Most fundamentally, however, I&E opposes the creation of a fully reconcilable rider under Section 1307(e) of the Public Utility Code. Instead, I&E proposes that PPL Electric be required to establish a reserve account for recovery of storm damage expenses. I&E Comments, pp. 14-23. Under I&E's proposal, to the extent that storm damage expenses exceed the Revenue or R Factor in the formula for calculating SDER charges, rates would be adjusted annually to provide for recovery of such under collections. However, to the extent that revenues exceed storm damage expense for a particular application year, such over collected amounts would accumulate over time and be used to offset future storm damage expenses.

The principal problem with I&E's proposed Reserve Rider is that it is uncertain whether it is authorized under the Public Utility Code. Two provisions of the Public Utility Code Sections 1307 and 1308, authorize changes in rates for electric distribution companies. Section 1308 provides for voluntary changes following prior notice to the Commission and the possibility of Commission investigations prior to rate changes. Rates established in a Section 1308 base rate proceeding are established prospectively and cannot be changed except through the filing of a new Section 1308 rate case. Single issue ratemaking, *i.e.,* rate adjustments between cases for single expense items generally are not permitted under Section 1308.

Section 1307, by contrast, authorizes rate changes for individual expense items. Section 1307, however, contains no provision that authorizes the accumulation of balances over time. Instead, over and under collections of costs recovered through automatic adjustment clauses

must be recovered from or flowed back to customers, as appropriate over a succeeding twelve-month period. Specifically, Section 1307(e)(3) provides that:

> "Absent good reason being shown to the contrary, the Commission shall, within sixty days following such hearing, by order direct each such public utility to, over an appropriate 12-month period, refund to its patrons an amount equal to that by which its revenues received pursuant to such automatic adjustment clause exceeded the amount of such expense or class of expenses, or recover from its patrons an amount equal to that by which such expense or class of expenses exceeded the revenues received pursuant to such automatic adjustment clause."

Although I&E's proposed Reserve Rider would reconcile undercollections of storm damage expenses annually, it does not provide for annual reconciliation of overcollections. PPL Electric is not aware of any Commission decision authoring such "one-way" reconciliation, and I&E has not cited any such Commission action in its Comments. No provision of the Public Utility Code, including Section 1307, specifically authorizes automatic adjustment clauses without full, two-way reconciliation to eliminate accumulated balances of revenues or expenses at least annually. Consequently, there is some uncertainty regarding the lawfulness of I&E's proposal. The Commission presumably could find a "good reason" for one-way reconciliation and approve I&E's proposal under the exception to Section 1307(e)(3)oted above. However, neither the Commission nor the appellate courts have interpreted the phrase "[a]bsent good reason being shown to the contrary," in the context of Section 1307(a). Therefore, its meaning is uncertain. The safer and more prudent course in PPL Electric's view would be to approve PPL Electric's SDER which clearly omplies with Section 1307(e).

Because I&E's proposed SDRR raises concerns of legality under the Pennsylvania Public Utility Code, I&E's references to actions in other states under different laws do not provide support for its proposal. I&E's proposed automatic adjustment with one-way annual reconciliation should be rejected.

One other contention of I&E requires response. I&E claims that its Reserve Rider proposal was fully "vetted" in the 2012 base rate case. I&E Comments, pp. 13-14. I&E's contention is incorrect. In the record in the 2012 base rate case, I&E makes only vague references to a reserve account and a FERC account. A reserve account is a term that can apply to a regulated or unregulated entity. It provides no insight into how the account would be funded. More specifically, I&E made no proposal regarding amortization periods, interest, "one-way" reconciliation, interim adjustments or any of the many other specific details necessary to create a tariff provision regarding recovery of storm damage expenses.

E. OCA'S, PPLICA'S AND I&E'S OBJECTIONS TO SPECIFIC PROVISIONS OF THE SDER ARE WITHOUT MERIT.

1. Two-Way Interest Should Be Allowed On Over And Under Recoveries Of Storm Damage Expenses.

In addition to challenging the SDER on grounds of legality and policy, OCA, PPLICA and I&E challenge certain specific provisions of PPL Electric's SDER. For the reasons explained below, such challenges should be rejected.

PPL Electric's SDER provides for two-way, even-handed interest. The SDER provides that ratepayers will pay PPL Electric interest on under recoveries of storm damage expenses, and PPL Electric will pay interest to ratepayers on over recoveries of storm damage expenses.

Under PPL Electric's proposal, interest paid by ratepayers and interest received by ratepayers will be calculated at the average rate of interest for residential mortgage lending published 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.

OCA contends that PPL Electric's SDER should not provide for any payment of interest. OCA Comments, pp. 14-15. OCA argues generally that interest should not be allowed because PPL Electric does not recover interest on unamortized balances of storm damage expenses

recovered through base rates. OCA's Comments ignore the fact that the Commission directed PPL Electric to file a storm damage rider, not a proposal to continue to recover storm damage expenses through base rates. Typically, riders under Section 1307 of the Public Utility Code, 66 Pa.C.S. § 1307 provide for payment or recovery of interest on over or under recoveries of expenses. Further, at least in recent years, it is typical for interest to be calculated on over and under recovered balances in automatic adjustment clauses established under Section 1307 of the Public Utility Code. Using as an example PPL Electric's tariff, provision for payment or recovery of interest is included in the Universal Service Rider, the Transmission Service Charge, the Generation Supply Charge One, the Generation Supply Charge Two, the Act 129 Compliance Rider, and the Smart Meter Rider. *See, generally,* Tariff – Electric Pa. P.U.C. No. 201.

Virtually all recent automatic adjustment clauses provide for two-way interest. There is no valid reason to deny interest on SDER balances, especially because the Company may be amortizing large balances over multiple years.

It must be observed also that OCA's proposal for no interest under the SDER is not even-handed. If PPL Electric overcollects storm damage expenses, the overcollection is refunded to customers in the next annual application period. Conversely, if PPL Electric experiences a major storm event, the resulting expenses will be deferred and amortized over multiple years. That is, PPL Electric would experience a loss of the time value of money over multiple years, whereas customers would experience the loss for only one year. OCA's proposal on interest would lead to unfair results and should be rejected.

I&E's position on interest on over and under recoveries of storm damage expenses also should be rejected. I&E proposes that no interest be allowed on either over or under recoveries,

even on deferred balances being amortized over a multi-year periods. Similarly, I&E does not propose payment of interest by PPL Electric on over recoveries of storm damage expenses, which could accumulate under I&E's Reserve Rider approach. As explained previously, under I&E's proposed one-way annual reconciliation, if PPL Electric and its customers were to experience a series of years with little storm damage, substantial balances could accumulate in the reserve account. I&E would allow PPL Electric to benefit from the time value of holding customers' money by either investing or by reducing interest expense by paying down debt balances. Conversely, if PPL Electric were to experience substantial storm damages in a given year and incur expenses far greater than revenues for recovery of storm damage expenses, PPL Electric would not be permitted to recover interest expense from customers.

The fundamental problem with I&E's proposal on interest is that it is contrary to economic reality. Under I&E's proposal, PPL Electric would be allowed to benefit from the time value of money even when it is holding ratepayers' money for payment of future storm damage expenses. Conversely, if PPL Electric were to incur substantial storm damage expenses and be out-of-pocket substantial sums of money, it needs to recover interest to make itself whole. Yet when the Company needs interest, it would not be allowed to recover it. I&E's proposed treatment of interest should be rejected because it would produce inequitable results.

2. The SDER Will Not Burden Customers.

PPLICA contends that the SDER, together with other automatic adjustment clauses, could "over burden" customers. PPLICA Comments, p. 6. PPLICA's contention should be rejected. Contrary to PPLICA's contention, all of PPL Electric's surcharges provide for a dollar-for-dollar recovery of the expenses subject to the surcharge. They provide for an accurate and timely recovery of costs so that customers pay for actual expenses of providing service, no more and no less. The result of the SDER will be that the public utility recovers, and customers pay,

exactly what they would have paid through base rates if extraordinary events such as storms and resulting expenses could be predicted accurately. PPL Electric's proposed SDER will not burden customers.

3. There Is No Need For Further Review Of Cost Allocations Or Projected Charges Under The SDER.

PPLICA contends that the Commission should not approve PPL Electric's SDER until parties have had an opportunity to review the allocations of storm damage expenses among the rate classes under the SDER and the charges projected to be assessed beyond the initial SDER. PPLICA Comments, pp. 6-8. PPLICA's arguments are without basis.

In contending that parties should have an opportunity to review allocation of storm damage expenses under the SDER, PPLICA ignores the fact that it already has had that opportunity. The SDER provides, at page 19Z.22, as follows:

> "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.**" (Emphasis added.)

Because PPL Electric proposes to allocate storm damage expenses among rate classes using the allocators approved by the Commission in PPL Electric's 2012 base rate proceeding at Docket No. R-2012-2290597, PPLICA and other parties to that proceeding had a full opportunity to review those factors. Indeed, PPLICA produced testimony in support of PPL Electric's cost of service study. Rate Case Order, p. 116. Further, in that proceeding, storm damage expenses from the major snow storms during 2011, Hurricane Irene and the October Snow Storm, were allocated among the rate classes using the cost of service study. Rate Case Order, p. 35.

Therefore, in PPL Electric's 2012 base rate proceeding, PPLICA had a full opportunity to examine the allocators that will be applied to storm damage expenses under the SDER. PPLICA

reviewed and supported the cost of service study and the manner in which it was actually applied to historic storm damage expenses. Most significantly, PPLICA supported PPL Electric's cost of service study, including the allocation of storm damage expenses therein. Rate Case Order, p. 116.

PPLICA's contention that parties should have had opportunity to review "projected" charges to be assessed beyond the initial SDER period, makes no sense. The problem with storm damage expenses is that they cannot be predicted. That is exactly why it is appropriate to recover such expenses through an automatic adjustment clause. Neither PPL Electric nor others can predict with any accuracy the timing of storms or their severity. For this reason, PPL Electric does not propose to use projections of storm damage expenses to establish the SDER charges. Instead, such charges will be based primarily upon actual expenses during the preceding twelve-month period. Original page number 19Z.21 of Supplement No. 130.

4. Customers Receiving Service At Transmission Voltages Should Not Be Exempted From The SDER.

PPLICA's proposal to exempt customers receiving service at transmission voltage levels should be rejected. PPLICA Comments, p. 8. PPLICA's contentions are inconsistent. Elsewhere, PPLICA supports application of PPL Electric's cost of service study to the allocation of storm damage expenses. PPLICA Comments, p. 7. Further, as explained above, PPLICA supported PPL Electric's cost of service study in the base rate proceeding. Rate Case Order, p. 116. As also explained above, PPL Electric proposes to allocate storm damage expenses among rate classes using the cost of service study in PPL Electric's most recent base rate proceeding. SDER, p. 19Z.22. The Commission approved and PPLICA supported this cost of service study.

PPLICA then makes an abrupt turn and objects to allocation of any storm damage expenses to customers taking service at transmission voltages based on the same cost of service

study that it supported in the 2012 base rate case. PPLICA's inconsistent contentions should be rejected, especially where PPLICA acknowledges that application of the cost of service study will result in allocation of only "nominal" expenses to customers receiving service at transmission voltages. PPLICA Comments, p. 8. PPLICA's contention to abandon the cost of service study regarding customers taking service at transmission voltages should be rejected.

5. There Is No Need For A Cap On The SDER

PPLICA contends next that the Commission should impose an unspecified cap on the SDER. PPLICA Comments, pp. 9-10. PPLICA's proposal is unnecessary and contrary to the purpose of the SDER. The problem with a cap as proposed by PPLICA is that there is no "cap" on the amount of damage that can be caused to PPL Electric's facilities or on the number of customers whose service is interrupted by storms. Because such storms are unpredictable and uncontrollable, a cap would interfere with the goal of the SDER to provide for accurate and timely recovery of storm damage expenses. Further, a cap on the SDER is not necessary because changes in levels of charges under the SDER is limited by PPL Electric's proposal to amortize expenses from major storm events over three years.

PPLICA's arguments regarding the adequacy of the opportunity to review SDER filings and charges are addressed above. There is no need for a cap on the SDER, and having one would interfere with its fundamental purpose.

6. The SDER Properly Proposes To Amortize "Major" Storm Events."

OCA also objects to PPL Electric's proposal to amortize damages from "major storms" over three years. OCA seems to prefer the traditional approach of treating expenses from "extraordinary" storms differently from most base rate expenses. In making these arguments, OCA really is expressing its preference for a continuation of the base rate deferral and amortization approach for extraordinary storm damage expenses. OCA Comments, pp. 11-14.

The appropriateness of using an automatic adjustment clause for recovery of expenses from reportable storms is explained above. Here PPL Electric will explain the reasons for using the term "major storm event" to define expenses that will be amortized.

The major problem with using the term "extraordinary" in an automatic adjustment clause to define expenses that will be amortized is that the term "extraordinary" is not defined. Neither the public utility nor its customers knows with certainty whether a storm is "extraordinary" until the Commission has made a ruling on the issue. In order to administer an automatic adjustment clause for recovery of storm damage expenses, PPL Electric has to know whether damage from a particular storm will be amortized or recovered in one year.

In contrast to the term "extraordinary," the term "major storm event" is defined in the Commission's regulations as those causing interruptions of electric service to at least 10 percent of PPL Electric's customers during the course of the event for duration of five minutes or greater. 52 Pa. Code § 57.192. This is the definition incorporated into the SDER. SDER, p. 19Z.21. In proposing to use the term "major storm event" to define expenses to be amortized, PPL Electric was seeking a definition that is commonly used, easy to apply and generally accepted. To PPL Electric's knowledge, this regulation has been applied consistently by electric distribution companies and the Commission since it was adopted in 1998 (28 Pa. Bulletin 3385 (July 18, 1998) without difficulty or controversy. Therefore, it is suitable for use in the SDER.

OCA next complains that it is theoretically possible that storm damage expenses from a major storm event may be less than the $14.7 million currently reflected in base rates. Although that result may be theoretically possible, it is unlikely. More importantly, however, if PPL Electric's recoverable storm damage expenses in any year were to be less than the $14.7 million

in rates, the difference is returned to customers during the following application period, with interest. Therefore, OCA's concerns are unfounded.

PPL Electric notes that a definition tied to the number of customers interrupted and length of interruptions will be much easier to administer than an alternative using an amount of expenses. In fact, PPL Electric does not know the precise amount of expenses resulting from a storm for several months after the storm has occurred. When restoring service from large storms, PPL Electric, like other electric distribution companies, uses the services of outside contractors and mutual aid from other utilities. Precise storm damage expenses are not known until all invoices are received from all service providers and such invoices are reviewed by PPL Electric to confirm that they are properly categorized as recoverable storm damage expenses. For example, if PPL Electric experienced a large storm in November and if a specific amount of money were used to define expenses to be deferred, PPL Electric might not know whether the resulting expenses are to be amortized until after rates for the following application year are established and being charged to customers. In contrast, the number of customers interrupted and the length of interruptions is known with certainty shortly after a storm.

OCA's real concern seems not to be use of the term "major storm event" to define expenses to be amortized. Instead, OCA wishes to cling to the former practice of filing petitions with the Commission for authorization to defer storm damage expenses for later recovery in rates following the Company's next base rate proceeding. In making the contention, OCA ignores the fact that storm damages, especially in recent years, have imposed severe financial burdens on PPL Electric due to the frequency and severity of large storms. It is unreasonable for PPL Electric to be expected to pay for all expenses of restoring service following a storm but wait until the conclusion of its next base rate proceeding in order to commence a multi-year

amortization of such expenses in the base-ratemaking process. For the reasons explained previously, the base-rate deferral and amortization method of dealing with storm damage expenses has become unwieldy and untimely and unnecessary.

7. Expenses From Major Storm Events Should Be Amortized Over Three Years.

OCA next complains that the amortization period for major storm damage expenses should be greater than three years, as proposed by PPL Electric in the SDER period. OCA Comments, p. 13. I&E also raises this contention. I&E Comments, pp. 23-26.

In support of their contentions, OCA and I&E observe that, under the base-rate deferral and amortization treatment of storm damage expenses, the Commission amortized storm damage expenses over longer periods. OCA and I&E are factually correct, but they fail to recognize impact of the loss of storm insurance. Prior to 2013, PPL Electric recovered a substantial portion of its storm damage expenses from its insurance carriers in a relatively short period of time, roughly one year. In contrast, under the base-rate deferral and amortization treatment of storm damage expenses, recovery is delayed for many years. For example, Hurricane Sandy occurred in October, 2012, during the future test year in PPL Electric's 2012 base rate proceeding. Assuming hypothetically that PPL Electric files its next base rate case in March, 2014. PPL Electric would commence recovery of Hurricane Sandy expenses over five years in January, 2015. Recovery could not be complete until December, 2019, more than seven years after Hurricane Sandy struck. If the next base rate case is deferred, full recovery of Hurricane Sandy costs will be further delayed. With storm damage insurance, only a portion of PPL Electric's storm damage expenses were amortized over longer periods and the financial burden caused by such expenses was eased. Now that storm damage insurance is no longer available, PPL Electric has lost this benefit and now must bear the full brunt of delayed recovery of storm damage

expenses without the benefit of insurance coverage. Therefore, continuing the five-year amortization period for amortization of storm damage expense would have a far greater financial impact on PPL Electric. For example, for 2011, PPL Electric received $26.5 million in reimbursements from its insurers. Due to the change in circumstances in recovery of storm damage expenses, a three-year amortization period is appropriate. Further, use of a five-year instead of a three-year amortization period would make application of interest to deferred balances that much more important.

I&E, in its Comments, observes that use of a three-year amortization period will increase rate volatility. I&E Comments, pp. 23-26. I&E provides calculations in support of its contention. I&E Comments, Attachment B. Of course, I&E is mathematically correct that a shorter amortization period will increase changes in rates. I&E expresses the change in percentages. In evaluating customer impacts, however, it is important to consider not only percentages but also amounts. According to I&E's calculations, the difference to the average residential customer of amortizing Hurricane Sandy expenses over three years instead of five years is $2.24 per year ($16.05 - $13.81) or $.187 per month. The difference in the rates is $0.00020 per kWh. ($0.0014342/kWh - $0.0012336/kWh). It should be noted also that I&E, in making these calculations does not consider the impact of interest. If interest were included in the calculation, the difference would be even smaller. The difference in amounts charged to the average residential by amortizing storm damage expenses over five instead of three years is not substantial. The period for amortizing expenses from major storm events should be three years as proposed by PPL Electric and not five years are proposed by I&E.

8. Interim Adjustments To The SDER Should Be Permitted.

I&E opposes interim adjustments to the SDER. I&E Comments, pp. 27-28. Contrary to I&E's position, interim adjustments should be permitted. PPL Electric notes that, under its

proposal, if the SDER charge were left unchanged, it would result in a material over or under collection of storm damage expenses, PPL Electric would be permitted to **file** with the Commission a **request** for an interim revision. SDER, p. 19Z.24.

Interim adjustments should be permitted. Automatic adjustment clauses have been subject to interim changes when circumstances have materially changed. For example, before the Commission's regulations requiring quarterly updates to rates for recovery of purchased gas costs became effective in 1995 (25 Pa. Bulletin 1411 (June 14, 1995)), natural gas distribution companies, from time to time filed with the Commission requests for interim changes to rates for recovery of purchased gas costs when natural gas prices increased or decreased materially. PPL Electric understands that such interim changes can be beneficial to the utility and to its customers by reducing the amounts of E Factor adjustments in future periods. Further, the Commission adopted regulations regarding recovery of purchased gas costs through an automatic adjustment clause that mandates quarterly adjustment of purchased gas cost rates. 52 Pa. Code § 53.64(i)(5). The Fuel Adjustment Clause was also subject to interim adjustments. *Pa. P.U.C. v. Pennsylvania Electric Co.*, 45 Pa. PUC 275 (1971). More recently, the Commission approved tariff provisions authorizing interim adjustments for PPL Electric's Transmission Service Charges (PPL - Electric Tariff 201, p. 19Z.1), Universal Service Rider (PPL - Electric Tariff 201, p. 18), Act 129 Compliance Rider (PPL - Electric Tariff 201, p. 18), Smart Meter Rider (PPL - Electric Tariff 201, p. 13), and Competitive Enhancement Rider (PPL - Electric Tariff 201, p. 15).

It is to be emphasized that PPL Electric anticipates that interim adjustments would be the exception and not the rule. Such adjustments would be reserved for only situations in which an interim adjustment would be appropriate to moderate future rate changes. Moreover, as

indicated by the tariff language quoted above, any such adjustment would be submitted as a requires subject to review and approval by the Commission.

Finally, it does not appear that I&E opposes the possibility of interim relief. I&E simply argues that authorization for submission of request for interim relief should not be built into the tariff. I&E Comments, p. 28. PPL Electric, in contrast, believes that, if such requests are permitted, they should be recognized in the tariff so that there is no initial issue with regard to the permissibility of the request. The only issue should be whether the request should be approved.

9. Recovery Of Hurricane Sandy Expenses Through The SDER Should Be Permitted.

OCA argues that expenses incurred to remediate damages caused by Hurricane Sandy should be recovered through the former base rate deferral and amortization methodology. Contrary to OCA's argument, there is no need for Hurricane Sandy expenses to await PPL Electric's next base rate case. Such expenses can easily and properly be included in the calculation of the SDER rate for 2014 and beyond.

The proposed SDER provides for recovery of expenses from Hurricane Sandy that occurred in 2012. PPL Electric has provided for recovery of such expenses through the SDER due to the requirement in the Commission's Hurricane Sandy deferral order in *Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage,* at Docket No. P-2012-2338996, page 4 (February 14 (2013) that "PPL Electric shall claim the deferred expenses at its first available opportunity." PPL Electric 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.

If the Commission prefers that expenses from Hurricane Sandy be recovered by PPL Electric be recovered through the base rate deferral and amortization method, the Commission should clarify that this proceeding is not PPL Electric's "first available opportunity" to recover such expenses.

V. CONCLUSION

For all the foregoing reasons, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve the Storm Damage Expense Rider as set forth in Supplement No. 130 to Tariff – Electric Pa. P.U.C. No. 201.

Respectfully submitted,

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