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December 16, 2013

VIA ELECTRONIC FILING

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

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

Dear Secretary Chiavetta:

Enclosed for filing are the Comments of PPL Electric Utilities Corporation in Response to the Commission's Order Entered on November 15, 2013, Regarding the Storm Damage Expense Rider, for the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

David B. MacGregor

DBM/jl
Enclosures

cc: Honorable Susan D. Colwell
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: December 16, 2013

David B. MacGregor

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF PPL ELECTRIC UTILITIES CORPORATION IN RESPONSE TO THE COMMISSION'S ORDER ENTERED ON NOVEMBER 15, 2013, REGARDING THE STORM DAMAGE EXPENSE RIDER

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Date: December 16, 2013

I. INTRODUCTION

PPL Electric Utilities Corporation ("PPL Electric") hereby submits its Comments regarding the proposed Storm Damage Expense Rider ("SDER") that is 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, 2012) ("*December Order*").

Upon receipt of the SDER and accompanying cover letter, the Commission, on April 5, 2013, issued a Secretarial letter directing parties to submit comments regarding the SDER on or before April 18, 2013 and reply comments on or before May 6, 2013. The Commission's Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), Dominion Retail, Inc., Direct Energy and PP&L Industrial Customer Alliance ("PPLICA") submitted comments on PPL Electric's proposed SDER. PPL Electric, OCA and PPLICA filed Reply Comments on May 6, 2013. PPL Electric's SDER filing on March 28, 2013 and its Reply Comments are incorporated herein by reference.

Upon consideration of the SDER, comments and reply comments of the various parties, the Commission entered an Order on November 15, 2013 ("*Order for Comments*"). There, the Commission, *inter alia*, directed interested parties to address nine specific questions regarding the SDER. Below are PPL Electric's responses to the Commission's questions.

In its Comments that were filed on April 18, 2013 ("I&E Comments"), I&E made the only alternative proposal for the Commission's consideration – a reserve/rider. In providing comments to the Commission's questions, PPL Electric will include comments on the alternative proposed by I&E.

Before responding to the Commission's specific questions and commenting on the alternative proposed by I&E, PPL Electric will provide a summary of its proposed SDER, including the fundamental approach to the issue of recovery of storm damage expenses and the principal features of the proposed SDER. As explained below, PPL Electric is herein proposing certain changes to its as filed SDER to reflect issues raised in the Commission's order and questions.

II. COMMENTS

A. The SDER as Modified by these Comments

PPL Electric's fundamental approach to developing the SDER was to follow the well-established and well-accepted method for recovery of operating expenses outside of a base rate proceeding, *i.e.*, an automatic adjustment clause established pursuant to Section 1307(a) of the Public Utility Code, 66 Pa.C.S. §1307(a). Under the SDER, PPL Electric does not attempt to project actual storm damage expenses in a future period, as such costs are inherently unpredictable. Instead, the proposed SDER reconciles, on an annual basis, actual, experienced Commission reportable storm damage expenses against the $14.7 million allowance in base rates, as established in the *December Order*.[1] The amount of $14.7 million was based upon a study of PPL Electric's actual storm damage expenses over an extended period of time, and does not include extraordinary storm damage expenses previously or currently amortized in base rates. Under the proposed SDER, PPL Electric will recover storm damage expenses using the standard Section 1307 method. Interest is to be applied in an even-handed, symmetrical manner to both under and over recoveries.

[1] In the SDER, PPL Electric used the definition of reportable storms found in the Commission's regulations at 52 Pa. Code § 67.1(b), which is those storms that cause unscheduled service interruptions in a single event for 2,500 or more customers for 6 or more consecutive hours. Supplement No. 130, Original Page No. 19Z.20.

The principal provisions of the proposed SDER, as modified by these Comments, include the following:

(1) The SDER provides for the recovery of expenses from damages caused by storms that are reportable under 52 Pa. Code §67.1(b). Damages from smaller, non-reportable storms will continue to be recovered through base rates.

(2) Recovery of reportable storm costs will be limited to operating expenses caused by storms and will exclude straight time wages and benefits. Straight time wages and benefits incurred to repair storm damage will continue to be recovered through base rates. Capital expenditures will be included in rate base and recovered through base rates.

(3) The SDER does not provide for any recovery of damages to transmission facilities. Transmission storm damage expenses will continue to be recovered through transmission rates.

(4) The SDER will not produce any changes in base rates. Damages from extraordinary storms prior to 2012 will continue to be recovered through base rates.

(5) 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.

(6) The recovery period for the proposed SDER is January 1 through December 31, and is based on a reconciliation of storm damage expenses and revenues for the twelve-month period ending one month before the beginning of the recovery period, *i.e.*, December 1 through November 30.[2]

[2] As originally filed, PPL Electric proposed that rates and reconciliation of storm damage expenses and revenues be based on filings submitted for the twelve-month period ending December 31 of each year, which would have

(7) The Commission's *Order for Comments* suspended the SDER until February 28, 2014, unless permitted by the Commission to become effective at an earlier date. To address the suspension period, PPL Electric proposes that the SDER become effective on March 1, 2014, and continue through December 31, 2014, with an initial rate of zero. Then, on January 1, 2015, a twelve-month rate would go into effect for the SDER based on actual costs for the period December 1, 2013 through November 30, 2014.

(8) The SDER provides only for recovery of actual, experienced storm damage expenses. No forecasts or projections of such expenses are involved, since such projections would inherently be based on uncertain future weather conditions.[3]

(9) With the exception of storm damage expenses incurred for Hurricane Sandy in October 2012, all actual, experienced Commission-reportable storm damage expenses will be recovered and reconciled over a twelve-month period.[4]

(10) Pursuant to Commission order, PPL Electric is required to claim the deferred expenses from Hurricane Sandy that occurred in October 2012 at the first available opportunity. *Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting Purposes, Certain Unanticipated Expenses Related to Storm Damage*, Docket No. P-2012-

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included an estimate for December. In an effort to address the concerns of the Commission and parties regarding the use of estimates, PPL Electric is revising its proposal so that the rate and reconciliation will be based on the twelve-month period ending November 30 of each year and an effective date of January 1. This modification should alleviate any concerns regarding the use of estimated storm damage expenses.

[3] As originally filed, PPL Electric proposed to utilize estimates for expenses that may not be known until after the historical filing date due to the lag in reporting of expenses caused by the use of the subcontractors and personnel from other electric distribution companies. In an effort to address the concerns of the Commission and parties regarding the use of estimates, PPL Electric is revising its proposal so that any lag in known expenses beyond the twelve-month period ending November 30 of each year will be carried over to the subsequent year(s) in which the actual, total expense becomes known.

[4] As originally filed, PPL Electric indicated that it is willing to recover expenses from major storm events, as defined in 52 Pa. Code §57.192, over three years with interest. However, based upon further analysis, it is not anticipated that a large storms would have a material impact on customer rates. Moreover, one year recovery limits interest expense/credits. PPL Electric therefore proposes to recover/refund all over/under collections over a one-year period with the discretion to propose a longer period if necessary or appropriate. An exception is maintained for Hurricane Sandy costs, as explained below.

2338996, p. 4 (Feb. 14, 2013). PPL Electric therefore seeks recovery of these costs in the SDER and proposes that the expenses from Hurricane Sandy be recovered over a thirty-six month period starting with the SDER rate to become effective January 1, 2015.

(11) Pursuant to Section 1307(e) of the Public Utility Code, 66 Pa.C.S. § 1307(e), historic SDER revenues and expenses will be reported to the Commission on or before December 30 of each year and will be subject to audit and Commission review.

(12) Interest will be paid to or recovered from customers on over and under collections of storm damage expenses at the residential mortgage rate, as published by the Secretary of Banking. Interest will be calculated based on the net difference of the amount collected under the SDER and the $14.7 million included in base rates, *i.e.*, the net over or under collection.[5]

(13) Interim changes to the SDER are permitted upon 10 days notice, unless otherwise ordered by the Commission.[6]

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

As explained below, PPL Electric believes that its proposed SDER, as modified by these Comments, is in the public interest and is consistent with sound ratemaking principles, all applicable provisions of the Public Utility Code, and the Commission's orders in this proceeding. Below, PPL Electric addresses individually each of the questions posed by the Commission in its *Order for Comments*, entered on November 15, 2013.

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[5] This provision has been revised to clarify that interest will be calculated only on the net difference between the amount recovered through the SDER and the $14.7 million included in base rates.

[6] As originally filed, PPL Electric proposed that interim changes to the SDER would become effective on 30 days notice unless otherwise ordered by the Commission. To be consistent with PPL Electric's other Commission-approved tariff provisions, PPL Electric herein proposes that the notice period be reduced to 10 days unless otherwise ordered by the Commission.

B. Response to the Commission's Questions

1. Does the proper test for an automatic adjustment clause include expenses that are "substantial, variable, and beyond the utility's control?" If so, do all storm related operating expenses meet the standard?

In response to the first portion of the question, yes, the proper test for whether it is appropriate for an expense to be recovered through an automatic adjustment clause is whether such expenses are substantial, variable and beyond the utility's control. *See, e.g., Popowsky v. Pa. P.U.C.,* 869 A.2d 1144 (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 (Pa. Cmwlth. 1995), *affirmed per curium*, 670 A.2d 1152 (Pa. 1996) ("*PIEC*"); *Pa. P.U.C. v. Philadelphia Thermal Energy Corp.*, Docket No. R-911920, 1991 Pa. P.U.C. LEXIS 80 (May 3, 1991).

The Commonwealth Court has stated:

> As acknowledged by the PUC in its 1996 adjudication on Utility's Distribution System Wastewater Charge, Section 1307(a) surcharges have been used principally by gas and electric companies to recover certain expenses not covered in their base rates; expenses appropriate for surcharge recovery are those that are easily determined, beyond the utility's control or required by a government entity. *Petition of Pennsylvania-American Water Co.*, Docket No. P-00961031, Order entered August 26, 1996, at 9. Examples include expenses incurred to convert oil-fired plants to gas, principal and interest due on Penn Vest obligations, and incremental changes in state tax rates. *Id.* Section 1307(a) surcharges have also been used by electric utilities to recover their expenses relating to the implementation of demand-side management programs (DSM) that were required by statute.

Popowsky 2005, 869 A.2d, *supra*, at 1154-55 (citations and footnotes omitted).

Clearly, storm damage expenses meet this standard. Storm damage expenses are highly variable. For example, in 2011, PPL Electric's total storm damage losses from numerous reportable storms approached $100 million. PPL Electric Statement 14-R, p. 5. In 2012, PPL

Electric incurred in excess of $60 million in storm damage expenses from a single storm – Hurricane Sandy. PPL Electric Exceptions, p. 22 (Nov. 8, 2012). In 2009, PPL Electric's total storm damage losses were only $10.4 million. I&E Exhibit 2, Schedule 25, p. 2.

It is also obvious that no one can predict when storms will occur or their severity long enough in advance to be useful for ratemaking purposes. Predicting storm damage is inherently predicting the occurrence and severity of storms, and that cannot be done with accuracy over future periods.

It is also clear that the level of storm damage expenses incurred by an electric distribution company ("EDC") is beyond its control. More severe storms cause more damage. An EDC such as PPL Electric does not have discretion to avoid storm damage expenses. PPL Electric, like other EDCs, has a statutory obligation under Section 1501 of the Public Utility Code, 56 Pa.C.S. §1501, to provide safe, adequate and reliable service that is reasonably continuous and without unreasonable interruption or delay. PPL Electric is under a legal obligation to take all reasonable steps necessary to restore service promptly after an outage. Indeed, it is consistent with public policy for the Commission to permit PPL Electric prompt and full recovery of storm damage expenses in order to encourage PPL Electric to undertake all reasonable measures to restore service as promptly as practicable.

The conclusion that storm damage expenses are an appropriate candidate for recovery through an automatic adjustment clause is supported by a review of other expenses for which the Commission has approved such clauses. The Commission has approved the use of automatic adjustment clauses under Section 1307 for recovery of expenses that are less volatile and more subject to a utility's control than store damage expenses. Automatic adjustment clauses have been approved for recovery of 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)), certain 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 (*Pa. P.U.C. v. Newtown Artesian Water Co.,* Docket Nos. R-2009-2117550, *et al.,* 2010 Pa. PUC LEXIS 757 (Apr. 15, 2010)). Nothing about storm damage expenses distinguishes them from these various other expenses for which the Commission has approved Section 1307 automatic adjustment clauses.

The second portion of the Commission's question is whether all storm damage expenses meet the standard for recovery through an automatic adjustment clause. PPL Electric's proposed SDER does not provide for recovery of *all* storm damage expenses through the SDER. Instead, expenses from "non-reportable" storms, *i.e.*, those that cause service interruptions to fewer than 2,500 customers for six or more consecutive hours (*see* 52 Pa. Code §67.1(b)) are to be recovered through base rates. Base rates, as determined in the *December Order*, provide for recovery of $3.175 million annually for expenses from "non-reportable" storms. PPL Electric Statement 2-RJ, pp. 3-6; PPL Electric Exhibits GLB-9 and GLB-10. PPL Electric believes that it is not necessary to recover expenses from "non-reportable" storms through the SDER because they are not substantial for an EDC the size of PPL Electric.

Further, it also should be noted that straight time wages and benefits incurred to repair storm damage and capital expenditures will not be recovered through the SDER and, instead, will continue to be recovered through base rates. As explained above, capitalized expenditures may not be recovered through an automatic adjustment clause. *See Popowsky 2005* and *PIEC*. Similarly, the SDER does not provide for any recovery of damages to transmission facilities. Transmission storm damage expenses will continue to be recovered through transmission rates. Therefore, PPL Electric believes that it is not necessary or appropriate to recover these expenses through the SDER.

2. Does Section 1307 authorize "one-way" reconciliation provisions? Is I&E's storm damage reserve proposal contrary to statutory requirements?

The response to the Commission's inquiry, and one of the principal problems with the I&E proposed reserve account, is that the Public Utility Code does not expressly authorize automatic adjustment clauses with "one-way" reconciliation. Therefore, it is uncertain whether the reserve account proposed by I&E is lawful under the Public Utility Code.

Section 1307 does not expressly authorize the accumulation of balances in a reserve account over time. Instead, as a general rule, over and under collections of costs recovered through automatic adjustment clauses are required to be recovered from or refunded 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 60 days following such hearing, by order direct each such public utility to, over an appropriate twelve-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 tracker would reconcile undercollections of storm damage expenses annually, it does not provide for annual reconciliation of overcollections. PPL Electric is not aware of any Pennsylvania Commission or appellate court decision authorizing such "one-way" reconciliations, and I&E has not cited any Commission or appellate court precedent in support of its proposal. 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 uncertainty regarding the lawfulness of I&E's proposal.

Section 1307(e), however, does provide an exception to the general rule for annual two-way reconciliation. Two-way reconciliation may not be required if "good reason . . . to the contrary" has been established. It could be argued that the rationale for the storm damage reserve approach to providing for recovery of storm damage expenses establishes "good reason" for one-way reconciliation under the exception to the general requirement in Section 1307(e)(3)

for annual two-way reconciliation, but it is not known whether appellate courts would find such an argument persuasive. I&E has not provided any data or arguments to support such a finding.

Neither the Commission nor the appellate courts have interpreted the phrase "[a]bsent good reason being shown to the contrary." Therefore, its meaning is uncertain. Under these circumstances, the safer and more prudent course in PPL Electric's view would be to approve PPL Electric's SDER, which clearly complies with Section 1307(e). It is especially important that the safer and more prudent course be followed where substantial sums of money could be subject to recovery under a storm damage expense recovery mechanism. Inclusion of such potentially large sums in a rate mechanism of doubtful legality could expose PPL Electric to significant uncertainty with regard to the recovery of such costs, if the mechanism were approved by the Commission and later successfully challenged in the courts.

I&E's position regarding the legality of its proposed reserve/rider is not persuasive. It opposes use of a Section 1307(e) rider. I&E Comments, p. 14. Section 1307(a) and (b) are the only provisions of the Public Utility Code that authorize general automatic adjustment clauses. Other portions of Section 1307 authorize automatic adjustment clauses for specifically identified expenses. I&E's proposed reserve/rider provides for automatic adjustment of rates, at least when there is a deficiency in the reserve. All automatic adjustment clauses under Sections 1307(a) and (b) are subject to Section 1307(e). It applies to "each public utility using an automatic adjustment clause." Section 1307(e)(1). It appears to PPL Electric that all automatic adjustment clauses under either Section 1307(a) or (b) must comply with Section 1307(e). I&E seems to believe that compliance with Section 1307(e) is unnecessary, but it provides no rationale for its apparent view.[7]

[7] I&E also seems to rely on the Federal Regulatory Commission's Uniform System of Accounts for electric public utilities for its proposed reserve/rider. Specifically, it cites Account 228.1, "Accumulated provision for property

Instead of dealing with the laws of Pennsylvania, I&E provides an extensive review of the manner in which storm damage expenses are recovered by public utilities in other states. I&E Comments, pp. 17-23. I&E cannot reasonably contend that its reserve/rider does not have to comply with the Public Utility Code. Moreover, I&E has not provided any explanation of the statutory authority for its proposed reserve/rider.

I&E also criticizes PPL Electric's proposed SDER on the basis that it is inappropriate to include storm damage expenses in an automatic adjustment clause subject to Section 1307(e) because such expenses should not be subject to "full and complete guaranteed recovery." I&E argues that such expenses are a cost of doing business and not the result of a Commission or statutory mandate. I&E Comments, p. 16. I&E's argument should be rejected for two principal reasons. First, expenses from reportable storms fully meet the criteria for recovery through an automatic adjustment clause, as explained above. Second, I&E's proposed reserve/rider, like PPL Electric's proposed SDER, would provide full and complete recovery of all expenses from reportable storms albeit through a reserve/rider instead of a normal Section 1307 automatic adjustment clause. I&E's proposed reserve/rider is subject to exactly the same criticism as I&E applied improperly to the proposed SDER. I&E's criticism is not valid with regard to either the SDER or its own proposed reserve/rider.

It is important to also stress that I&E's proposed reserve/rider is contrary to the public interest. Under the reserve/rider, PPL Electric would be permitted to accumulate funds in the reserve. There would be no limit on the amount of the reserve. If PPL Electric and its ratepayers were fortunate enough to experience no reportable storms for several years, the reserve would increase by $14.7 million per year. PPL Electric could have millions of dollars of ratepayers'

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insurance." I&E Comments, p. 13. The account does provide for a property loss reserve, but it provides no insight whatsoever into how the reserve is to be funded. Further, the Uniform System of Accounts applies only to accounting; it provides no authority for any form of rate under Pennsylvania law.

money when it was not needed to pay for storm damages. Under I&E's proposed reserve/rider, PPL Electric would hold this money until it is needed for storm damages, which could be years in the future. Under I&E's proposal, PPL Electric would not be required to compensate ratepayers for the use of their money – the money would be held without interest.

Under the SDER, in contrast, if money is not needed to meet storm damage expenses, it is promptly returned to customers the next year with interest. The SDER allows PPL Electric to keep ratepayers' money only when it is needed and requires PPL Electric to compensate ratepayers for the time value of their money until it is returned to them or used to pay storm damage expenses.

The reserve/rider proposed by I&E should be rejected.

3. Under a storm damage expense rider ("SDER") or similar mechanism, what is the appropriate period to amortize a "major storm"? Provide statistical data or other relevant factors that the Commission should consider to support the appropriate amortization period. Should the Commission establish one amortization period that applies to all "major storms" or a sliding scale of amortization periods based on the expense levels or other factors?

Before addressing these specific questions, it is important to recognize that, with the exception of expenses incurred for Hurricane Sandy in 2012, the proposed SDER as modified by these Comments will recover/refund only applicable expenses from reportable storms that are less than or greater than $14.7 million annually over a twelve-month period. Therefore, the Commission's question regarding the appropriate period to amortize a "major storm" is moot.

Moreover, PPL Electric's original SDER filing did not propose to amortize the reportable storm damage expenses. There is a fundamental difference between an automatic adjustment clause authorized by Section 1307 of the Public Utility Code (66 Pa. C.S. §1307) and amortization of an extraordinary, non-recurring and unanticipated expense in base rates. An amortization of an expense in base rates is an exception to the general rule against retroactive

ratemaking. Its purpose is to recognize in base rates certain extraordinary, non-recurring, and unanticipated expenses that, otherwise, would go unrecovered in the normal ratemaking process because they cannot be reasonably projected and, therefore, cannot reasonably be included in the normal prospective base-ratemaking process. *Columbia Gas of Pennsylvania, Inc. v. Pa. P.U.C.*, 253, 613 A.2d 74, 76-77 (Pa. Cmwlth. 1992); *Pike County Light and Power Co., v. Pa. P.U.C.*, 487 A.2d 118 (Pa. Cmwlth. 1985).

Here, in contrast, the Commission is contemplating the design of an automatic adjustment clause for recovery of storm damage expenses. As explained above, an automatic adjustment clause is appropriate, under Pennsylvania law, because storm damage expenses are substantial, variable and beyond the utility's control. The concept of amortization simply does not apply to a Section 1307 automatic adjustment clause.

As originally filed, PPL Electric proposed to recover expenses from major storms over three-year periods. PPL Electric initially believed that a three-year recovery period was necessary to provide reasonable mitigation of rate instability. However, upon further analysis, the rate volatility resulting from the SDER is less than PPL Electric had believed when it originally developed its SDER filing.

To support this conclusion, PPL Electric reviewed the effects of a hypothetical major storm events on rates for residential customers receiving service under rate schedule RS, which applies to more than 97 percent of PPL Electric's residential customers. In the example that follows, PPL Electric assumes a hypothetical storm event that would cause it to incur SDER eligible restoration expenses[8] of $60 million. PPL Electric chose this amount for illustration because it is approximately equal to $57.8 million which was the greatest storm damage expense

[8] Capitalized expenditures under PPL Electric's proposal would be included in rate base and recovered through base rates.

experienced by PPL Electric in a single year in its history (I&E Statement No. 2, p. 35). In other words, PPL Electric has assumed an extreme case.

Using the allocation factor for Total Net Electric Plant in PPL Electric's most recent approved base rate case, , of the $60 million in expense, $31,604,451 would be allocated to residential customers. Interest would be applied to underrecoveries of storm damages at the rate of 5.75% annually.[9]

If this amount of expense from a major storm were to be recovered from residential customers over one year, the resulting rate would be $0.002437 per kWh (including GRT) ($31,604,451 ÷ 13,781,222,439 kWh).[10] Interest is then applied to this rate for a twelve-month period (1.0575 x $0.002437) to produce a rate of $0.002577 per kWh. For a residential customer using 500 kWh of electricity per month, the result would be an increase in the monthly bill of $1.29, which would be 4.38% of the base rate portion of the bill. Of course, when all other surcharges and the cost of electric generation are included, the percentage increase is much smaller on a total bill basis. In fact, based on rates in effect on this date, an increase in the total monthly bill of $1.29 for the SDER for a residential customer who uses 500 kWh of electricity and who is a default service customer would be an increase in of 1.7% percent on a total bill basis.

The rate volatility resulting from the SDER is less than PPL Electric had believed when it originally developed its SDER filing. Therefore, PPL Electric believes that it would be reasonable for all reportable storm damage expenses included in the SDER to be recovered over one year. Accordingly, with the exception of the recovery of expenses from Hurricane Sandy,

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[9] This is the residential mortgage lending rate as published by the Secretary of the Department of Banking pursuant to the Act of January 30, 1974 (P.L. 13, No. 6) referred to the Loan Interest and Protection Law. The rate of 5.75% was published at 43 Pa. Bull. 6807 (Nov. 6, 2013).

[10] Annualized future test year residential sales. PPL Electric Exhibit DRW-1, p. 4.

PPL Electric is proposing that reportable storm damage expenses included in the SDER be recovered over a one-year period. In addition, the one-year recovery period will also avoid an interest expense to customers over a longer periods of recovery.[11]

The Commission also questions whether a sliding scale of amortization periods should be established for the recovery of storm damage expenses based on the expense levels or other factors. PPL Electric opposes the concept of a sliding scale of recovery periods for several reasons. First, a sliding scale for recovery periods is unnecessary for the reasons explained above because a one-year recovery period for major storm events provides more than adequate rate stability for the reasons explained above. Second, establishing a sliding scale of recovery periods would needlessly complicate calculation of the rate for recovery of storm damages.

4. For purposes of the SDER, should the Commission establish a different definition for "major storm" to comply with "extraordinary, non-recurring, and unanticipated" criteria?

PPL Electric's proposed SDER as modified by these Comments is an automatic adjustment clause for recovery of reportable storm damage expenses over a twelve-month period. The Commission's question regarding the definition of "major storm" is largely moot because the SDER as modified by these Comments will apply to all reportable storm damage expenses.

In addition, as explained above, the Commission should not establish any definition of "major storm" to comply with the "extraordinary, non-recurring and unanticipated" criteria because those criteria do not apply to recovery periods under automatic adjustment clauses pursuant to Section 1307 of the Public Utility Code, 66 Pa.C.S. § 1307. The "extraordinary, non-recurring and unanticipated" standard applies to retroactive recovery of extraordinary expenses

[11] PPL Electric proposes to recover/recoup all over/under collections over a one-year period with discretion to propose a longer period if necessary or appropriate.

in base rates, *i.e.*, the standard for amortization of extraordinary expenses that otherwise would not be recovered in base rates.

Here, in contrast, PPL Electric is proposing an automatic adjustment clause for recovery of reportable storm damage expenses. With the exception of expenses incurred for Hurricane Sandy in 2012, PPL Electric is proposing to recover/refund expenses from reportable storm events over a twelve-month period. Consequently, there is no need to meet the "extraordinary, non-recurring and unanticipated" standard with regard to recovery of storm damage expenses pursuant to an automatic adjustment clause.

In the alternative, if the Commission reject's PPL Electric's revised proposal, the Commission's existing definition of "major storm" event provides a reasonable definition for classification of storms under the SDER. A major storm event is defined as one resulting from conditions beyond the control of the EDC which affects at least 10 percent of customers during the course of the event for a duration of at least five minutes. As applied currently to PPL Electric, the definition of major storm event contemplates an interruption of service to approximately 140,000 customers. Using this definition, PPL Electric has experienced 4 major storms in the past 5 years. Under these circumstances, there is no reason to expand the definition of "major storm" events to include "extraordinary, non-recurring and unanticipated" storm damage expenses.

5. What regulatory precedent, both in PA and in other states, exists for a "replenishing" storm reserve fund? How do other jurisdictions provide for recovery in excess of the reserve funding amounts? Should other over-recovery amounts be included, such as above authorized actual returns, in such cost recovery reserve funds?

As explained above, there is no clear authority or precedent in Pennsylvania for "replenishing" a storm reserve fund to levels in excess of expenses actually incurred. Certain

states, however, do permit electric distribution companies to maintain cash-funded storm reserves.[12]

In Alabama, the Public Service Commission, on December 6, 2005, at Docket No. U-3556, allowed Alabama Power to establish a Natural Disaster Reserve to be funded at $75 million. It allowed a reserve establishment customer charge to establish the initial funding of the approved fund amount and an additional reserve maintenance customer charge to be applied whenever the fund balance is less than $50 million. This fund provides for recovery of both capitalized amounts and operation and maintenance expenses caused by storms and other natural disasters. As such, it would not be permitted under Pennsylvania law because, absent specific statutory authority, capitalized expenditures may not be recovered through an automatic adjustment clause. *See Popowsky 2005* and *PIEC.*

Pursuant to specific legislation, the Arkansas Public Service Commission authorized Entergy Arkansas to establish a reserve account to be funded initially at $14.449 million. Costs of restoration of service following major storms are to be financed with the proceeds from securitized bonds, repayment of which is assured by the Storm Recovery Charges Rider. Prior to new legislation, the Arkansas Public Service Commission had rejected a proposal for a storm reserve. EEI Storm, p. 44.

In 2007, the Florida Public Service Commission allowed electric utilities to establish storm reserve accounts and capitalize costs of storm recovery to those accounts. Under the Florida Commission's order, the utilities decided whether to expense storm recovery costs or credit them to the storm reserve account. The utilities also could petition the Commission for the recovery of a debit balance in the reserve account plus an amount to replenish the storm reserve

[12] Information provided regarding treatment of storm damage costs in other jurisdictions has been taken primarily from the Edison Electric Institute publication entitled "Before and After the Storm" (January, 2013) ("EEI Storm").

account through a surcharge, securitization or other cost recovery mechanism. EEI Storm, p. 51. Again, this approach would not be permitted under Pennsylvania law to the extent that it allows for recovery of capitalized costs through an automatic adjustment clause.

In Louisiana, in 2007, the Public Service Commission required the electric companies to establish storm reserve accounts to be funded through the issuance of securitized bonds. In 2010, the Commission approved mechanisms for companies to pay system restoration costs and replenish storm damage reserves by means of a bond issuance to be backed by all ratepayers through a non-bypassable surcharge. In 2009, the City of New Orleans Utilities Committee approved a proposal by Entergy New Orleans for formula rates, which included a rider that collects both for the costs of storm damages and replenishes the company's storm reserve fund. EEI Storm, pp. 57-58. Like the approaches of other states, this approach would not be permitted under Pennsylvania law to the extent that it allows for recovery of capitalized costs through an automatic adjustment clause.

In Massachusetts, the Department of Public Utilities allowed National Grid (2009) and Western Massachusetts Electric Co. (2011) to establish storm reserve funds with caps set individually for each company. Storm reserve funds are collected through base rates, and expenses from larger storms are recovered with interest through surcharges. EEI Storm, pp. 60-61.

In Mississippi, the Public Service Commission approved use of a storm reserve fund. It also required the electric company to mitigate increases in rates for recovery of storm restoration costs by issuing bonds to be secured by a non-bypassable surcharge, which provides for recovery of annual debt service and other storm costs. The fund can be used to pay for both capitalized expenditures and expenses. The Service Restoration Charge is suspended when the storm

reserve fund reaches the maximum target level and is reinstituted when the fund falls below the minimum target level. EEI Storm, p. 67. This approach would not be permitted under Pennsylvania law to the extent that it allows for recovery of capitalized costs through an automatic adjustment clause.

In New York, the Public Service Commission on June 16, 2011, approved continued use by Orange & Rockland Utilities of a storm reserve account and approved a five-year amortization for recovery of the deficit between actual expenditures and storm reserves. On June 14, 2012, the Public Service Commission approved amortization of costs of Hurricane Irene, which struck New York in October, 2011. In 2011, the Commission rejected a proposal by National Grid to establish a funded storm reserve account. EEI Storm, p. 72.

Thus, in various states where electric utilities are permitted to establish storm reserves, deficits resulting from actual expenditures in excess of reserve assets are funded by special riders or surcharges, by securitized bonds repaid through specific riders or surcharges, or by specific riders or surcharges for recovery of storm damage expenses or through base rates. There is no predominant method for replenishing storm reserve fund deficits.

It is to be emphasized, however, that many storm expense recovery mechanisms in other jurisdictions are based upon specific statutory provisions. Of course, statutes in other jurisdictions provide no authority for this Commission to order similar measures in Pennsylvania. For example, in certain states, securitized bonds may be used to pay for storm damage, including both expensed and capitalized costs. Therefore, if securitized bonds were permitted to be used in Pennsylvania for recovery of storm damage expenses, an automatic adjustment clause to repay principal and interest on those bonds would be unlawful because, absent specific statutory authority, automatic adjustment clauses may not be used to pay for

capitalized costs. *Popowsky 2005; PIEC.* For this reason, precedents from other states must be reviewed carefully in light of specific statutes to determine whether they are applicable to Pennsylvania. *Popowsky 2005* and *PIEC.*

The Commission also has raised the question of whether other over-recovery amounts should be included in cost recovery reserve funds. The Commission provided the specific example of above authorized actual returns. In response to the Commission's question, returns in excess of authorized returns should not be used to fund storm reserves for several reasons. First, any such action would violate the Commission-made rate doctrine. Under this doctrine, base rates, once established by a Commission order at the conclusion of a base rate proceeding, such as the Commission's determination in the *December Order*, may not be modified retroactively. No refund of a commission made rate is lawful. *Duquesne Light Co. v. Pa. P.U.C.,* 507 A.2d 433 (Pa. Cmwlth. 1986); *Cheltenham & Abington Sewerage Co. v. Pa. P.U.C.,* 344 Pa. 366, 25 A.2d 334 (1942); *Peoples Natural Gas Co. v. Pa. P.U.C.,* 34 A.2d 375 (Pa. Super. 1943); *West Penn Power Co. v. Pa. P.U.C.,* 100 A.2d 110 (Pa. Super. 1953).

Under this doctrine, the utility is at risk for most variances between actual and projected costs and revenues until the conclusion of the next base rate proceeding. For example, if the summer air conditioning and the winter heating loads are less than projected in the prior base rate proceeding, the EDC is not likely to achieve its allowed rate of return. The EDC has no recourse for such shortfalls in revenues. Conversely, if the summer cooling and the winter heating loads are greater than projected in the prior base rate proceeding, it is possible that the EDC could achieve more than its allowed rate of return. It is only fair that such risks be borne symmetrically; since the utility bears the risk of revenue shortfall, it should also realize the benefit of greater revenues.

Second, it must be emphasized that this entire proceeding is for consideration of a SDER under Section 1307 of the Public Utility Code, which authorizes the establishment of automatic adjustment clauses or sliding scales of rates. The Commonwealth Court has held on several occasions that return is not to be reflected in automatic adjustment clauses except where there is express statutory authority for doing so, such as Section 1357(c) of the Public Utility Code, 66 Pa. C.S. § 1357(c), authorizing distribution system improvement charges. No such authority is contained in the Public Utility Code for storm damage reserve surcharges. For these reasons, revenues that produce returns in excess of authorized levels should not be used to fund storm damage reserves.

6. Should there be a cap on the amount of costs recoverable under a storm rider or reserve account in order to insure rates are "just and reasonable?" If so, what should the amount of the cap be?

A cap on storm damage expenses recoverable through the SDER should not be adopted because it would be contrary to the fundamental purpose of the SDER and contrary to Section 1307 of the Public Utility Code, 66 Pa.C.S. § 1307. As explained above, Section 1307(e) requires that a public utility with an automatic adjustment clause shall report to the Commission annually all revenues received pursuant to the clause and "the total amount of that expense or class of expenses incurred which is the basis of the automatic adjustment clause." It does not call for the reporting of any portion or subset of an expense or class of expense recovered through the clause. It then provides that the difference between revenues and expenses be recovered from or refunded to customers through the reconciliation process. It does not call for some portion of the expenses to be reflected in the reconciliation; it calls for the total of such expenses to be reconciled. The SDER reflects these statutory requirements.

Such statutory provisions are appropriate since there is no cap on the amount of storm damage expenses that PPL Electric might incur. If a cap on recovery of storm damage expenses

through the SDER were imposed, PPL Electric would not have available to it any method of recovering the shortfall, regardless of whether the expenses incurred were reasonably and prudently incurred in the service of customers. If PPL Electric is not entitled to recover under an automatic adjustment clause all of that category of expense that are reasonably and prudently incurred in the service of customers, then inherently the automatic adjustment clause is not, and cannot be, just and reasonable.

Further, as explained above, PPL Electric's updated analysis has determined that even the greatest storm damage expense experienced by PPL Electric in a single year in its history would not result in a significant increase in customer rates. Therefore, PPL Electric does not believe that cap on recovery of storm damage expenses through the SDER is necessary or appropriate.

7. **Why is it appropriate to charge interest on any amortized expenses? Provide pertinent case histories on where the Commission has permitted collections of interest on similar expenses. Under PPL's Proposal, does interest accrue to customers on the $14.7M reserve as it is collected in rates?**

With the exception of the storm damage expenses incurred for Hurricane Sandy in October 2012, which PPL Electric is proposing to recover over a thirty-six month period beginning January 1, 2015, the Commission's question regarding interest on amortized expense is moot. PPL Electric is not proposing to amortize any of the storm damages expenses. Rather, PPL Electric is proposing an automatic adjustment clause for recovery of reportable storm damage expenses. With the exception of expenses incurred for Hurricane Sandy in 2012, PPL Electric is proposing to recover/refund expenses from reportable storm events over a twelve-month period. Consequently, the reportable storm damage expenses will not be amortized under the proposed SDER and, therefore, the appropriateness of charging interest on the amortized expense is moot.

Automatic adjustment clauses under Section 1307 of the Public Utility Code provide a system for ongoing recognition of certain expenses and identified revenues for recovery of such expenses. An amortization of expenses in base rates, in contrast, is an exception to the general principle that base rates should be set prospectively. Such amortizations allow for recovery of extraordinary, non-recurring and unanticipated expenses that otherwise would not be recognized in base rates. Interest is not normally applied to expenses recovered through base rates. In recent years, it is common for interest to be applied to both over and under recoveries of expenses recovered through automatic adjustment clauses.[13]

PPL Electric's proposed SDER provides for two-way, even-handed, symmetrical interest. The SDER provides that ratepayers will pay PPL Electric interest on under recoveries of reportable storm damage expenses incurred for the twelve-month period ending November 30, and PPL Electric will pay interest to ratepayers on over recoveries of reportable storm damage expenses incurred for the twelve-month period ending November 30. Under PPL Electric's proposal, interest paid by ratepayers and interest received by ratepayers would be calculated at the residential mortgage lending rate published by the Secretary of Banking in accordance with the Act of June 30, 1974 (P.L. 13, No. 6), referred to as the "Loan Interest and Protection Law," 41 P.S. §§ 101, *et seq*. PPL Electric's proposal is fair to both the Company and its ratepayers.

There is no valid reason to deny interest on SDER over recoveries or underrecoveries of reportable storm damage expenses. If interest is not applied to large over collections under the SDER, 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. PPL Electric would

[13] *See, e.g.*, the following automatic adjustment clauses in PPL Electric's Tariff – Electric Pa. P.U.C. No. 201: Transmission Service Charge, Generation Supply Charge – 1, Generation Supply Charge – 2, Act 129 Compliance Rider – Phase 1, Act 129 Compliance Rider – Phase 2, Smart Meter Rider, Universal Service Rider and the Competitive Enhancement Rider. In all of these automatic adjustment clauses, interest is applied to both over and under collections.

be permitted to keep interest it does not need to make itself whole. Conversely, if interest is not applied to under collections under the SDER, PPL Electric would be out-of-pocket substantial sums of money it needs to recover interest to make itself whole.

In response to the Commission's second question, PPL Electric notes, as a preliminary matter, that the $14.7 million is not a "reserve" but, rather an amount already reflected in base rates. Under the SDER as modified by these Comments, interest does not accrue to customers on the $14.7 million collected in rates. Rather, interest will be calculated based on the net difference of the amount collected under the SDER and the $14.7 million included in rates, *i.e.*, the net over or under collection. In the definition of the E Factor, at original page number 19Z.22, it is stated that interest is computed "from the month the over or under collection occurs to the effective month that the over or under collection is recouped or refunded."

8. SDER Rate Filings: Should the Commission require review and approval of the annual rates before taking effect? What precedents exist for review of similar expenses? What service requirements, comment opportunities and reporting requirements could be required in such rate filings? Should only actual or estimated expenses be included?

Additional review and approval of rates under the SDER should not be required before rates take effect. Review and approval is not required under the Public Utility Code, and such an approach would frustrate the intent of the SDER, which is to provide prompt recovery of costs of restoring service following reportable storms.

The Commonwealth Court and the Supreme Court of Pennsylvania have held that other automatic adjustment clauses with procedures virtually identical to the proposed SDER procedures meet all statutory and due process requirements. Specifically, the Commonwealth Court and the Supreme Court of Pennsylvania concluded that the Energy Cost Rate ("ECR") met all statutory and due process requirements.

In *Alleghany Ludlum Steel Corp. v. Pa. P.U.C.*, 67 Pa. Cmwlth. 400, 447 A.2d 675 (1982), the Commonwealth Court rejected Alleghany Ludlum's claim that the ECR, under Section 1307 of the Public Utility Code, did not provide due process to customers, even though the proposed rate became effective without Commission review or any prior hearing or opportunity for customer input. The Court concluded that the ECR was lawful because Section 1307(e) provides for review of the ECR following a public hearing with provision for refunds with interest to consumers in the event the Commission ordered downward revisions of the ECR. Due process requirements were not violated because letting the ECR become effective without prior approval does not constitute to Commission approval, and refunds are available if the increase is later held to have been unjustified. In reaching this conclusion, the Court relied on *City of Pittsburgh v. Pa. P.U.C.*, 55 Pa. Cmwlth. 177, 184-85, 423 A.2d 454, 457 (1980).

The Commonwealth Court in *Alleghany Ludlum* also relied upon Section 1312(a) of the Public Utility Code, which allows customers to bring complaints against rates set pursuant to Section 1307(e) of the Public Utility Code for up to four years after the rate was charged. Therefore, customers have protections not only through the public hearing requirement of Section 1307(e) of the Public Utility Code but also through their right to bring complaints under Section 701 of the Public Utility Code, 66 Pa.C.S. § 701, coupled with the statutory right for refunds with interest under Section 1312 when customers prove that the rate charged by the utility violated the Public Utility Code.

Alleghany Ludlum appealed the Commonwealth Court's determination to the Pennsylvania Supreme Court in *Alleghany Ludlum Steel Corp. v. Pa. P.U.C.*, 501 Pa. 71, 459 A.2d 1218 (1983). In affirming the Commonwealth Court, the Supreme Court noted that:

> [S]afeguards are, however, afforded through a subsequent, year-end automatic proceeding for final determination and adjustment

> of rate increases allowing full participation by all interested parties, and requiring refunds, with interest, calculated at the prevailing rate, of overpayment in the event previous ECR increases are determined to have been excessive.

Alleghany Ludlum, 501 Pa., *supra*, at 77, 459 A.2d at 1221 (footnote omitted).

The Supreme Court also noted that due process requires a balancing of competing interests. In determining that the ECR met due process requirements, the Supreme Court considered the interests of public utilities.

> The need for a public utility to receive a fair rate of return on its property to assure its continued financial integrity, necessary to achievement of the important goal of preserving modern, efficient, and dependable public service, consonant with rights of consumers, is not to be ignored. The legislature, seeking to balance these competing interests, has authorized the PUC to employ an automatic fuel cost adjustment, the ECR, to maintain a just and reasonable return.

Id. Thus, the hearing process under Section 1307(e) of the Public Utility Code and customers' rights to file complaints for refunds under Sections 701 and 1312 of the Public Utility Code, fully protect customers' rights consistent with the needs of EDCs, such as PPL Electric, to recover of storm damage expenses.

PPL Electric notes also that the procedures set forth in the SDER are consistent with the procedures for other automatic adjustment clauses in its tariff. These procedures have been followed without controversy or difficulty for years. The SDER will be reported to the Commission each year and will be subject to audit and Commission review. There is no need for these procedures to be modified.

The Commission's final question is whether estimated expenses should be included in the calculation of the SDER. Initially, PPL Electric notes that the SDER does not call for any projection of storm damage expenses in the application year based on any projected weather conditions. As modified by these Comments, the SDER is based solely on actual expenses for a

12-month period ending each November 30. Instead, it simply recognizes that $14.7 million is already included in base rates for recovery of damages from reportable storms. This amount is based on a calculation of reportable storm damage expenses in PPL Electric's service territory over an extended period of time.

9. How should storm damage rider cost be allocated among the rate classes? Should the allocation factors be included in the Tariff?

The SDER sets forth the basis for allocations of storm damage expenses among the rate classes identified in the SDER rate schedule. The SDER at original page number 19Z.22 explains that:

> 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.**

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, all parties had a full opportunity to review those factors. Indeed, 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. *December Order*, p. 35. There is no reason for the factors used to allocate storm damage expenses to be revisited prior to PPL Electric's next base rate case.

PPL Electric believes it is appropriate for the SDER to allocate costs based on the Total Net Electric Plant allocator as determined in its most recent base rate case. It would be unduly burdensome and not timely for PPL Electric to prepare a Cost of Service study for each storm to determine that allocation. Additionally, the allocation is being used to allocate the reportable

storm expenses. The plant will be allocated based on the individual allocators in the Company's next base rate case.

III. CONCLUSION

PPL Electric appreciates this opportunity to submit these Comments in response to the Commission's *Order for Comments*. In response to the questions raised by the Order for Comments, as well as the concerns raised by other parties, PPL Electric has herein proposed certain modifications to the SDER as originally proposed. For the reasons fully explained above, PPL Electric believes that its proposed SDER, as modified by these Comments, is in the public interest and is consistent with sound ratemaking principles, all applicable provisions of the Public Utility Code, and the Commission's orders in this proceeding. Therefore, PPL Electric respectfully requests that the Commission adopt the SDER as modified by these Comments.

Respectfully submitted,

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