COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

December 16, 2013

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed please find the Bureau of Investigation and Enforcement's (I&E) **Comments in Response to the Commission's November 15, 2013 Order** in the above-captioned proceeding.

Copies are being served on all active parties of record as evidenced in the attached Certificate of Service. If you have any questions, please feel free to contact me at (717) 783-6155.

Sincerely,

Regina L. Matz
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. #42498

Enclosure
RLM/snc

cc: Honorable Susan D. Colwell
Parties of Record

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Comments** dated December 16, 2013, in the manner and upon the persons listed below, in accordance with the requirements of § 1.54 (relating to service by a party):

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

BUREAU OF INVESTIGATION AND ENFORCEMENT COMMENTS IN RESPONSE TO THE COMMISSION'S NOVEMBER 15, 2013 ORDER REGARDING PPL ELECTRIC SUPPLEMENT NO. 130

The Bureau of Investigation and Enforcement (I&E) of the Pennsylvania Public Utility Commission (PUC or Commission), pursuant to Commission Order entered November 15, 2013 (*November 2013 Order*) at the above docket number, respectfully submits these Comments. I&E considers these Comments supplementary to those filed on April 18, 2013 (I&E April 2013 Comments), which responded to the Storm Damage Expense Rider (SDER or Rider) filed as Supplement No. 130 (Supplement No. 130) to PPL Electric Utilities Corporation (PPL) Tariff – Electric Pa. P.U.C. No. 201, on March 28, 2013, following the Commission's resolution of PPL's 2012 base rate case.[1]

I. INTRODUCTION AND BACKGROUND

The matter at issue arose in PPL's 2012 base rate case. In that proceeding, I&E witness Dorothy Morrissey presented testimony opposing PPL's continued purchase of storm damage insurance from its affiliate, PPL Power Insurance Limited, an offshore

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

subsidiary of PPL's parent company, PPL Corp. As addressed extensively in I&E's April 2013 Comments, as a result of substantial discovery and review in that proceeding of PPL's storm expense recovery strategy, I&E concluded that PPL's ratepayers were not well served, being continually exposed to the upside of high expenses resulting from active storm years, but never benefitting from the downside of low expenses that accrued in lean storm years.

In these lean, or "blue sky," storm years, revenues built into base rates to recover an estimated level of expenses that were not expended on major storm damage were not accounted for or otherwise available for future use by PPL. Conversely, however, in more active, or "gray sky," storm years, PPL consistently filed and received approval of petitions for deferred accounting providing the Company guaranteed future recovery of extraordinary storm costs.[2] For storms that were defined as reportable under the Commission's regulations,[3] PPL purchased insurance from an affiliate at a ratepayer expense that was almost half the value of the coverage provided.[4] In the ratemaking equation, in other words, PPL's ratepayers were doomed to a perpetual "gray sky" scenario. As I&E's witness Morrissey testified:

> Under the Company's current storm insurance risk management strategy, budgeted monies representing insurance premium expense and deductibles that are in excess of insurance reimbursements for major storm activity costs result in earnings retained by either the unregulated affiliate, PPL Power Insurance, or the Company, and are not returned to ratepayers. Conversely, in the year 2011 where insurance coverage and the budgeted deductible

2 *See* I&E April 2013 Comments at 23-26 for a complete discussion of PPL's Petitions for Deferred Accounting filed from 2003 to the present (excluding 2012).
3 *See* 52 Pa. Code §67.1.
4 I&E Statement No. 2 at 31-34, I&E Exhibit No. 2-SR, Sch. 2, p. 6.

> were insufficient to restitute to PPL its actual storm costs, the Company filed a petition to defer storm costs for financial reporting and, in this proceeding, seeks recovery of that focused year's excess uninsured storm expenses. Under either scenario, it's [PPL's] "heads I win, tails you lose" for PPL's ratepayers.[5]

Upon thorough review of how PPL's strategy of insuring for storm losses through its off-shore insurance affiliate fared from its inception in 2007, I&E concluded that PPL's affiliated insurance purchases did not benefit ratepayers. In its stead, I&E recommended that PPL essentially self-insure through reserve accounting with the possibility of a rider funding the reserve as necessary. In this manner, revenues earmarked in prior base rate cases for storm expense recovery in lean storm years would be held in reserve and cushion PPL and its ratepayers against higher expenses in active storm years.

I&E's position was well-documented on record. Intending to revisit the issue of storm cost management following the settlement of PPL's 2007 base rate case in which a storm rider proposed by PPL was not accepted by the parties but distribution-related premiums for storm damage insurance were, I&E recommended a recalculated annual budgeted amount based upon a five-year average of storm expenses for the year 2012. However, aware of the volatility of storm damage expenses, I&E elaborated that "[t]o avoid financial statement impact for year to year fluctuations, a reconcilable storm reserve account would provide an alternative solution."[6] Alternatively, I&E suggested,

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5 I&E St. 2-SR at 39.
6 I&E St. 2 at 32-33.

"the approval of a storm reserve account rider methodology would entail removal of the [PPL's] entire [] budgeted claim for storm costs from the base rate calculation."[7]

While PPL opposed I&E's grounds for recommending termination of the purchase of storm damage insurance from its affiliate, PPL did not oppose a reserve. Indeed PPL presented no responsive testimony on the issue of reserve accounting. PPL's sole response to I&E's recommendation was dismissal of the notion of a rider on the basis that there was insufficient time for development, alleging that I&E "did not provide sufficient details regarding a possible damage expense rider or make a specific proposal that can be evaluated in this proceeding [and there was] simply not sufficient time in this proceeding to address the main details of a storm damage expense rider[.]"[8]

In surrebuttal, I&E's witness again confirmed her position regarding an alternative treatment to replace PPL's affiliated insurance dealings for recovering storm damage expenses. As Ms. Morrissey stated:

> [In direct testimony,] I questioned the economic benefit and prudency of PPL's management strategy to insure against storm damage by purchasing insurance from an affiliate in light of the data that has become available now that all parties have gained experience with that management strategy. Accordingly, I recommended denying the storm insurance expense and recalculating an annual budget amount to reflect a five year average of storm expenses. I recommended the use of a storm reserve account for the accruing of budgeted storm amounts to be offset by experienced storm costs.[9]

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

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7 I&E St. 2 at 36.
8 PPL St. 8-R at 48.
9 I&E St. 2-SR at 23.

> As an alternative to the disallowance of the 2012 storm insurance claim, *I recommended the use of reserve accounting treatment for storm costs, which would result in PPL being self-insured strictly within the regulated organization. This would preserve any benefits of any excess accumulated storm reserves and allow them to be passed onto ratepayers through mitigation of future rate increases or as a credit toward future major storm costs.* It would also avoid an unfavorable impact on the Company's financial statement that could result from year-to-year fluctuations in actual storm costs.
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> * * *
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> *Several states allow utilities to self-insure by accumulating budgeted base rate storm expense amounts in a storm reserve account, specifically utilizing FERC Uniform System of Accounts, Account 228.1,* Accumulated provision for property insurance. The accumulated provision account provides a vehicle for insulating utility financial statements from the impact of major storms when storm expenses can be accrued against an accumulated self-insurance balance.[10]

I&E's intent to account for storm expense recovery through reserve accounting was finally illustrated yet a third time in I&E's witness' supplemental surrebuttal testimony, in which Ms. Morrissey stated as follows:

> If PPL had utilized a *risk management approach with a storm reserve account within the regulated utility*, its profitability would not have been impacted by the storm costs that exceeded the insurance limit as the storm reserve account's accumulated balance would have shielded PPL from the large storm expenses encountered in 2011.[11]

Thus, the only evidence provided in the record of the appropriate alternative means by which PPL should be allowed to recover storm expenses was provided by I&E's witness Morrissey. PPL provided no response to I&E's reserve accounting, and indeed, during litigation, dismissed a rider as insufficiently vetted.

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10 I&E St. 2-SR at 39, 41 (emphasis added).
11 I&E St. 2-SSR at 6 (emphasis added).

In the collaborative the Commission ordered in its *December 2012 Order* concluding PPL's base rate case, I&E attempted to work within the structure of PPL's proposed rider. I&E's modifications as presented in its redlined version of PPL's Supplement No. 130 were designed to effectuate the benefits of the reserve accounting with rider funding, if necessary, in order for PPL's shareholders and ratepayers to share both the benefits and costs of blue sky and gray sky storm years. As I&E repeatedly noted, however, PPL's proposal consisted of a traditional Section 1307(e) rider similar to that which it has in place for several other expense categories[12] and PPL, in the collaborative, was unwilling to deviate from its proposal.[13] Accordingly, while I&E proposed modifications to PPL's Rider SDER, it continued to object to PPL's exclusive use of a Section 1307 rider and wholesale rejection of a reserve. As I&E noted in its April 2013 Comments, "I&E disagrees with the use of a Section 1307(e)-type rider without consideration of a reserve[.]"[14]

In its *November 2013 Order*, the Commission presented a series of nine questions the answers to which are intended to facilitate the Commission's deliberation of this issue. Upon further consideration of the Commission's questions, I&E continues to support reserve accounting for storm expense recovery. I&E consistently identified a reserve on the record below, modeled after FERC Account 228.1 as an alternative

12 I&E April 2013 Comments at 15, noting PPL's existing eight reconcilable expense riders.
13 I&E April 2013 Comments at 4-6.
14 I&E April 2013 Comments at 8; *Id.* at 10 ("I&E disagrees with PPL's proposal to reconcile and recover or refund annually on a dollar-for-dollar basis these amounts through a Section 1307(e)-type rider."); *Id.* at 14 ("That said, I&E does *not* oppose a rider *if used in conjunction with the reserve* as a means of properly sizing the reserve and also better protecting the Company from volatile storm expenses between base rate cases.") (Emphasis in original.)

mechanism to affiliate insurance. The first time PPL proposed a Section 1307(e)-type rider was in its March 28, 2013 compliance filing.

As I&E addressed in its April 2013 Comments and addresses further below, reserve accounting has been successfully used in other jurisdictions to account for the variability of storm expenses. However, in its *November 2013 Order*, the Commission raised several interesting issues regarding the funding of the reserve and use of a rider. Accordingly, while I&E believes that reserve accounting could and should have been implemented by PPL as it was presented on the record and recommended in the ALJ's decision adopted in the Commission's *December 2012 Order*, the concept of a rider should be more openly and thoroughly explored on the record before any rider mechanism is approved.

For that reason, I&E believes that the Commission should defer consideration of a rider until PPL's next base rate case, which PPL informed the Commission would be filed in 2014 if not before.[15] In the interim, the Commission should direct PPL to segregate its accounting for storm damage expenses into a reserve for all reportable storms from January 1, 2013 through PPL's filing of its next base rate case. Notwithstanding I&E's opposition to implementation of a rider at this juncture, in recognition of the new issues raised in the Commission's questions in Appendix A to its November 13, 2013 Order and in order to be responsive thereto, I&E has prepared

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15 PPL Main Brief at 76 (wherein PPL stated that "[i]t is difficult to see how such a significant increase in rate base and plant in service would not drive a rate case during 2014 or before" in justifying its proposal, accepted by the Commission, to normalize its rate case expense over 24 months, a position that added an additional $258,000 to the Company's allowed revenue increase).

responses to each of the Commission's questions, including those addressing rider recovery.

As addressed in these and I&E's April 2013 Comments, I&E believes the Commission has authority to institute reserve accounting for storm damage. While I&E believes use of a rider as a reserve funding mechanism may be considered *if necessary*, a factual finding lacking at this time, for the reasons stated below I&E does not believe that recovery of storm damage expenses through a Section 1307(e) rider is either legally sound or sound public policy. Rather, I&E recommends reserve accounting alone with debit or credit balance review occurring in the frequent filing of base rate cases PPL projected will occur during its period of accelerated infrastructure investment. Within this background and framework, I&E provides these supplementary comments responding to the Commission's nine questions.

II. I&E's RESPONSES 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 this standard?

While I&E believes that some examples of expenses that previously have been approved for recovery through a Section 1307 rider have been "substantial, variable, and beyond the utility's control," I&E does not believe that that standard alone either triggers or justifies the recovery of costs under Section 1307 or that such characterization of expenses renders them unqualifiedly eligible for Section 1307 rider recovery.

In most instances where a utility is authorized Section 1307(e) recovery, the cost has been imposed upon the utility – generally by statute – and has come with some specific statutorily-recognized right to recovery. Typical examples of expenses that fall under this category are taxes, purchased fuel charges, universal service charges, and consumer education charges.[16] Some of these expenses may be substantial, purchased fuel costs, for example. Others, however, are not. Consumer education expenses PPL proposed for rider recovery in its 2012 base rate case were approximately $8 million, of which the Commission granted approximately $2.5 million. This stands in stark contrast to PPL's $851.5 million in overall revenues, of which the Company's consumer education rider expenses comprised a mere .3%, hardly a "substantial" amount.[17] Each of these cost categories, however, shared one characteristic: they were mandated and rendered eligible for full recovery by statute.

This then, is part of the test for recovery of expenses through automatic adjustment clauses as it was most recently affirmed by Commonwealth Court in the 2011 Newtown Artesian Water Company case[18] cited by both the Office of Consumer Advocate (OCA) and PPL as precedent for both disallowing (OCA) and allowing (PPL) PPL's proposed Section 1307 Rider SDER. In that case the Court affirmed that the standard for determining expenses that may be recoverable through automatic rate adjustment are those expressly authorized by statute or those that are easily identifiable and beyond a utility's control. As the Court stated:

16 *See* I&E April 2013 Comments at 15-16.
17 *See December 2012 Order* at 54, ii.
18 *Popowsky v. Pa. PUC,* 13 A.3d 583 (Pa. Cmwlth 2011) (*"Newtown 2011"*).

> *Masthope, PIEC,* and *Popowsky 2005* support the proposition that surcharge recovery is available under Section 1307(a) of the Code (1) where expressly authorized by the General Assembly, *or* (2) where an expense is easily identifiable and beyond the utility's control. The basis for this distinction lies with the PUC's review under Section 1307(a) of the Code, which this Court described in *Masthope* as follows:
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> > [T]he [PUC]'s review is appropriately characterized as preliminary and cursory. Indeed, the very function of the typical automatic adjustment clause is to permit rapid recover[y] 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 of the projections provided by the public utility.[19]

Indeed, in *Newtown 2011*, with the exception of "substantial evidence" in footnote 5 addressing the Court's scope of review, the words "substantial" and "variable" never appear in the Court's analysis of the appropriate standard for Section 1307 recovery.

PPL's storm expenses are *not* specifically identified by statute for full recovery under a Section 1307-type mechanism. PPL's expenses for taxes, consumer education, energy efficiency and conservation, universal service, smart meters, Act 129, and non-utility, alternative energy or other purchased fuel costs have separate statutory authorization in either state or federal law requiring full and timely recovery such as is provided under Section 1307. Even PPL's Transmission Service Charge rider, which represents a pass through of transmission charges PPL incurs for purchases of transmission service made under a Federal Energy Regulatory Commission (FERC)-approved tariff from the PJM Interconnection,[20] can be equated to the type of purchased

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19 *Id.*, 13 A.3d at 591 (emphasis in original).

20 *See Pennsylvania Public Utility Commission et al. v. PPL Electric Utilities Corporation*, Docket No. R-00049255, Order entered December 22, 2004, slip opinion at 73.

energy charges statutorily approved for rider recovery, or the equivalent purchased water charges approved for pass through by Commonwealth Court in *Newtown 2011* on the same basis (an easily measurable purchased commodity cost). I&E does not believe that PPL's storm-related operating expenses rise to the same level as those categories of expenses. Thus, as a stand-alone Section 1307(e) rider modeled off of existing riders, I&E does not believe that either statutory or sound policy considerations support approval of PPL's Rider SDER.

Moreover, with respect to the Commission's question whether all storm-related operating expenses are substantial, variable, and beyond the utility's control, I&E believes that it is clear that while in the *aggregate* all storm expenses *may* meet the standards of substantial and variable, when reviewed, as incurred, as isolated events, they likely do not. Further, while the storms themselves are beyond the utility's control, precise expenses are not since the utilities do exert some control over costs by controlling *how* repairs are conducted even if they cannot exert control over *whether* repairs are conducted. On an individual event basis, therefore, short of extraordinary storm events, clearly all storm expenses do not meet each of those standards.

PPL should recognize this distinction between a rider expense and an "extraordinary" expense. PPL defined "extraordinary expense" in its December 13, 2012 Petition for Storm Deferral Accounting relating to 2012's Superstorm Sandy under the Class A utility Uniform System of Accounts as any "item" that exceeds 5% of a utility's

income.[21] An "item" is a single item, not a category of items in the aggregate.[22] While that single storm event qualified for deferred accounting, if all PPL's storm expenses from reportable storm levels and higher (i.e. major and extraordinary) were accumulated and counted as a single item for the years 2007-2011, only in the year 2009 would PPL likely *not* have had extraordinary storm expenses.[23] Yet, under current accounting rules and this Commission's practice, those cumulative expenses did not and would not have qualified as extraordinary for deferred accounting purposes.

As this Commission has recognized in prior orders approving deferred accounting for extraordinary storm losses, items for which *extraordinary* rate relief in the form of deferred accounting and amortization are provided, as distinguished from Section 1307 rider recovery, are individual items from "events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future."[24] Clearly to be subject to deferred accounting, storm expenses had to be substantial, variable, and beyond the utility's control. That standard, however, is different from the standard applicable to Section 1307 rider recovery. Neither PPL nor any other utility today enjoys dollar-for-dollar recovery of all reportable and major storm expenses.

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21 *Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting Purposes, Certain Extraordinary Expenses Relating to Storm Damage*, Docket No. P-2338996, at ¶11.

22 *See Petition of PPL Electric Utilities Corporation for Authority to Defer for Accounting and Financial Reporting Purposes Certain Losses from Extraordinary Storm Damage and to Amortize Such Losses*, Docket No. P-00032069, Order entered January 16, 2004 ("*Hurricane Isabel Order*") at 4 (citing 18 CFR Pt. 101 that "[i]n determining significance, items should be considered individually and not in the aggregate.")

23 I&E Exhibit 2, Schs. 25 and 26.

24 *Hurricane Isabel Order* at 4.

Thus, the standards for "extraordinary" and automatic adjustment expense recovery are not the same nor are they interchangeable.

However, it is precisely because today's weather vacillates between mild and extraordinary that I&E proposed its alternative of reserve accounting to capture the benefits and costs of both weather patterns. At no time did I&E or any other party endorse Section 1307 recovery for storm expenses. As I&E also noted in its April 2013 Comments, in response to informal discovery in the collaborative PPL indicated that it would consider "reasonable alternatives" to its Section 1307(e) rider.[25] I&E submits that its storm reserve accounting presents that reasonable alternative and should be adopted.

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

I&E did not propose a Section 1307 rider and does not believe that a Section 1307 rider is appropriate. In attempting to work within the confines of PPL's proposed rider, I&E's intent was to account for ratepayer overpayments (in other words, a reserve that is overfunded) by allowing the "refund" of overcollections to be flowed back to ratepayers by means of a credit to an established storm reserve in PPL's subsequent base rate case.

To the extent, however, the Commission believes that Section 1307 is implicated by I&E's modifications to PPL's proposed rider to maintain the storm expense accounting reserve adequately funded between rate cases, I&E believes that crediting and

25 I&E April 2013 Comments at 4.

debiting the size of the reserve by a separate rider would not violate the 12-month refund provisions of Section 1307(e).

Section 1307(e)(3) requires a utility to refund any revenues received under an automatic adjustment clause that exceeded the expenses designed to recover over an appropriate 12-month period "[a]bsent good reason being shown to the contrary[.]" PPL itself acknowledged this statutory delegation of discretion to the Commission in its comments filed in May, stating "[t]he Commission presumably could find a 'good reason' for one-way reconciliation[.]"[26]

The thrust of I&E's position in the base rate case was that with the replacement of its affiliated insurance arrangement with a form of self-insurance through reserve funding. While the Commission may wish to consider whether or how to properly size the reserve between rate cases, PPL's limited experience with sizing the reserve in the case below coupled with the lack of full and transparent evaluation of a rider below supports I&E's recommendation that the Commission not consider funding the reserve between rate cases through a rider at this time.

3. Under a 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?

I&E does not believe that there is one single appropriate time period over which to amortize expenses from a major storm. Rather, each amortization period should be

26 PPL May 6, 2013 Comments at 23.

developed based upon Commission review of the gravity of the particular storm and the particular level of storm-related expenses resulting from the storm. Since not all major storms are of the same level of gravity and expense, it is probably best that no one amortization period be predetermined in advance.

If attempting to set a predetermined amortization period, however, relevant factors that the Commission should consider are prior amortization periods granted by the Commission for deferred accounting of expenses from past storms. Since each of these was based upon the Commission's review of the particular storm at issue, consideration of that regulatory history would at least entail consideration of the actual recent history of storm activity experienced in PPL's service territory. Based upon those factors, as I&E addressed in its April 2013 Comments, if the Commission were to apply a predetermined amortization period, then a five-year amortization period would be appropriate.[27]

The Commission's inquiry whether a sliding scale of amortization periods could be established introduced a new proposal that had not been considered by the parties, and I&E believes that consideration should be given to the concept of a sliding scale instead of one predetermined amortization period. The concept of a sliding scale would address the issue of relating the magnitude of storm costs experienced to the period of time necessary for recovery. In hindsight, the current proposals that only carve out major storms for a predetermined amortization period fail to consider the variability of major storm costs and the potential impact of high storm costs in a year in which no storm reaches major storm characterization.

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27 *See* I&E April 2013 Comments at 24-26.

In 2011, PPL petitioned for deferral of storm costs for two major storms, Hurricane Irene and the Halloween Snowstorm. In the underlying base rate case, PPL submitted the aggregate cost of these two storms, $26,622,371, for a five-year amortization period, which was subsequently approved by the Commission.[28] There are two issues of major significance in that 2011 storm year.

The first issue is that PPL reported $57,800,000 of total storm costs in 2011 yet submitted only two major storms totaling $26,622,371 for amortization.[29] Under PPL's proposal, even as modified by I&E in its April 2013 Comments, the specified amortization limitation would have left $31,177,629 ($57,800,000 - $26,622,371) subject to a one-year rider recovery in addition to either the one-third or one-fifth portion of the $26,622,371 subject to amortization. The second issue of relevance is the fact that the amortization period approved was based on the aggregate cost of two major storms.

With these issues in mind, I&E believes that a better way to establish an amortization period would be to base it on a sliding scale relative to the aggregate reportable storm costs subject to recovery. In fact, this treatment of storm costs would be more consistent with replacement of PPL's storm insurance, which is the purpose of this proceeding, since PPL aggregated calendar year reportable storm expenses to present a single aggregate claim under the policy.[30]

Regardless of whether storm costs accruing in a reserve account debit balance are addressed prospectively with a rider or by resizing the base rate budget in a base rate

28 PPL Statement No. 2-R at 4.
29 I&E Exhibit No. 2, Sch. 25 at 2.
30 PPL Statement No. 14-RJ at 3, lines 18-20.

case, a maximum annual recovery amount could be established, which would inherently relate the total level of storm costs subject to recovery to the amount of time required for recovery, which would result in a sliding scale for the amortization period.

While there is merit to the Commission's inquiry regarding a sliding amortization scale, I&E believes that it would be better evaluated within a the context of a base rate case and therefore recommends that the issue of a rider be deferred to PPL's next base rate case. This recommendation is further justified by the fact that at the conclusion of 2013, PPL will have had essentially a $14.7 million reportable storm budget year with only two reportable storms and no major storms. Using the effective date of January 1, 2013 coming out of PPL's last base rate case where the issue of establishment of a storm reserve was addressed, the Company would already be entering the new budget year with a credit in the storm reserve account available for prospective storm expenses.

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

If I&E's reserve recommendation is implemented, the Commission does not need to establish a different definition for major storms. I&E's proposal was specifically designed to replace PPL's affiliated insurance purchase, which covered all Commission-reportable events,[31] with a form of self-insurance through a reserve. Therefore, all reportable events would continue to be covered through the storm reserve as they were under the insurance policy.

31 I&E Exhibit No. 2-SR, Sch. 2, p. 4.

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, such as above authorized actual returns, be included in such cost recovery reserve funds?

No regulatory precedent currently exists in Pennsylvania for either the establishment of a storm expense reserve fund or the appropriate means to replenish such a reserve. However, as addressed in detail in I&E's April 2013 Comments, in the testimony of I&E's witness Dorothy Morrissey in the base rate case below, and in these supplemental comments, many other states have authorized the use of a reserve as a form of self-insurance.[32] Thus, I&E's proposed reserve accounting for PPL storm damage expenses with replenishment either in base rate cases or between rate cases *if necessary* by rider is not unprecedented in rate regulation.

The majority of the states that use a reserve system initially created and continue to adjust the funding of a reserve within the context of base rate cases. The size of the reserve is revisited in subsequent rate cases and replenished (through additional rate increases) or downsized (through lowered rates) as the size of the fund in relation to experienced expenses between cases dictated. These cases are addressed in full detail in I&E's April 2013 Comments. After establishing the reserve in base rates, any excess of rate revenues collected over storm expenses incurred in a particular year remains in the reserve as a means of building the reserve for future use. If in any year the reserve account accrues a negative balance, the utility may file a separate petition seeking recovery or, as it appears, some jurisdictions preemptively authorize the establishment of

32 *See* I&E April Comments at 14-23; I&E Statement No. 2 at 36-39; I&E Statement No. 2-SR at 35-41.

a storm damage regulatory asset account to address the negative reserve, the recovery of which is left to be determined in the next base rate case.[33]

For example, as addressed in I&E's April 2013 Comments, New York, a neighboring jurisdiction that experiences similar weather patterns, has allowed for reserve accounting for major storm recovery since 1997 with funding addressed as necessary. Subsequent to its establishment of a reserve, Central Hudson petitioned for and received approval from the New York Public Service Commission (NYPSC) to offset extraordinary storm expense against its accrued excess earnings as a means of adequately funding the reserve.[34]

This is also the form of accounting addressed at length by the Indiana Utility Regulatory Commission (URC) for the same reasons advocated by I&E in its April 2013 Comments, in a February 2013 order entered the same time PPL's Rider was pending before this Commission. In approving a major storm damage restoration reserve proposed by the utility, the Indiana URC recognized that "[t]imely and safe service restoration

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33 *See* Florida Administrative Code, Title 25, Chapter 25-6, Part II, Section 2506.0143, use of Accumulated Provision Accounts 228.1, 228.2, and 228.4 (for Property Insurance); *See* Arkansas Code Annotated (A.C.A.), Title 23, Section 23-4-112 (providing that the initial amount included in the storm cost reserve shall be the amount currently being recovered through approved rates for storm damage expenses to be adjusted in future rate cases based upon historical costs); *Petition of Indiana Michigan Power Company, an Indiana Corporation, for Authority to Increase Its Rates and Charges for Electric Utility Service, for approval of: Revised Depreciation Rates; Accounting Relief; Inclusion in Basic Rates and charges of the Costs of Qualified Pollution control Property; Modifications to Rate Adjustment Mechanisms; and Major Storm Reserve; and for Approval of New Schedules of Rates, Rules and Regulation*, 2013 WL 653036 (Ind. U.R.C.) slip opinion at 57 ("*Indiana Michigan Power*"); *In Re: Notice of Intent of Entergy Mississippi, Inc. to Change Rates by Implementing Storm Damage Rider Schedule SD-8 to Supersede Storm Damage Rider Schedule SD-7* ("*Entergy Mississippi*"), 2012 WL 3265080 (Miss.P.S.C.), slip opinion at 1; *In Re: Petition of Progress Energy Florida, Inc. for Expedited Approval of the Deferral of Pensions Expenses, the Authorization of Charge Storm Hardening Expenses to the Storm Damage Reserve, and the Variance or Waiver of Rule 25-6.0143*, 2009 WL 1990946 (Fla. P.S.C.); *In Re Public Service Company of New Hampshire* 93 N.H. P.U.C. 289 (2008); and *Re Central Hudson Gas & Electric Corporation*, 2000 WL 990865 (N.Y.P.S.C.).

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

following a major storm is vital[.]"[35] Yet whereas extraordinary expenses were always subject to separate recovery, "ratepayers [] essentially over-paid . . . and the utility ha[d] the use of the excess revenues to support other expenses or to include as a return to shareholders" in times where storm expenses were substantially less than what was approved in the utility's base rates. As the Indiana URC acknowledged, approval of an accounting reserve "smooth[ed] out the impacts of major storms, thereby mitigating the financial consequences of a major storm."[36]

It is for this reason that I&E proposed reserve accounting, with consideration of a rider as a backstop to assure adequate funding as necessary until a fully funded reserve was established. Volatile expense items such as recent storm activity can have an exceptional impact on budgeting, earnings, and credit rating. Alternatively, ratepayers could be subject to rates that are unnecessarily high if projections for storm expenses built into base rates, coupled with healthy authorized returns on equity, are not realized if weather patterns revert to low storm cycles. Thus, reserve accounting allowed for the benefits of blue sky years to be balanced against the costs of gray sky years, with the size of the reserve revisited in intervening base rate cases to adjust for known and experienced impacts on funding.

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35 *Petition of Indiana Michigan Power Company, an Indiana Corporation, for Authority to Increase Its Rates and Charges for Electric Utility Service, for approval of: Revised Depreciation Rates; Accounting Relief; Inclusion in Basic Rates and charges of the Costs of Qualified Pollution control Property; Modifications to Rate Adjustment Mechanisms; and Major Storm Reserve; and for Approval of New Schedules of Rates, Rules and Regulation*, 2013 WL 653036 (Ind. U.R.C.) slip opinion at 59 (*Indiana Michigan Power*).
36 *Id.*

In addition to those previously cited by I&E and discussed in its April 2013 Comments, other regulatory agency decisions addressing the establishment and funding of storm reserves are available from Georgia, Connecticut, and South Carolina.

In South Carolina, the South Carolina Public Service Commission (SCPSC), still dealing with the devastating effects of 1989's Hurricane Hugo, approved the request of the South Carolina Electric and Gas Company (South Carolina Electric) in a base rate filing in 1996 to implement reserve accounting as a replacement for property insurance which, following Hugo, became expensive, limited, and inadequate. South Carolina Electric's position was stated in that case as follows:

> The Company proposes in this docket to set aside a storm damage reserve which would help offset the potential financial impact of a major hurricane or other catastrophic occurrence. The storm damage reserve as proposed also creates a mechanism for the recovery of amounts of storm-related expenditures that exceed the balance on hand in the fund at any given time. Specifically, the Company requests authorization to accumulate a fund of $50,000,000 to be funded at $10,000,000 a year over five (5) years.[37]

The SCPSC approved the reserve, over the objection of the South Carolina Consumer Advocate, modifying the company's proposal to fund the reserve over ten years rather than five and finding as follows:

> [B]ecause of the limited coverage, substantial deductible, and high premiums, referred to above, the Commission finds that there is not an economically viable commercial insurance option available to the Company to protect against losses to its T&D system. Moreover, if the Company were able to purchase insurance, the cost would be passed directly to customers. The premiums would be treated as operating expenses for regulatory purposes.

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37 *Re South Carolina Electric and Gas Company,* 167 P.U.R.4th 154, 184 (S.C.P.S.C. 1996) (*"South Carolina Electric 1996"*)

> While the Company would be entitled to recover in rates for catastrophic storm damages which might be sustained, such recovery would be imposed on ratepayers at a time when they themselves would also be recovering from the effects of such a storm. The Commission believes that it is appropriate to mitigate this economic consequence by the creation of the proposed reserve fund. For these reasons, the Commission finds that the Company's proposal is reasonable and prudent and that the Company should be allowed to establish a Storm Damage Reserve Fund of $50,000,000. However, we hold that the fund should be collected at the rate of $5,000,000 per year over a ten year period as proposed by the Navy. This increase in the collection period will reduce the immediate impact on the ratepayers of the Company.[38]

The SCPSC affirmed this reserve accounting for South Carolina Electric in a subsequent case in which the Commission again noted the benefits of reserve accounting:

> In Order No. 96-15 at pp. 61-66, the Commission authorized the Company to establish a storm damage reserve as an alternative to acquiring insurance for distribution and transmission facilities not otherwise covered under standard casualty insurance policies. The storm damage reserve was authorized as an alternative to the expensive, inadequate or risky insurance coverage available against such losses on the market. ... [T]he Commission has historically allowed utilities to accrue the prudent and necessary costs of major storms as regulatory assets and to amortize them in future rates. The storm damage reserve established in Order No. 96-15 changes the timing for recovery of such costs by allowing those costs to be collected over time in advance of a storm. The mechanism thereby protects customers and the Company from unexpected and potentially disruptive rate increases that might otherwise be necessary to cover catastrophic storm damage.").[39]

The Connecticut Department of Public Utility Control has also authorized the use of reserve accounting to address storm expenses, in the case of The United Illuminating

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38 *South Carolina Electric 1996*, 167 P.U.R.4th at 185.

39 *Re South Carolina Electric and Gas Company,* 225 P.U.R.4th 440, 462 (S.C.P.S.C. 2003) ("*South Carolina Electric 2003*"). In 2007, the SCPSC revised the size of the reserve to $100 million, and also approved South Carolina Electric's request for payment of insurance premiums from the fund, noting that "for the first time in decades" a newly emerging casualty insurance market covering hurricane related losses was available. *In re South Carolina Electric and Gas Company*, 2007 WL 4944728 (2007) ("*South Carolina Electric 2007*") at *1.

Company using 1985's Hurricane Gloria "as a baseline of the potential costs associated with a 'major event.'"[40] Georgia, similarly, has approved storm damage reserve accounting.[41] Under any scenario, the reserve is established, funded through rates, and adjusted either upwards or downwards in subsequent rate cases or between rate cases through rider or separate petition.

In South Carolina, for example, upon evidence of the need for a larger reserve, the size was increased upon the company's application and then further reviewed in a subsequent rate case.[42] In Connecticut, when it was determined upon review that the reserve was too large, funding to it through rates was reduced.[43] Essentially, if the estimated storm cost created a reserve account that reached an established maximum or was larger than expected, the rates were adjusted downward to reflect less funding. Conversely, where coverage for greater storm damage than was accruing in the reserve

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40 *In Re The United Illuminating Company* 246 P.U.R.4th 357 (Conn.D.P.U.C. 2008) ("*United Illuminating*").

41 *See e.g. In Re Savannah Electric and Power Company*, 2005 WL 1657125 (Ga.P.S.C. 2005) ("*Savannah Electric*") at *2, *5 ("In the event the Company incurs costs chargeable to the storm damage reserve account, such costs shall not be expensed, but shall be charged to the storm damage reserve account, even if that results in a negative balance to the storm damage reserve account. Upon the occurrence of such an event, the Commission hereby authorizes the establishment of a storm damage regulatory asset account and will determine the appropriate recovery of any balance in this account in the Company's next general rate proceeding.").

42 *South Carolina Electric 2007*.

43 *United Illuminating*, 246 P.U.R.4th at 398-99 ("The Department agrees with the OCC and the AG that the storm reserve balance at the end of 2005 of $3.7 million is sufficient to provide the Company protection against a potentially catastrophic event. The Department notes that since Hurricane Gloria, no catastrophic event occurred that required using $2 million or more in either expense or storm reserve during that 20-year period. *Id.*, p. 775. Also, if a catastrophe were to occur that exceeded the amount in the reserve account, the Company indicated that it would 'clearly be back before the Department as quickly as we could to seek recovery.' *Id.*, p. 778. If such a catastrophe occurs, the Department hereby allows the Company to create a regulatory asset immediately upon the occurrence of the event and payment of the storm-related related expense to be recovered, along with an amount to begin to restore the depleted reserve, in rates to be determined by the Department in a subsequent proceeding. The Department, therefore, agrees with the OCC and hereby disallows the storm reserve expense of $600,000 in each year 2006 through 2009. Further, the proposed reserve amount in rate base is reduced (increasing rate base) by $300,000 in 2006, $900,000 in 2007, $1,500,000 in 2008 and $2,100,000 in 2009. In addition, the proposed deferred income tax asset for the reserve is reduced (decreasing rate base) by $123,000 in 2006, $367,000 in 2007, $611,000 in 2008 and $855,000 in 2009. The Department will review the sufficiency of the storm reserve balance in UI's next rate case proceeding.").

was reasonably anticipated, rates were adjusted upward to increase funding, or deferred as an asset for recovery in a future base rate case.

With this regulatory precedent, I&E believes establishing a storm reserve in PPL's base rate case, as I&E witness Morrissey proposed and the ALJ accepted, is appropriate. PPL already has one year's storm experience almost completed. Further, since PPL contended before the Commission in its 2012 base rate case that it would be filing another base rate case in two years (in or before 2014), the Commission may use that next proceeding to review experienced rate recovery and storm expenses and replenish or resize the reserve as necessary.

This would accomplish I&E's goal of replacing questionable affiliate insurance with a form of PPL's self-insurance. It would also allow customers to pay a regular budgeted amount under a moderated rate each year to protect against larger storm losses in the future and avoid rate spikes in more active storm years where customers are also faced with other personal storm-related costs such as home repair, yard repair, and car repair. This was persuasive to the SCPSC, which, in approving South Carolina Electric's storm reserve account declared that reserve accounting mitigated the economic impact of the storm on ratepayers at the same time ratepayers are, too, recovering from the storm's effects.[44]

Although I&E believes, particularly after further consideration in light of the questions raised in the Commission's *November 2013 Order*, that implementation of a rider at this time is premature and insufficiently evaluated, if the reserve becomes at some

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44 *South Carolina Electric 1996*, 167 P.U.R.4th at 185.

point substantially overfunded or underfunded between rate cases, the Commission could give further consideration to a rider to address funding between rate cases. This was the path followed by Mississippi as addressed in I&E's April 2013 Comments. The Mississippi Public Service Commission (PSC) authorized the maintenance of a storm damage reserve under the PSC's general ratemaking authority and also authorized a storm damage rider, subject to PSC review and audit, to fund the reserve by changing rates to increase funding to the reserve where active storm patterns render the existing reserve balance insufficient. When, for example, Entergy Mississippi changed rates in July 2012, it was because the company had maintained a negative balance of $30.1 million in its storm reserve since September of 2008. The PSC authorized the amortization of a portion of the negative storm reserve balance through approval of a new rider rate to "help to provide customers with an adequate and appropriate reserve [and] help to level out over time the costs of repairing facilities and restoring service to customers after storm events."[45] This case, I&E believes, accurately reflected I&E's attempted combination of PPL's proposed Rider SDER with I&E's proposed reserve as reflected in I&E's April 2013 Comments. As stated herein, however, I&E believes that it is best for the Commission to defer consideration of a rider until PPL's 2014 base rate case.

As for accounting for other over-recovery amounts such as above-authorized actual returns, in New Hampshire the Public Utilities Commission approved

45 *In Re: Notice of Intent of Entergy Mississippi, Inc. to Change Rates by Implementing Storm Damage Rider Schedule SD-8 to Supersede Storm Damage Rider Schedule SD-7 (Entergy Mississippi)*, 2012 WL 3265080 (Miss.P.S.C.), slip opinion at 3.

establishment of a major storm cost reserve account for the Public Service Company of New Hampshire.[46] In a subsequent proceeding in which the parties adjusted the size of the annual accrual to the company's storm reserve, the parties also agreed to a return on equity (ROE) earnings sharing agreement through an ROE collar of 10%. Any rate recovery that provided for a greater return was shared with 75% credited to customers and the company allowed to retain 25%.[47]

As identified above, in New York, Central Hudson received approval from the NYPSC to offset extraordinary storm expense against accrued excess earnings. Finally, as I&E noted in its April 2013 Comments, while Arkansas does not address other over-recovery amounts specifically, in that jurisdiction the Arkansas Public Service Commission may adjust the utilities' authorized rates of return due to the "increased certainty of recovery of the electric public utility's storm restoration costs as a result of establishing a storm cost reserve account[.]"[48]

Since PPL's return on equity was established in the 2012 rate case at 10.4% with no risk reduction taken into account for separate storm expense accounting (with or without a rider), an earnings sharing mechanism would be appropriate and should be considered in PPL's next base rate case. So far in calendar year 2013 PPL has realized only two reportable storms and no major storms.[49] By the end of this calendar year, there

46 *See* I&E April 2013 Comments at 17.
47 *Public Service Company of New Hampshire Petition for Permanent Rate Increase*, 2010 WL 2641514 (NH.P.U.C. 2010) (Order No. 25,123 June 28, 2010) at 9.
48 *See* I&E April 2013 Comments at 18, citing 23 A.C.A. §23-4-112(d)(1).
49 Re: PPL Electric Utilities Corporation Report of Electric Service Interruptions Due to Thunder and Lightning Storm on July 7-8, 2013, filed July 15, 2013, pursuant to 52 Pa. Code §67.1, identifying 127 cases of trouble and 24,291 customer service interruptions; Re: PPL Electric Utilities Corporation Report of Electric Service Interruptions Due to Thunder and Lightning Storm on September 11-12, 2013, filed September 19, 2013, pursuant to 52 Pa. Code §67.1, identifying 133 cases of trouble and 18,199 customer service interruptions.

is a likelihood that PPL will continue to have on account most of the $14.7 million that would have been built into rates under PPL's proposed rider. If this amount had been funding a reserve throughout the year, the interest earned would defray any debt interest in subsequent higher storm years, and the reserve at the beginning of 2014 would likely be very near the amount embedded in rates as a result of the rate case. If a reserve is allowed to accrue, an earnings sharing mechanism for earnings above the authorized rate of return would be appropriately considered.

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

I&E believes that a cap on the size of the reserve is appropriate, but that a cap on the amount of costs recoverable under a storm rider or reserve account may not be. The benefit of establishing, and resizing as necessary, a reserve in base rate cases is that a cap is less necessary because it is always in review. As is the case with an appropriate amortization period for major storm expense recovery, however, it is difficult to predetermine a capped amount because the storm costs, albeit ultimately reviewed for prudency in base rate cases, are largely determined by the event and unless imprudent, need to be adequately funded in order to return the utility to service. Thus, the issues of appropriate amortizations or perhaps a sliding scale for amortization of large expenses more appropriately addresses the retention of just and reasonable rates.

That said, the Commission should consider a cap on the permissible size of the reserve. Based upon I&E's review of PPL's historic major storm expenses in the base

rate case below, I&E believes that a starting reserve of $14.7 million may be inadequate from the self-insurance perspective unless 2013's lean storm year is repeated for another two or three years.

A more appropriately-sized target reserve in the amount of approximately $50 million may be a more accurate size for either a regulatory asset or a regulatory liability balance. I&E's proposal for consideration of a $50 million reserve is supported by review of PPL's worst case storm cost year, 2011, as reported to I&E in the underlying base rate case.[50] In 2011, the Company realized $57.8 million in distribution storm costs. With a reserve sized at $50 million and the annual $14.7 million in base rate funding, PPL's worst storm year could have been fully funded without having to consider supplemental funding through an external rider. In the event the reserve becomes funded in excess of the reserve cap, the Commission would resize the fund by setting a lower revenue requirement (to generate lower funding) in the subsequent rate case and thereby accounting for the excess regulatory liability.

7. Why is it appropriate to charge interest on any amortized expenses? Provide pertinent case histories on where the Commission has permitted collection 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?

I&E does not believe it is appropriate to charge interest on amortized storm expenses. Neither PPL nor any other utility currently earns interest on amortized storm expenses. Extraordinary storm-related expenses can be subject to deferred accounting

50 I&E Exhibit No. 2, Sch. 2.

rules that allow for the establishment of a regulatory asset. Recovery of the expenses are then addressed, without interest, when the utility files its next base rate case. Amortized expenses become part of O&M and subsequently a factor in the revenue requirement; any debt used to fund the repairs when made is accounted for when performing rate of return calculations. Until that time, however, utilities do not earn interest on amortized expenses.

Moreover, in the rate case below, PPL acknowledged that utilities have never been allowed to earn a return on deferred operating costs. In response to OCA's proposed adjustment to PPL's accumulated deferred taxes offset to rate base, PPL's witness Kleha stated as follows:

> Mr. Koda's proposed adjustment is fundamentally flawed for several reasons. First, in following its long-standing practice and precedent of not permitting jurisdictional utilities to earn a return on deferred operating costs, the Commission's order approving the deferral of storm restoration costs for Hurricane Irene and the Halloween Snow Storm did not authorize PPL Electric to include the unamortized balance of those deferred storm costs in its rate base or to earn a return on that balance (regulatory asset). Second, if a jurisdictional utility were permitted to earn a return on the unamortized balance of deferred storm costs or could apply an interest component to compensate it for the time value of money, and the utility were permitted to reflect the deferred income taxes associated with the deferred storm costs as a component of its test year current tax expense, then, and only then, should a deferred tax amount associated with those deferred storm costs be used to reduce the utility's rate base.[51]

It is inappropriate to charge ratepayers interest on amortized expenses.

51 PPL Statement No. 8-R at 39-40.

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 opportunity and reporting requirements should be required in such rate filings? Should only actual or estimated expenses be included?

For the reasons stated, I&E does not believe that a rider should be approved at this time and on the basis of the record established. There is no precedent for PPL's proposed recovery of storm expenses and I&E believes that authorizing a Section 1307 rider in the form that currently exists for other statutorily-authorized expenses for storm expenses is both unnecessary and imprudent. The reserve account balance limits or budgeted storm expense amounts can be revisited in PPL's next base rate case.

However, in the event the Commission approves a rider, then I&E believes that the storm rider calculations and the storm expense details should be served on all public advocates and customer notice of the filing should be effectuated by PPL. Further, the filing should be subject to review, comments (written comments and replies, including hearing if necessary) and formal approval, and ultimately audited. The filing should include all supporting calculations and documents from which the proposed rate was derived, and any rate put into effect should be subject to refund or recoupment as the Commission recently recommended in approving the initial round of energy company Distribution System Improvement Charges.[52]

52 *See e.g. Petition of Columbia Gas of Pennsylvania, Inc. for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2338282, Order entered March 14, 2013, at 31 ("We shall permit Columbia to implement a DSIC mechanism, pursuant to a tariff filed on a 10-day notice and in compliance with the directives in this order, but note that the rates charged pursuant to the DSIC surcharge shall be subject to recoupment and refund after final resolution of the issues brought before the OALJ.")

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

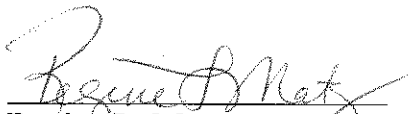
I&E agrees with PPL's proposed allocation using the approved class cost of service study from the last approved base rate case. While I&E does not believe that inclusion of the allocation factors in any tariff provision is necessary, PPL could either reference its last approved base rate case in its tariff or specifically include the allocation factors from the base rate case in any approved tariff term addressing storm expense recovery. Ratepayers, particularly those who are more sophisticated and energy-conscious, might find listing of the allocation factors to be relevant or instructive so they may determine each rate class' responsibility for storm expenses.

III. CONCLUSION

The Bureau of Investigation and Enforcement, as the party proponent of the proposal accepted by both the Administrative Law Judge in her October 19, 2012 Recommended Decision and the Commission in its December 28, 2012 Order, respectfully submits that establishment of a storm expense reserve account is the appropriate resolution of this matter. Given that PPL has already experienced almost one calendar year with only two reportable storms, it should already have a measurable amount of reserve funding to carry over into the next calendar year. That, coupled with PPL's commitment before the Commission in the rate case below that it will file another base rate case in or before 2014 should allow the Commission and PPL a meaningful opportunity to review the size of the reserve and the embedded expense level on a going

forward basis, allowing the Commission to defer, for now, whether or not a supplemental funding rider is necessary.

Respectfully submitted,



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