



COMMONWEALTH OF PENNSYLVANIA

December 30, 2013

E-FILED

Rosemary Chiavetta, Secretary
Pa. Public Utility Commission
Commonwealth Keystone Building
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 Reply Comments, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive that reads "Steven C. Gray" followed by the initials "T.S." written in a larger, stylized font.

Steven C. Gray
Assistant Small Business Advocate
Attorney ID #77538

Enclosures

cc: Parties of Record
Robert D. Knecht

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :

v. :

PPL Electric Utilities Corporation :

Docket No. R-2012-2290597

REPLY COMMENTS OF THE
PENNSYLVANIA OFFICE OF SMALL BUSINESS ADVOCATE

I. Introduction

Pursuant to the Pennsylvania Public Utility Commission (“Commission”) Order entered November 15, 2013, at the above-captioned docket, the Pennsylvania Office of Small Business Advocate (“OSBA”) respectfully submits these reply comments relating to the Storm Damage Expense Rider (“SDER”) proposed by PPL Electric Utilities Corporation (“PPL Electric” or “the Company”). The OSBA participated in the collaborative effort mandated by the Commission regarding this issue in its Order entered December 28, 2012, at this docket. However, the OSBA has not heretofore formally submitted comments on this subject. Moreover, these comments are limited only to the issue of the allocation of costs and credits related to storm expenses among the various rate classes, should any such allocation be necessary.

II. Reply Comments

In Appendix A of its Order entered November 15, 2013, the Commission identified nine general topics on which it requested comments from the parties. The last of these comments was:

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

By way of background, the OSBA observes that the rates approved in the Commission's Order entered December 28, 2012, already include a provision for major and minor storm expenses. Thus, for the purposes of the proposed SDER and its alternatives, the issue of cost allocation should only arise if charges and credits beyond those already reflected in base rates are imposed on ratepayers before the Company's next base rates proceeding.

To implement the Commission's Order entered December 28, 2012, the Company has submitted the proposed SDER as a Section 1307(a) reconciliation rider, with annual adjustments in rider charges or credits to reflect reconciliation of costs and revenues. Consequently, a cost allocation methodology would clearly be needed to allocate and recover variances. The Company proposes to use the allocation factor which applied to these costs in the cost allocation study approved by the Commission in its last base rates case, namely the net electric plant or "P30" allocation factor. PPL Comments, at 28. Based on information provided by the Company

in the collaborative effort and its records from the proceeding, the OSBA understands that allocation factor to be as follows:

Rate Class	Percent
R	68.417%
RTS	1.350%
GS-1	9.488%
GS-3	12.372%
LP-4	4.370%
LP-5	0.189%
LPEP	0.071%
GH-2	0.217%
SL/AL	3.526%
Total	100.000%

The OSBA takes no exception to the Company's proposal in this regard, should any allocation be necessary.

By way of contrast, however, the Bureau of Investigation and Enforcement ("I&E") proposes that reserve accounting be used rather than the reconciliation mechanism. *See, e.g.,* I&E Comments, at 18. Moreover, while I&E had originally envisioned a mechanism by which funding of the reserve could be modified between base rates proceedings, it has withdrawn its proposal for such a mechanism. In general, the OSBA agrees with I&E's conclusion that reserve accounting is superior to a reconciliation mechanism. Furthermore, as revised, it appears that I&E's proposal for reserve accounting does not require any change in rates before the next base rates proceeding, and therefore does not require that any costs or variances be allocated among the rate classes. As the Pennsylvania Office of Consumer Advocate ("OCA") and the PP&L Industrial Customer Alliance ("PPLICA") reach similar conclusions with respect to reserve

accounting, it would appear that their recommendations also do not require a cost allocation mechanism. *See* OCA Comments, at 10. *See also*, PPLICA Comments, at 2.

Nevertheless, both OCA and PPLICA take positions in their comments regarding cost allocation that are at variance to the Company's proposal. OCA acknowledges that PPL Electric allocates storm damage and related insurance costs in the approved cost allocation study using overall distribution plant, but concludes that ". . . benefits [related to the restoration of the distribution system] are commensurate with the level of usage (Kwhs [*sic*] used) and thus costs should be assigned accordingly." OCA Comments, at 28. OCA's statement is a mere re-tread of OCA positions long rejected by this Commission. Electric distribution system costs are causally related to peak demands and number of customers. The OSBA respectfully submits that PPL Electric does not allocate any of its distribution costs on a kWh basis, and the Commission has consistently rejected the use of a kWh allocator for distribution costs.

Moreover, the OCA's cost allocation witness, Mr. Glenn Watkins, who prepared his own cost allocation study in this proceeding, did not contest the use of a plant allocator for storm damage costs in this matter and also explicitly used a distribution plant allocation factor.¹

The OSBA submits that OCA's proposal to change the cost allocation methodology approved by the Commission and its own expert at this stage of the proceeding should be rejected.

PPLICA similarly acknowledges that these costs were allocated on the basis of distribution plant costs in the Commission's approved cost allocation study, and indicates that "[a]llocating storm damage cost in accordance with PPL's most recent base rates case is consistent with cost allocation principles." PPLICA Comments, at 9. The OSBA agrees.

¹ See Schedule GAW-7, pages 7 and 8, for Mr. Watkins' allocation of property damage, property insurance, Hurricane Irene, and Halloween Snow Storm expenses, all of which Mr. Watkins allocates using the "P30" or "33" distribution plant allocation factor.

However, PPLICA's comments indicate that PPLICA believes the appropriate allocation factor for the LP-4 class would 4.1 percent of costs, which is not consistent with the information cited above, which implies the correct factor for that class is 4.37 percent. *Id.* As PPLICA offers no basis for its view, the OSBA respectfully submits that this discrepancy be resolved.

However, despite reaching the obviously correct conclusion regarding cost allocation, PPLICA reverses itself and requests that LP-5 and LPEP customers be exempt from any storm damage costs being allocated. *Id.* By PPLICA's own statement quoted above, such a change in cost allocation is not consistent with cost causation. Moreover, PPLICA did not contest the use of a distribution plant allocator for these costs in the evidentiary phase of this proceeding. While PPLICA expert Mr. Richard A. Baudino submitted rebuttal testimony regarding OCA witness Mr. Watkins' cost allocation method, he did not contest Mr. Watkins' use of a plant allocation factor for storm damage costs.

Finally, PPLICA attempts to justify its change of position with the argument that PPL Electric would not recover any costs related to transmission voltage customers in Rates LP-5 and LPEP under the proposed rider. PPLICA Comments, at 9. However, for LP-5 and LPEP customers, the plant allocation factor generally reflects Company-owned meters costs. OSBA knows of no reason why such meters would not be replaced by the Company if they were damaged in an extreme storm event.

The OSBA therefore respectfully requests that PPLICA's request that LP-5 and LPEP customers be exempt from any allocation of storm damage costs or credits be rejected.

III. Conclusion

The OSBA respectfully submits these reply comments for the Commission's consideration in accordance with the Order entered November 15, 2013.

Respectfully submitted,


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Dated: December 30, 2013

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Reply Comments, on behalf of the Office of Small Business Advocate, by e-filing, e-mail, and/or first-class mail (unless otherwise noted) upon the persons addressed below:

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