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

IN REPLY PLEASE
REFER TO OUR FILE

April 28, 2014

Via E-Filing

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) **Answer to the PPL Electric Utilities Corporation Petition for Reconsideration and Clarification** 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
Certificate of Service

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 **Answer to the Petition for Reconsideration and Clarification** dated April 28, 2014, 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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PA Attorney I.D #42498

BEFORE THE
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Pennsylvania Public Utility Commission	:	
	:	
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BUREAU OF INVESTIGATION AND ENFORCEMENT ANSWER TO PPL ELECTRIC UTILITIES CORP.'S PETITION FOR RECONSIDERATION AND CLARIFICATION

The Bureau of Investigation and Enforcement (I&E) of the Pennsylvania Public Utility Commission (PUC or Commission), pursuant to Section 5.572 of the Commission's regulations, 52 Pa. Code §5.572, respectfully submits this Answer to the Petition for Reconsideration and Clarification filed by PPL Electric Utilities Corporation (PPL or Company) on April 18, 2014, at the above docket and granted by the Commission pending review on the merits by Order entered April 23, 2014.

I. INTRODUCTION

PPL seeks reconsideration and clarification of the Order entered by the Commission on April 3, 2014, which resolved an issue outstanding from PPL's 2012 base rate case[1] addressing PPL's recovery of storm damage expenses. PPL originally filed its Storm Damage Expense Rider (SDER or Rider), Supplement No. 130

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1 *Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Order entered December 28, 2012) (*December 2012 Order*).

(Supplement No. 130) to Tariff – Electric Pa. P.U.C. No. 201, on March 28, 2013, following an unfruitful post-base rate case collaboration among the parties to address the feasibility of a storm damage expense reserve or an expense rider. I&E, the Office of Consumer Advocate (OCA), and the PPL Industrial Customer Alliance (PPLICA) filed comments and replies to comments to PPL's initial proposal on April 18, 2013, and May 6, 2013, respectively. By Order entered November 15, 2013, the Commission presented a series of nine questions and solicited a further round of comments and replies from the parties, which were filed on December 16, 2013 and December 31, 2013, respectively.

I&E is the party that raised and pursued in the base rate case the issue of PPL's recovery of storm damage expenses. I&E consistently supported the approval of reserve accounting, modeled after FERC Account 228.1, as an alternative mechanism to PPL's essentially self-insuring within its corporate family through the purchase of insurance from its Bermuda affiliate PPL Power Insurance, Ltd.

In testimony, I&E witness Morrissey aptly summarized I&E's position regarding PPL's recovery of storm damage expenses as follows:

> 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 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.[2]

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 within the regulated entity itself through reserve accounting with the possibility of a rider funding the reserve between rate cases if 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.

Again, as described by I&E's witness:

> 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.
>
> * * *
>
> *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

[2] I&E St. 2-SR at 39.

> storm expenses can be accrued against an accumulated self-insurance balance.[3]

On the evidentiary record developed in the rate case, PPL defended its affiliated insurance practices. While PPL raised the prospect of a rider in rebuttal, it did not oppose a reserve and provided no details for a rider, indeed contesting that the time was too short to consider a rider.[4] The first time PPL averred that its affiliated storm insurance would not be available for the year 2013, the basis for its embrace of a "reserve/tracker," was in its Exceptions.[5] Notably, PPL never stated that ***no reasonable insurance*** market was available. Rather, the only representation PPL ever made with respect to the availability of insurance was that its private affiliated insurance would not be available in 2013 and that the reinsurance terms changed. As PPL stated in that extra-record averment:

> As a result of Hurricane Sandy, PPL Insurance will again be called upon to pay to PPL Electric the entire policy limit for storm damage for 2012. As a result, PPL Insurance will not have sufficient statutory capital and surplus to prudently continue to provide storm damage insurance to PPL Electric. That is, **PPL Insurance has informed PPL Electric that it will not offer storm damage insurance to PPL Electric for 2013**. PPL Electric also has been informed that **reinsurance will not be available on terms and conditions similar to the reinsurance policy presently in effect.**[6]

In fact, in the aftermath of Hurricane Sandy, despite the widespread damage, there were no reported difficulties with other utilities maintaining reasonable insurance inside Pennsylvania or elsewhere. On that issue, PPL's averments on reconsideration vary from

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[3] I&E St. 2-SR at 39, 41 (emphasis added).
[4] PPL St. 8-R at 48, stating 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[.]"
[5] PPL Exceptions at 21, 23.
[6] PPL Exceptions at 23 (emphasis added).

its initial reports in Exceptions, with PPL now claiming for the first time that both its affiliate, PPL Power Insurance, Ltd., and its reinsurers refused to renew the insurance.

Indeed, the first time PPL proposed a Section 1307(e)-type rider was in its March 28, 2013, compliance filing. Moreover, despite proposing a substantive proposal for the first time in its March 2013 compliance filing, PPL further modified that novel proposal in its December 16, 2013 second round of comments provided following the Commission's November 15, 2013 Order.

This notwithstanding, the Commission in its April 3, 2014 Order approved a rider for PPL, adopting some, but not all, of PPL's modified Rider SDER, and modifying PPL's proposal in other manners, all while basing its decisions on consideration of "data adjudicated in the PPL 2012 base rate proceeding."[7] Despite PPL's lack of any evidentiary record below to support its Rider SDER as proposed or modified, PPL takes issue with four points in the Commission's April 3, 2014 Order, ironically given the SDER's history, because PPL believes the modifications were not properly raised in the proceeding. As PPL avers, "[i]n approving the SDER, the [April 3, 2014 Order] adopted certain modifications that were not raised by, addressed by, or presented to any of the parties to this proceeding."[8]

[7] April 3, 2014 Order at 12.
[8] PPL Petition at 4, paragraph 6.

II. STANDARDS FOR RECONSIDERATION

As set forth in *Duick*,[9] the Commission should consider exercising its discretion to reconsider an order if the Petition raises "new and novel arguments, not previously heard, or considerations which appear to have been overlooked or not addressed by the Commission."[10]

In this instance, PPL asserts that the Commission in its April 3, 2014 Order erroneously applied a Section 1308 3% cap on distribution revenues as a "just and reasonable" check on the revenues PPL could recover under the SDER. While not contesting a cap per se, PPL also contends that the revenue base to which the cap would apply was erroneously determined by the Commission because it excluded transmission, generation, and distribution rider revenues. Finally, PPL contends that the Commission erroneously determined that the Rider SDER should reset to zero in base rate cases.

As demonstrated below, these issues were either raised by the parties in the Commission's paper proceeding, as is the case with the revenue cap, or are of such a nature that vetting them through a factual evidentiary proceeding is appropriate, as is the case with the reset. PPL ignores the former, that a cap was raised, therefore reconsideration and clarification are not appropriate because no new and novel arguments not previously heard are raised. Equally, PPL ignores the latter, that the reset was not vetted, therefore reconsideration and clarification are not appropriate because PPL raises

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[9] *Duick v. Pennsylvania Gas and Water Co.*, 56 Pa. PUC 553 (1985) (*Duick*).
[10] *Id.*, 56 Pa. PUC at 559.

no considerations which appear to have been overlooked or not addressed by the Commission. Very simply, a matter not previously of record cannot be overlooked.

PPL cannot have it both ways. Its petition should be denied. Alternatively, PPL's Rider SDER should be subject to an evidentiary hearing and full vetting on the record. I&E submits that in this unique proceeding, PPL's averments do not rise to the level to warrant reconsideration or clarification under *Duick*. While I&E continues to oppose the Commission's unprecedented approval of a Section 1307 rider for PPL's recovery of storm expenses, I&E respectfully submits that where *none* of the proposals preferred by PPL or ultimately adopted by the Commission is supported on the evidentiary record, but rather addressed only for the first time in a compliance filing followed by comments, reconsideration is neither necessary nor appropriate on the grounds advanced by PPL.

PPL cannot be heard to complain about a final Commission order that modifies PPL's preferred design in a manner that PPL declares new or unsupported because the fact is that *no* Section 1307 rider was vetted on the evidentiary record. No Section 1307 rider was even proposed by PPL until its compliance filing in this proceeding. Indeed, none of the SDER facts was addressed in testimony or briefs.

Even more problematic, though unrecognized by PPL, is the fact that the entire premise underlying the Commission's grant of the SDER, namely that the SDER is necessary because of the "absence of reasonable insurance coverage,"[11] is a fiction which

[11] November 3, 2014 Order at 16 ("The *unavailability of reasonable insurance coverage* is the circumstance addressed by the proposed SDER.") and 23 ("Also, given the evidence adduced in the PPL 2012 base rate case, we conclude that the risk of excessive storm damage expenses *in the absence of reasonable insurance coverage* represents a significant imposition on the opportunity to earn an approved rate of return absent an additional base rate proceeding.") (emphasis added).

itself appears for the first time in the Commission's April 3, 2014 Order. The Commission's Order states that "[f]rom the PPL 2012 rate proceeding, we now know that insurance providers are displaying increased apprehension to insure against weather-related losses that, as of late, migrate from the category of mitigated risk to expected loss."[12] However, there was no such evidence with respect to PPL's or *any* Pennsylvania utility's provision of service. And not even PPL's unsworn averments in its pleadings in this proceeding made that claim. PPL's entire Rider SDER is unsupported. If the Commission agrees to throw out the matters about which PPL complains, the Commission should reject the entire rider.

In the absence of the forum of a 2014 base rate case that PPL assured this Commission would be filed and in which PPL's proposal could be properly vetted, PPL should not be heard to complain that disliked modifications to the Commission's unprecedented approval of the final rider "were not raised by, addressed by, or presented to any of the parties to this proceeding." If the Commission's modifications to PPL's Supplement No. 130 must fall because they were novel, so, too, must PPL's entire proposal. The relief requested in PPL's petition should be denied.

III. PPL HAS NOT SATISFIED THE *DUICK* STANDARD AND ITS PETITION SHOULD BE DENIED

A. Assuming The Legality Of Rider SDER, In This Unprecedented Application Of A Section 1307 Rider To Recover Base Rate Expenses, The Commission Has The Discretion To Determine That A 3% Cap On That Subset Of Distribution Revenues Previously Relied Upon To

[12] April 3, 2014 Order at 16.

Recover Storm Damage Expenses Helps Ensure Maintenance Of A Just And Reasonable Rate

1. A 3% Cap Is Reasonable under the Law

The Commission has the statutory obligation to ensure that every rate demanded by a regulated entity remain just and reasonable.[13] In general, a "just and reasonable rate is one that, after consideration of the relevant competing interests, falls within the zone of reasonableness between confiscation of utility property or investment interests and ratepayer exploitation."[14] Just and reasonable, however, is a fluid standard as determined by the Commission based upon the specific facts and circumstances of each case. As more thoroughly explained by our Supreme Court,

> the power to fix just and reasonable rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term "just and reasonable" was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors.[15]

In the paper proceeding established to address PPL's Rider SDER, parties in comments to both PPL's initial and modified SDER addressed the need for the Commission to implement a cap on the level of revenues PPL could recover under a rider outside a base rate case. Indeed, the Commission itself, in its November 15, 2013 Order

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[13] *See* Section 1301 of the Public Utility Code, 66 Pa.C.S. §1301.

[14] 73B C.J.S. Public Utilities § 16. *See also Popowsky v. Pennsylvania Public Utility Commission*, 669 A.2d 1029, 1036 (Pa. Commw. 1995), *rev'd in part* 706 A.2d 1197 (Pa.) ("Generally, the requirement that rates be just and reasonable mandates that the proposed rates do not unreasonably benefit a utility's investors at the expense of the utility's ratepayers.") (*Popowsky*), citing *National Fuel & Gas Distribution Corp. v. Pennsylvania Public Utility Commission,* 464 A.2d 546 (Pa. Commw. 1983).

[15] *Popowsky*, 669 A.2d at 1038, citing *Pennsylvania Public Utility Commission v. Pennsylvania Gas & Water Co.,* 424 A.2d 1213, 1219 (Pa. 1980), *cert. denied,* 454 U.S. 824, 102 S.Ct. 112, 70 L.Ed.2d 97 (1981).

soliciting a second round of comments from the parties, queried whether there "[s]hould 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?"[16]

I&E stated that PPL's recovery using a reserve with rider funding as necessary should be subject to the establishment of "a maximum annual recovery amount."[17] Additionally, flowing from I&E's recommendation to implement reserve accounting, I&E also recommended a cap on the reserve, referring back to the Commission's query regarding a sliding scale of amortizations, as a means of retaining just and reasonable rates for the annual recovery piece of PPL's proposal.[18]

PPLICA, similarly, in its first round comments to PPL's original Rider SDER filed April 18, 2013, asserted that PPL's storm expenses, as expenses typically recovered through base rates but under a rider subject to recovery without base rate review, should be subject to a cap.[19] PPLICA reiterated the need for a cap in its December 16, 2013 Comments, specifically suggesting a 1% cap on distribution revenues.[20]

As a fluid standard to apply to a Section 1307 rider not otherwise authorized by statute, the Commission enjoys the discretion to determine what constitutes a just and reasonable limit. If the Commission chose to employ a cap of 3% of distribution revenues (less those revenues already subject to separate rider recovery) by referencing that as a

[16] November 15, 2013 Order, question number 6.
[17] I&E December 16, 2013 Comments at 17.
[18] I&E December 16, 2013 Comments at 27.
[19] PPLICA April 18, 2013 Comments at 9-10.
[20] PPLICA December 16, 2013 Comments at 6.

reasonable standard found in Section 1308, that determination is wholly within the Commission's discretion. Because PPL's storm damage expense rider is both unprecedented and specifically not authorized by statute, no other parameters preexist.[21] The Commission just as easily could have determined that the 5% of revenue cap that is set forth in Act 11 for the DSIC charge should apply. To suggest, as PPL does, that the Commission must source its cap in Section 1307 as opposed to obtaining guidance in Section 1308 as it has, ignores the fact that the SDER is not specifically authorized in any statute, thus this Commission is free to look elsewhere in the Public Utility Code for guidance. Thus, accepting for argument's sake that storm damage expenses are recoverable under Section 1307, the source of the Commission's cap is irrelevant.

2. A 3% Cap Based on PPL's Base Rate Case Distribution Revenues Excluding All Riders Is Appropriate

While the Commission described the cap as not to exceed 3% of "total intrastate operating revenues billed to customers"[22] exclusive of STAS, in fact the cap designed by the Commission is, as reflected in its illustration, *appropriately* more limited. Focusing on this statement by the Commission in its description of the rider, as opposed to its proper application, PPL requests the Commission to size the cap based on all intrastate revenues, including transmission, generation, and other rider revenues, claiming that

[21] Indeed, PPL's complaint that "there are many public utility Section 1307 surcharges that exceed 3% of the total distribution revenues of the applicable public utility," citing to the Section 1307(f) purchased gas cost recovery or PPL's Universal Service Rider, inadvertently emphasizes the fact that each of those riders has a specific statutory basis, support PPL's Rider SDER decidedly lacks. *See* PPL Petition at 8.
[22] April 3, 2014 Order at 25, 29.

nothing in Section 1308 specifically or the law generally provides for a restriction otherwise.[23]

In calculating the cap, the Commission used PPL's allowable distribution operating revenue as derived in the Opinion & Order Table 1 from the base rate case. The revenue derived there was based on the Commission's jurisdictional distribution revenues that were reported by the Company for the base rate case. Storm damage expenses were a part of those revenues because storm damage expenses had always been recovered through base rates.

Stated otherwise, PPL itself *excluded* transmission, generation, and various distribution rider and clause revenues from its base rate case revenue request because those revenues are identified, approved, and recovered elsewhere. Without exception, those revenues are addressed in other proceedings under specific statutory authority to recover very specific costs identified under each very specific rider generally sourced in a very specific statute.[24] Transmission, generation, and other distribution rider revenues are not included in PPL's base rate revenue request, of which storm expenses were a part until separated into their own rider, because those expenses are recovered separately for the explicit purpose of recovering other specific costs. Moreover, PPL generally maintains the position that riders and their associated revenues are issues properly addressed in each of those annual 1307 filings and not in base rate cases.

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[23] PPL Petition at 10-11.

[24] *See* I&E December 16, 2013 Comments at 9-11 ("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.")

Further, by their very specific nature, the revenues recovered under each of PPL's many preexisting riders are unavailable, and therefore inapplicable, to recovery of storm damage expenses, and therefore inappropriate to include as a basis for recovery under the SDER, which itself is aimed at recovering storm damage expenses and nothing else. PPL's Transmission Service Charge rider 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.[25] Revenues recovered under Rider TSC are intended to support PPL's transmission system, not its distribution system. Since "[t]he SDER will not provide for recovery of damages to transmission facilities, which will continue to be recovered through transmission rates[,]"[26] there is no basis upon which to augment the revenue base subject to the SDER cap to include revenues that have nothing to do with damage to the distribution system.

Generation revenues recovered under PPL's Generation Service Charge Rider GSC also represent a pass-through, in this instance of PPL's acquisition of generation to service its default service customers. Those revenues, recovered on a full and timely basis by PPL for purposes of being made whole for its generation supply costs, are recovered without profit and similarly have nothing to do with damage to the distribution system. Thus, they, too, are appropriate excluded from PPL's Rider SDER.

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[25] *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.

[26] April 3, 2014 Order at 7, reciting the principal components of the SDER as originally proposed by PPL in Supplement No. 130.

This same argument also applies with equal force to refute PPL's claim that revenues under its multitude of other distribution riders should also be included in the revenue base to which the SDER cap applies. Those riders, 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 and are all aimed at recovering specific revenues for specific purposes. No purpose is served by augmenting the intrastate distribution revenue base to which an SDER cap will apply when those revenues are not directed to storm repair of the distribution system.

3. The Level of the Cap Established Is Factually Reasonable Based on the Evidence Regarding PPL's Worst Year's Storm Experience

It is highly unlikely on the evidence of record that does address PPL's storm damage expense recovery that PPL will require a cap applicable to a larger revenue base. PPL presents neither argument nor evidence that the cap is inadequate. The main purpose of the cap has less to do with the percentage or source of revenues used and more to do with whether the magnitude of the annual amount allowed is reasonably likely to be sufficient to protect investors yet not so grand as to harm ratepayers. PPL never makes the argument that the size of the capped revenues is inadequate, and the evidence of record proves that likely not to be the case. Therefore reconsideration is not warranted or necessary on the facts.

Using data sourced from the base rate case evidentiary record, the Commission demonstrated by example that at a 3% cap of distribution base rate revenues (excluding all other riders), the revenue base from which storm damage expenses were previously recovered, the SDER would be capped at $25,543,650.[27] The evidence of record of PPL's worst storm damage exposure demonstrates factually that the size of that cap is entirely appropriate and adequate.

As I&E demonstrated in its December 16, 2013 Comments, PPL experienced its worst storm year in 2011.[28] The total costs experienced that year were reported at $57,800,000. Of that $57,800,000, $26,622,371 of expenses were due to extraordinary storms, which would be subject to the Commission ordered three-year amortization under the SDER. The remainder of the costs, $31,177,629 ($57,800,000 - $26,622,371) would fall into the normal one-year recovery SDER mechanism. Applying the rider mechanism to PPL's 2011 storm expenses, its worst storm year of evidence, the cap would work as follows:

SDER Storm Cost Total - 2011

Major Storms:	$31,177,629
Base Rate Storm Coverage:	($14,700,000)
Balance Subject to 1-Year Recovery:	$16,477,629
Extraordinary Storms:	$26,622,371
Required 3-year Amortization:	÷3
Annual Amortization Amount:	$8,874,124
Grand Total Subject to SDER for 2012:	$25,351,753

[27] April 3, 2014 Order at 30.
[28] *See* I&E December 16, 2013 Comments at 16.

Even in PPL's worst storm year, the cap that resulted from the Commission's ordered method, $25,543,650, would have covered the applicable storm costs, $25,351,753.

While describing the revenue subject to the 3% cap as intrastate operating revenues billed to customers may be imprecise, the result attained by applying the cap to the more limited bucket of distribution revenues from which storm expenses were previously recovered is perfectly adequate. Since PPL's objections go more to the revenue base and the statutory source for the cap percentage, and not to the size of the rider recovery when capped, the fact that the results of the Commission's annual cap of $25.5 million is proven adequate to cover PPL's worst storm year of evidence obviates both objections.

Both the 3% cap and the policy decision to allow PPL to recover storm damage expenses under a Section 1307 rider are creations of the Commission's discretion. The cap, while less than other statutory authorized caps for other expenses, is still perfectly reasonable at the designed level based on the evidence of record and should be acceptable to PPL as no more and no less arbitrary than any other cap to which PPL may acquiesce.

B. THE QUESTION WHETHER THE SDER SHOULD BE RESET TO ZERO DEMONSTRATES THE NEED TO PROPERLY ADDRESS PPL'S PROPOSAL IN AN ON-THE-RECORD PROCEEDING SUBJECT TO PROPER VETTING THROUGH CROSS-EXAMINATION AND EVIDENTIARY REVIEW

The Commission established a requirement in its modification to PPL's SDER that the SDER would be set to zero when the base rate recovery is resized at a base rate case. PPL objects to this requirement on the basis that a reset to zero outside the normal

reconciliation cycle would leave the prior year's storm cost recovery either over or under collected.

Using the accounting methodology PPL describes in its petition, PPL illustrates how this potential exists.[29] Herein, however, lies the fundamental problem with PPL's effort to develop and implement the SDER through a compliance filing subject to a paper proceeding. While PPL has designed the SDER immediately to start utilizing base rate recovery amounts and provide recovery for major storm costs outside of the conventional petition to defer method, PPL's accounting methodology has not received the benefit of the evidentiary vetting process that occurs through the back and forth exchange of testimony among parties. It is only through this on-the-record type of exchange that parties can fully identify, air, and test the propriety of PPL's accounting. There are certainly ways that the accounting could be designed to reset the SDER to zero at a base rate case and still ensure recovery or refund of existing storm balances, but the accounting details are completely undefined and undisclosed by PPL.

There is much beyond just the reset to zero that is left undefined for accounting treatment that makes this rush to implementation unwise. For example, what happens if the annual deferral amounts and one year storm costs exceed the rider cap? Does this then imply a sliding amortization schedule that delays recovery of extraordinary storm costs? Or, what are the criteria to allow an interim rate change? Is the interim rate change only responding to changes in the projected sales of electricity relative to over or under recovery of the historic storm costs, or is PPL trying to roll current year storm costs into a

[29] PPL Petition at 15.

rider designated to recover historic reconciled storm costs? Unlike Section 1307(f) gas cost recovery, this rider was not designed to actively address current year fluctuations. Rather, the SDER is designed to recover historic expenditures, which are not subject to change, so whether interim changes are even necessary is wholly uncertain. The only variable piece is the electricity consumption projection utilized to set the rate for the current rate year; this piece is inherently a part of the e-factor in the ensuing year's rate. These questions, and likely many others, would be properly vetted if PPL's proposal would undergo the type of scrutiny any other base rate expense would undergo, but has evaded, through this paper rush to implementation. It simply is not prudent to proceed with rider recovery of storm costs without a clear definition of the accounting methodology to be employed.

IV. CONCLUSION

The Bureau of Investigation and Enforcement respectfully submits that PPL's Petition for Reconsideration and Clarification should be denied and that implementation of any storm expense recovery rider should await PPL's filing of its next base rate case. Based upon PPL's averments in its 2012 base rate case regarding the magnitude of its capital investment and PPL's pending petition to defer accounting for certain meter expenses at Docket No. P-2014-2410164, I&E submits that if not in 2014 as previously averred, PPL's next base rate case surely is not so far in the future that reserve accounting cannot be implemented in the interim and the unprecedented proposal to recover storm

damage expenses through a Section 1307 rider properly reviewed before being implemented.

Respectfully submitted,

Regina L. Matz
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PA Attorney I.D. #42498

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Dated: April 28, 2014