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E-File

November 19, 2018

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities
Docket No. M-2018-3003269

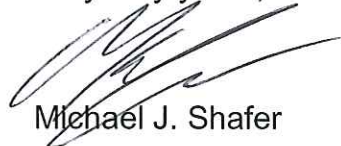
Dear Ms. Chiavetta:

Enclosed for filing on behalf of PPL Electric Utilities Corporation ("PPL Electric") is an original of PPL Electric's Reply Comments in the above-captioned proceeding. These Reply Comments are being filed pursuant to the Tentative Order issued on August 23, 2018 in the above captioned proceeding.

Pursuant to 52 Pa. Code § 1.11, the enclosed document is to be deemed filed on November 19, 2018, which is the date it was filed electronically using the Commission's E-filing system.

If you have any questions regarding these comments, please call me at (610)774-5696 or Bethany Johnson, Manager – Regulatory Operations for PPL EU Services at (610) 774-7011.

Very truly yours,



Michael J. Shafer

Enclosures

cc via email: Tanya J. McCloskey, Esquire
Mr. John R. Evans
R. Kanaskie, Esquire

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Implementation of Act 58 of 2018
Alternative Ratemaking for Utilities**

Docket No. M-2018-3003269

**REPLY COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

On June 28, 2018, Governor Wolf signed into law Act 58 of 2018 (“Act 58”), which amends Chapter 13 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §1302 *et seq.*, (relating to rates and distribution systems). Specifically, Act 58 adds Section 1330, 66 Pa. C.S. § 1330 (relating to alternative ratemaking for utilities), which permits the Pennsylvania Public Utility Commission (“PUC” or “Commission”) to approve an application by a utility to establish alternative rates and rate mechanisms. Pursuant to Act 58, the PUC “...by regulation or order, shall prescribe the specific procedures for the approval of an application to establish alternative rates” within six months of the effective date of Section 1330. 66 Pa. C.S. § 1330 (d).

To that end, on August 23, 2018, the Commission entered a Tentative Implementation Order (“TIO”) in the above-captioned proceeding. In the TIO, the Commission requested information from public utilities and interested parties on its proposed interpretation and implementation of Section 1330 of the Public Utility Code, 66 Pa. C.S. § 1330. In response, the Commission received 15 Comments filed by interested parties, including PPL Electric Utilities Corporation (“PPL Electric” or the “Company”).

PPL Electric hereby submits these Reply Comments, which respond to the comments submitted by Pennsylvania Energy Consumer Alliance, Met-Ed Industrial Users Group, Penelec

Industrial Customer Alliance, Philadelphia Area Industrial Energy Users Group, PP&L Industrial Customer Alliance, and West Penn Power Industrial Intervenors (“PECA, et. al.”), the Office of Consumer Advocate (“OCA”), and the Industrial Energy Consumers of Pennsylvania (“IECPA”) concerning the Commission’s TIO. In support thereof, PPL Electric states as follows:

I. REPLY COMMENTS

Although PPL Electric previously outlined its position in its Comments, the Company appreciates this opportunity to respond not only to those parties who interpret the Commission’s TIO differently than a majority of the parties, but also to those parties who make new suggestions as to what the Commission should require when a utility files a request for an alternative rate or ratemaking mechanism.

A. THE COMMISSION SHOULD EXPLICITLY STATE THAT DECREASED REVENUES ATTRIBUTED TO REDUCED ENERGY CONSUMPTION OR CHANGES IN ENERGY DEMAND ARE RECOVERABLE UNDER 66 Pa. C.S. §1330, PART (b).

The Commission states that it will “...interpret the ‘notwithstanding’ language in Section 1330(b) as permitting the Commission to approve an application by any utility, including EDCs, to establish alternative rates and rate mechanisms, in spite of the prohibitions in Section 2806.1(k)(2) and 2807(f)(4) of the Code.” See TIO, p. 5. As stated in its Comments, PPL Electric supports the Commission’s interpretation. See PPL Comments, p. 4. However, there is no consensus between all parties regarding the interpretation of this language. The OCA argues that “prohibitions contained within 2806.1(k)(2) and 2807(f)(4) still operate to preclude EDCs from recovering decreased revenues that are solely attributable to reduced energy consumption or changes in energy demand,” despite acknowledging that rate decoupling would inherently provide some recovery of revenues attributable to reduced energy consumption or changes in energy demand. See OCA Comments, p. 6. Additionally, IECPA does not believe that anything

within Section 1330(b) supersedes the provisions of 2806.1(k)(2) and 2807(f)(4). See IECPA Comments, p. 5. PPL Electric disagrees with comments by the OCA and IECPA that imply that decreased revenues attributed to reduced energy consumption or changes in energy demand are not recoverable. PPL Electric supports the EAP's comments asking the Commission to "clarify and expand its statement at page 4 of the TIO to avoid any future argument that section 1307 mechanisms or adjustment charges are not available to recover lost revenues attributable to Act 129 in the context of a request in a base rate proceeding consistent with section 1330(b) of the Public Utility Code" as well as PECO's comments that make a similar request. EAP Comments, p. 4; see PECO Comments, p.3.

B. ACT 58 ALTERNATIVE RATEMAKING MECHANISMS MAY BE APPROVED IN ADDITION TO OR IN LIEU OF TRADITIONAL RATEMAKING

OCA argues that alternative ratemaking methods should be approved only in limited circumstances or in cases where the public policy goals are not met by traditional ratemaking methods. See OCA Comments, pp. 2 and 4. OCA seems to be implying that there is a hierarchy of ratemaking methodologies that should be employed by utilities with traditional ratemaking at the top with alternative mechanisms only viable when certain goals are not achieved. PPL Electric believes this was not the intent of Act 58. In fact, Sections 1330(b)(1) and 1330(b)(1)(v) provide that the PUC may approve an application to establish alternatives rates and rate mechanisms including, but not limited to the types defined in Act 58, and that rates may be based on a combination or more than one mechanism. If the General Assembly had intended that alternative rates and ratemaking mechanisms have an established hierarchy, it could have provided for such a hierarchy in Act 58.

C. THE COMMISSION SHOULD NOT REDUCE A UTILITY'S RETURN ON EQUITY ("ROE") UPON THE APPROVAL OF AN ALTERNATIVE RATE OR RATEMAKING MECHANISM.

A utility's ROE is vital to the financial health of the company. "The rate of return allowance must be set to cover the Company's interest and dividend payments, provide a reasonable level of earnings retention, produce an adequate level of internally generated funds to meet capital requirements, be commensurate with the risk to which the Company's capital is exposed, assure confidence in the financial integrity of the Company, support reasonable credit quality, and allow the company to raise capital on reasonable terms." *PPL Electric Utilities Corporation, 2015 Base Rate Case at Docket No. R-2015-2469275, Statement No. 9: Direct Testimony of Paul Moul, p.3.* Because of the impact that the ROE has on a utility, the proper place for a discussion regarding a utility's ROE is in a Section 1308 base rate case proceeding, where each utility's proposed ROE can be considered on a case by case basis with a robust discussion of the risk versus return considering traditional and known risks that a utility faces as well as new and evolving risks such as those related to operational dynamics with distributed energy resources, two way power flows, and cybersecurity concerns.

PECA suggests applying a predetermined reduction to the ROE of any company who is granted approval of an alternative rate or ratemaking mechanism. See PECA Comments, p. 5. The OCA suggests that an ROE reduction could be an example of a consumer protection. See OCA Comments, p. 12. PPL Electric believes that any reduction to the ROE outside of a Section 1308 base rate case is inappropriate, because it assumes that rates resulting from an alternative ratemaking proposal are not just and reasonable and adjustments to the utility's ROE are required before a proposal is made. To include this directive in regulation will discourage utilities from requesting alternative rates or ratemaking mechanisms and conflicts with the Declaration of Policy contained in Section 1330(a) of Act 58, which states that, "it is in the public interest for

the commission to approve just and reasonable rates and rate mechanisms to facilitate customer access to these new opportunities...” Additionally, PECA wrongly assumes that reduced risk from the implementation of an alternative rate or ratemaking mechanism is easily pre-determined based merely on the existence of such alternative rate or ratemaking mechanism and that a “one size fits all” approach is appropriate. The Commission should reject PECA and OCA’s suggestion to determine an arbitrary reduction to the ROE for utilities who are granted an alternative rate or ratemaking mechanism and consider each utility’s argument on an individual basis after careful consideration of all the evidence provided in a Section 1308 base rate case proceeding.

D. THE COMMISSION SHOULD NOT IMPOSE TIME LIMITATIONS ON UTILITIES WHO REQUEST ALTERNATIVE RATES OR RATEMAKING MECHANISMS.

Given the wide variety and combination of methodologies that could be considered alternative rates or ratemaking mechanisms, PPL Electric believes that a “one size fits all” approach should be avoided with regard to time limitations. PECA recommends that the Commission establish time limitations on alternative rates or ratemaking mechanisms, specifically requesting a regulatory limit of no more than three years to five years. See PECA Comments, pg. 4. PPL Electric believes that this is inappropriate and may be costly and time consuming for all parties. For example, if multiple utilities decide to file for an alternative rate or ratemaking mechanism in the same year, they would be required to file a Section 1308 base rate case at the same time for the foreseeable future. This would be unnecessarily burdensome and costly for customers, regulators, stakeholders and utilities. Furthermore, Act 58 lists several alternative rates and mechanisms that can be used, including but not limited to, decoupling mechanisms, performance-based rates, formula rates and multiyear rate plans. Even if time limitations were appropriate, it would be incorrect to assume that a single time limitation is

appropriate for such a wide variety of alternative rates and mechanisms. Additionally, an arbitrary time period may temper a utility's cost control efforts, as it will be required to submit a rate case regardless of need. As a result, PPL Electric recommends that the Commission reject PECA's proposal on time limits and consider each request for alternative rates or ratemaking mechanisms on a case by case basis.

E. THE COMMISSION SHOULD REJECT THE OCA'S ARGUMENT THAT UTILITIES SHOULD FURTHER INCREASE CUSTOMER NOTIFICATIONS.

In its comments, the OCA recommends that utilities include information on both the initial and the final approved alternative rates and ratemaking mechanism in a bill insert sent to customers. Additionally, the OCA proposes that notification contain steps on how to mitigate or offset the impact. The OCA also asks that utilities provide a copy of the bill insert as part of its compliance filing. Each notification is to be provided to the OCA and the Commission's Bureau of Consumer Services ("BCS") for review and comment. See OCA Comments, p. 8.

First, PPL Electric objects to providing the extensive level of detail suggested as part of the initial notification. Providing such a level of detail for customers when an alternative rate or ratemaking mechanism is initially proposed may cause great confusion. Should customers receive a similar level of detail upon final approval, they may struggle to understand how the proposal changed and why, or they may assume that they have already been notified of the changes and disregard any messaging on the final approved mechanism. Further, OCA seeks to review and comment on the utility's initial notification, along with BCS. Currently, strict timing is set forth with regard to a utility's notice to the PUC and filing in 52 Pa. Code 53.45(a). Requiring a utility to provide the initial notice to *potential* parties, such as OCA and BCS, prior

to a base rate case even being filed creates confidentiality and procedural issues concerning a utility's filing.

While PPL Electric does not object to providing a copy of the proposed bill insert as part of its compliance filing, giving interested parties the ability to review and comment on the compliance filing potentially introduces procedural issues with respect to a utility's compliance filing requirements and the effective date of an approved rate. Currently, 52 Pa. Code §5.592 requires a utility to file a compliance filing within 20 days of entry of a final order, subject to exceptions and reply exceptions. Notifications to customers go through extensive internal review and must be prepared well in advance to allow time for printing and inclusion with customer bills. Customers are billed nearly every day. Adding an additional step for BCS and OCA review and comment during the compliance filing period or after a utility's compliance filing is submitted does not allow the utility the opportunity to be successful in providing customers with notification in the first bill that reflects the approved price changes.

In addition, PPL Electric currently, and on a consistent basis, provides customer with information on steps on how to mitigate or offset the impact of the new rates on their bill. This information is readily available to customers at any time by contacting the utility and/or reviewing its website. To provide this information again in a bill insert is not necessary and increases costs.

F. THE INCLUSION OF NEW FILING REQUIREMENTS IS NOT RIPE FOR RESOLUTION AT THIS DOCKET.

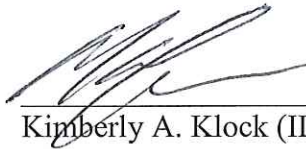
The OCA proposes to add seven new filing requirements to 52 Pa. Code Section 53.53. See OCA Comments, p. 11. PPL Electric does not necessarily object to new filing requirements; however, the Company believes this is neither the appropriate time nor place to add them. The Commission has correctly recognized that the utility has the burden of proof of any alternative

ratemaking proposal. Furthermore, the TIO notes that “information to be furnished in accordance with 52 Pa. Code §53.53 is quite comprehensive and far-reaching.” TIO, p. 9. PPL Electric is in strong agreement with the EAP that all stakeholders could benefit from the experience through litigation and approval of actual alternative ratemaking proposals. See EAP Comments, p. 3. An attempt to establish additional filing requirements related to alternative rates or ratemaking methodologies at this time is premature.

II. CONCLUSION

PPL Electric Utilities Corporation respectfully requests that the Commission take these Reply Comments into consideration in preparing its Final Order.

Respectfully submitted,



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