

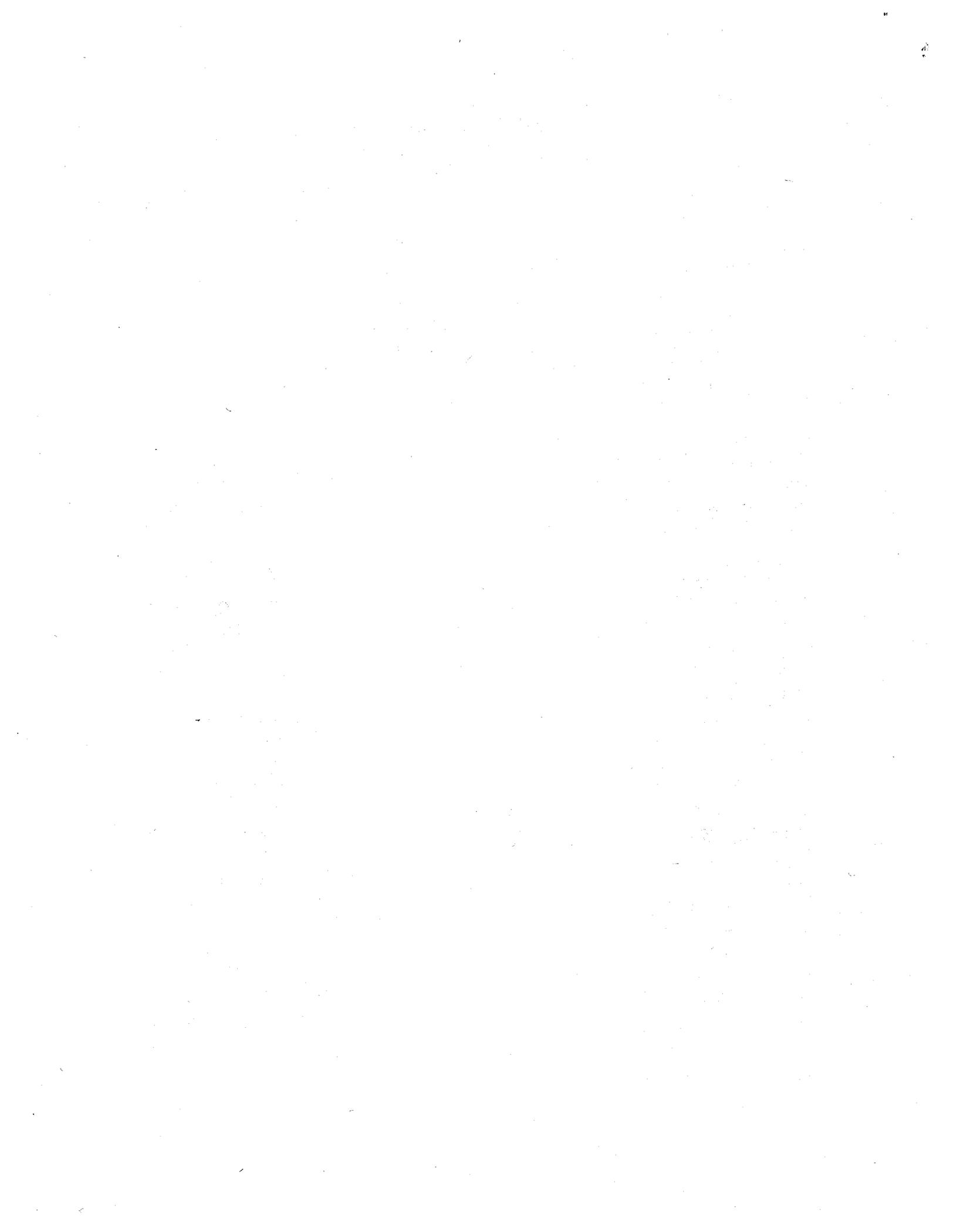
**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held December 6, 2007

Commissioners Present:

Wendell F. Holland, Chairman, Statement Concurring and Dissenting in part attached
James H. Cawley, Vice Chairman, Statement attached
Tyrone J. Christy, Statement attached
Kim Pizzingrilli, Statement attached

Pennsylvania Public Utility Commission	:	R-00072155
Office of Consumer Advocate	:	R-00072155C0001
PP&L Industrial Customers Alliance	:	R-00072155C0002
Office of Small Business Advocate	:	R-00072155C0003
Andrew T. Bosak	:	R-00072155C0004
Daniel D. Graham	:	R-00072155C0005
Stephanie Crayton	:	R-00072155C0006
Judith A. Lewis-Walton	:	R-00072155C0007
Margaret Gay	:	R-00072155C0008
Eric Joseph Epstein	:	R-00072155C0009
Deb Eastman	:	R-00072155C0010
Frank Tokarz	:	R-00072155C0011
Gregory B. Clemens	:	R-00072155C0012
William J. Vigilante, Jr.	:	R-00072155C0013
Richard and Eleanor Cobb	:	R-00072155C0014
Denise M. Sater	:	R-00072155C0015
James Hronich	:	R-00072155C0016
Fred Charles	:	R-00072155C0017
City Complainants (Scranton)	:	R-00072155C0018
Joseph McAndrew	:	R-00072155C0019
U.S. Department of Defense and All Federal Executive Agencies	:	R-00072155C0020
Lillian Falcone	:	R-00072155C0021
Michael Ochs	:	R-00072155C0023
Anayansi Acosta-Gamboa	:	R-00072155C0024
Charles W. Pursel	:	R-00072155C0025
Christine M. Checke	:	R-00072155C0026



Bob Branson	:	R-00072155C0027
Malcolm Nelson and Belinda Ortiz	:	R-00072155C0028
	:	
v.	:	
	:	
PPL Electric Utilities Corporation	:	

OPINION AND ORDER

BY THE COMMISSION:

Before the Commission for consideration and disposition are the individual Exceptions filed on October 25, 2007, by the Office of Small Business Advocate (OSBA) and Michael Ochs to the Recommended Decision of Administrative Law Judge (ALJ) Susan D. Colwell issued on October 19, 2007. On October 31, 2007, PPL Electric Utilities Corporation (PPL or Company) filed a Letter in lieu of Reply Exceptions. Also before the Commission for consideration and disposition is the Joint Stipulation for Settlement of the above-docketed Rate Investigation which was submitted on August 30, 2007.

HISTORY OF THE PROCEEDING¹

PPL is an electric distribution company certificated in the Commonwealth of Pennsylvania to provide electric distribution, transmission and provider of last resort services to approximately 1.4 million customers in twenty-nine counties in eastern and central Pennsylvania. On March 29, 2007, PPL filed its Supplement No. 54 to PPL Electric’s Tariff – Electric Pa. P.U.C. No. 201, to become effective June 1, 2007, proposing to increase its retail distribution rates by

¹ For a full procedural history see ALJ Colwell’s October 18, 2007 Recommended Decision at 1-8.

\$83.6 million in additional revenues, based on a future test year ending December 31, 2007. PPL later revised the requested rate increase amount to 76.9 million. PPL Wxh. Future1-Revised, Schedule D-1; PPL Exh. DRW 1 (revised). This request affects only the Company's distribution rates, not its generation or transmission rates. Complaints were filed against the proposed rate increase by the Office of Consumer Advocate (OCA); PP&L Industrial Customer Alliance (PPLICA); the OSBA; the City of Scranton; the U.S. Department of Defense and Federal Executive Agencies (DOD/FEA); Andrew T. Bosak; Daniel D. Graham; Stephanie Crayton; Judith A. Lewis-Walton; Margaret Gay; Eric Joseph Epstein; Deb Eastman; Frank Tokarz; Gregory B. Clemens; William J. Vigilante, Jr.; Richard and Eleanor Cobb; Denise M. Sater; James Hronich; Fred Charles; Joseph McAndrew; the Department of the Army; Lillian Falcone; Joseph Nabogis; Mr. Ochs; Anayansi Acosta-Gamboa; Charles W. Pursel; Christine M. Checke; Bob Branson; and, Malcolm Nelson and Belinda Ortiz.

Petitions to Intervene were filed by: The Commission on Economic Opportunity (CEO); Richards Energy Group, Inc. (REG); the Sustainable Energy Fund; and, PECO Energy Company. No opposition was filed and, accordingly, the interventions were granted. A Notice of Appearance was filed by the Office of Trial Staff (OTS) on April 19, 2007. The Commission suspended the proposed rate increase for investigation by Order entered May 30, 2007, extending the suspension date to January 1, 2008.

A Prehearing Conference was held on May 31, 2007. The Parties agreed to a schedule which was memorialized in a scheduling order issued May 31, 2007.

Five public input hearings were held from June 22 – 27, 2007, at various locations throughout the Commonwealth. Twenty-seven individuals

presented testimony. The Company, the OTS, the OCA, and the OSBA were represented at all five.

On June 26, 2007, PPL submitted supplemental direct testimony and exhibits based on the revised rates for the customer classes resulting from the proposed settlement of *Pa. PUC, et al. v. PPL Electric Utilities Corp.*, Docket No. R-00049255 (July 25, 2007) (Remand Proceeding). Pursuant to a remand from the Commonwealth Court in *Lloyd v. Pa. PUC*, 904 A.2d 1010 (Pa. Cmwlth. 2006) (*Lloyd*) for the setting of nondiscriminatory reasonable rates and rate structure, the Company and many of the parties had been negotiating for a settlement. On July 26, 2007, the Commission approved the settlement reached in the Remand Proceeding, and the revised rates became effective August 1, 2007.

The OTS, the OCA, the OSBA, PPLICA, the SEF, the City of Scranton, CEO, DOD/FEA, and REG submitted direct testimony on July 6, 2007. The OCA submitted supplemental direct testimony to update its cost of service study testimony based on the proposed settlement of the Remand Proceeding. PPLICA submitted supplemental direct testimony and exhibits based on the Company's updated cost of service study.

On July 27, 2007, PPL, the OCA, the OSBA, and PPLICA submitted rebuttal testimony. On August 8, 2006, the OTS, the OCA, the OSBA, PPLICA, the City of Scranton, the SEF, and DOD/FEA submitted surrebuttal testimony.

Evidentiary hearings were held on August 13 and 16, 2007, for the purpose of admitting testimony and exhibits of the litigating Parties in support of the Settlement, which was reached in principle at that time. Due to a miscommunication among the Parties, the one *pro se* complainant who had expressed an interest in testifying, Joseph E. McAndrew, failed to appear at the

evidentiary hearings and another was scheduled and held on August 27, 2007, for the sole purpose of allowing him to testify.

A Settlement was filed on August 30, 2007. The settling Parties submitted their respective Statements in Support of the Settlement as Attachments "D" through "M" to the Settlement. In their respective Statements in Support, the Parties explain why, in their view, the Settlement is fair, just and reasonable and reflects a reasonable compromise of the disputed issues in this proceeding. On August 31, 2007, a copy of the Settlement was served on the remaining non-litigating Parties. The cover letter explained that the individual Complainants had the right to join, oppose, or do nothing regarding the Settlement, but that any action needed to be taken within ten days.

On September 11, 2007, objections to the Settlement were received from Complainants Lillian Falcone, Joseph McAndrew, and Stephanie Crayton. On September 12, 2007, an objection was received from Michael Ochs. On September 18, 2007, the Company provided record references to those issues raised by the objecting Complainants.

At the September 24, 2007 hearing, Daniel Graham and Joseph McAndrew testified against the Settlement. In addition, the Company presented additional testimony of Oliver G. Kasper, with exhibits which provided a number of corrective pages to the tariff and proof of revenue pages attached to the Joint Stipulation for Settlement. Following the hearing, three additional proof of revenue pages were substituted for those identified as erroneous. They are marked "revised" in Attachment B to the Settlement.

The proceedings generated a transcript of 402 pages. By Recommended Decision issued on October 19, 2007, ALJ Colwell recommended

approval of the Settlement with the modification that funding for two programs, the Leadership in Environmental Design (LEED) certification assistance program and the Small Business Loan Guarantee Program (SBLG), could not come from rate classes not eligible for the programs.

We shall now review the Settlement and consider the Exceptions filed to the ALJ's Recommended Decision.

Parties

The Parties signing the Joint Stipulation for Settlement include all litigating parties. The OTS is charged by statute to represent the public interest. 66 Pa. C.S. § 306(b). The OCA represents the interests of consumers before the Commission pursuant to 71 P.S. § 309-2. The OSBA acts to represent the interests of small business consumers of utility services pursuant to the provisions of the Small Business Advocate Act, 73 P.S. §§ 399.41-399.50. CEO intervened to address the Company's universal service programs and in fact, administers the PPL OnTrack and WRAP programs. PPLICA represents twelve of the Company's industrial customers.² REG is an energy engineering firm and licensed electric supplier. REG is dedicated to reducing energy costs for commercial and industrial end users and has developed a power-buying consortium of approximately 200 members including 700 PPL accounts. REG Stmt. No. 1 at 1. The SEF is a Pennsylvania corporation formed at the conclusion of PPL's Restructuring Proceeding for the purposes of developing and investing in economically viable, energy-related businesses, projects and educational initiatives. SEF Stmt. 1 at 2.

² By letter filed September 12, 2007, PPLICA states that its members include Air Products and Chemicals, Inc.; ALCOA, Inc.; Binkley & Ober, Inc.; Cinram Manufacturing, Inc.; Hercules Cement; High Industries; Lafarge North America; Praxair, Inc.; Rieter Automotive North America; Carpet; Sanofi Pasteur, Inc.; The Linde Group, Inc.; and, Timet, Inc.

DOD/FEA participated because PPL provides electric service to the Carlisle Barracks, Tobyhanna Army Depot, the US Naval Support Activity in Mechanicsburg, the Defense Logistics Agency at New Cumberland, the Scranton Army Ammunition Plant, the U.S. Courthouses in Harrisburg and Scranton, the Veterans Affairs Hospital, and a federal penitentiary.

TERMS OF THE SETTLEMENT

For ease of reference, the numerical references used in the settlement are reproduced here. The substantive terms of settlement begin with Paragraph 23.

23. Except as specified below, PPL Electric's filing is approved.

24. Revenue Requirement.

a. PPL Electric will receive a rate increase of \$55 million in lieu of the revised increase of \$76.996 million, as set forth in PPL Electric Exhibit Future 1-Revised, Schedule D-1, based upon a future test year ending December 31, 2007, as adjusted for ratemaking purposes, as set forth in PPL Electric Exhibit DRW 1 (Revised).

b. This Settlement does not identify any specific components of the annual revenue requirement of PPL Electric, except for the following items: (i) the increase includes and incorporates the anticipated January 1, 2008 reduction in the Pennsylvania Capital Stock Tax rate; (ii) it does not include iteration of the Capital Stock Tax; (iii) it reflects \$2.4 million annually for consumer education relating to PPL Electric's Meter Data Management System; (iv) it does not include PPL Electric's Sustainable Development Program proposal, except as provided in paragraph 26.c, below; (v) it includes PPL Electric's proposed amortization of

storm damage expenses relating to the January 2005 ice storms; (vi) it includes the distribution-related portion of the premium for storm damage insurance; (vii) it includes PPL Electric's modified universal service expense claim and Universal Service rider as described in paragraph 25.a, below; (viii) it reflects PPL Electric's revised claim for pension and other post retirement benefits expense; (ix) it reflects PPL Electric's alternative claim to accrue an Allowance for Funds Used During Construction ("AFUDC") on plant held for future use; and (x) it includes PPL Electric's claimed normalized level of rate case expense. The reflection of these components in the agreed upon revenue requirement is without prejudice to positions a party may take in future proceedings regarding such claims, except to the extent necessary to effectuate the terms and conditions of this Settlement.

25. Universal Service Programs.

a. PPL Electric's universal service programs, its expense claim for those programs and its proposal to establish a reconcilable Universal Service Rider ("USR") are approved, as filed,³ except for the following modifications: (i) internal administrative costs will be recovered in base rates and not in the USR; (ii) PPL Electric will increase annual WRAP funding by an additional \$500,000 to a total of \$7,750,000, which will be reflected in the initial USR; (iii) any unspent WRAP dollars, on an annual basis and including associated accrued interest, will be carried over and expended in subsequent years; (iv) to the extent that the net annual average CAP enrollment exceeds 22,000 the USR will include an annual credit of \$40 for each customer over 22,000, which, for purposes of settlement only, reflects an agreed upon estimate of the savings in collection costs, uncollectible accounts expense and cash working capital from incremental CAP enrollment; (v) PPL Electric confirms its present intention to continue to use

³ Settlement, n.2: See PPL Electric St. No. 8 and PPL Electric St. No. 8-R.

Community Based Organizations (“CBOs”) to coordinate and implement its universal service programs; and (vi) the reconciliation provisions of the USR are approved on a pilot basis for 2008 and 2009, including any under/over collections for 2009, which would be collected or refunded in 2010.

b. During 2008 and 2009, PPL Electric will provide to interested parties, on a quarterly basis the following information:

- The number of CAP participants receiving a CAP credit on their bill each month.
- The number of CAP participants with a CAP credit reversed each month for non-payment,
- The number of CAP participants with an arrearage forgiveness credit on their bill each month,
- The dollars of CAP credits billed each month,
- The dollars of CAP credits reversed each month, and
- The dollars of arrearage forgiveness credit billed each month.

c. PPL Electric agrees that it will not remove customers from its Universal Service Programs who exceed their CAP credit limit for reasons beyond their control, as is permitted in the Commission’s CAP Policy Statement at § 69.265(3)(vi)(A-E).

d. During 2008 and 2009, PPL Electric will prepare and provide to interested parties, for informational purposes only, a parallel filing which adjusts the USR on a quarterly basis and without reconciliation.

e. No later than July 1, 2009, PPL Electric will convene a meeting or meetings, as appropriate, with interested parties, to discuss whether continued reconciliation of the USR is necessary or appropriate. At the meetings, all parties may also raise USF issues, in addition to reconciliation, based on changes in law after the approval of this Settlement. If a consensus can be reached among the interested parties, PPL Electric will follow that consensus for its 2010 USR filing. If a consensus cannot be reached, PPL Electric will file its preferred approach on or before October 1, 2009, and all parties will be provided an opportunity to support or oppose PPL Electric's proposal. The USR mechanism established by this Settlement will remain in place until a new mechanism is approved by the Commission.

26. Energy Efficiency and Customer Education Issues.

a. PPL Electric agrees to withdraw its proposed Energy Efficiency Rider ("EER"), without prejudice to subsequent refiling. See PPL Electric St. No. 9, pp. 18-19.

b. PPL Electric agrees to solicit input from interested parties through a collaborative on the development of Time of Use ("TOU") rates. The collaborative will be composed of the following steps.

PPL Electric agrees to meet with interested parties within 30 days after the entry of a final order in this proceeding to discuss TOU rate issues. PPL Electric will convene meetings in March and May 2008 (and on an as needed basis) to discuss and review TOU options and to develop specific and consensus based TOU rate filing parameters. PPL Electric will prepare and distribute minutes of each of these meetings within 10 days following each meeting for review and comment and subject to party ratification. No later than June 30, 2008,

PPL Electric will prepare and distribute a report summarizing the results of the meetings and presenting the group's recommendations regarding TOU rate offerings and any proposed TOU rate filings. Interested parties will have thirty (30) days to comment, and are not obligated to support the group's recommendations.

c. PPL Electric agrees not to implement its Sustainable Development Program ("SDP") as proposed in its filing, except for the \$150,000 LEED certification program. See PPL Electric St. No. 8, pp. 17-25.⁴ In lieu of the remainder of the SDP, PPL Electric will participate in the two SEF-proposed programs explained immediately below.

Solar Scholars™/Consumer Education

PPL Electric will provide funding of \$250,000 for the Solar Scholars™ Program, to be paid ratably over two years. Employing these funds, PPL Electric and the SEF will collaboratively implement Solar Scholars Projects among 12-15 universities within PPL Electric's service territory over 2.5 years. See SEF St. No. 1 at 8-9.

⁴ Leadership in Energy and Environmental Design (LEED) certification is done by the U.S. Green Building Council, which sets standards for silver, gold and platinum status depending on certain lighting, recycling, and energy efficiency designed into the building. The goal of LEED certification is to produce energy savings over the life of the building. While current Company practice is to work with applicants, the pilot program approved here will permit monetary subsidization. Tr. at 390-394.

Small Business Loan Guarantee Program

PPL Electric will provide \$250,000 of capital for the development of a small business loan guarantee pilot program tied to energy efficiency improvements. The SEF will develop and administer a one-year pilot small business loan guarantee program, collaboratively with PPL Electric and participating financial institutions within PPL Electric's service territory. PPL Electric's \$250,000 contribution will provide the capital to create the initial guarantee pool, and an 8% administrative fee which will cover program development, legal costs, and administrative costs. The SEF will contribute staff time to the final development and marketing of the program (not covered under the administrative fee). PPL Electric's agreement to contribute to the development of this pilot program is contingent upon its review of the final details of the program and its determination that it is a viable program. In addition, if PPL Electric does participate in the program, at the end of one year, PPL Electric will evaluate the pilot program and its results and determine whether to continue to participate. See SEF St. No. 1, pp. 9-10.

27. Allocation of Revenue Requirement Among Rate Classes.

a. The Joint Petitioners agree to allocate the \$55 million increase in annual revenue requirement among the rate classes as shown in the chart immediately below:

Rate Schedule	Revenue Increase
RS/RTD	\$ 47,000
RTS	\$ 830
GS-1	\$ (929)
GS-3	\$ 4,936

LP-4	\$ (241)
ISP	\$ (203)
LP-5	\$ (140)
IST	\$ (164)
LP-6	\$ 6
LPEP	\$ (7)
ISA	\$ 0
GH	\$ 506
SL/RL	\$ 3,404
L5-S	\$ 1
Total (\$000)	\$ 55,000

b. The Parties agree that the revenue allocation does not reflect the adoption of any specific cost of service study result or scaleback proposal. In general, the allocations reflect a compromise between results of the OCA's scaleback proposal (see OCA St. No. 3) and the OSBA's scaleback proposal (see OSBA St. No. 1). In addition, the allocations reflect additional adjustments to certain rate schedules, including ISP, LP-5 and IST, in response to contentions of PPLICA and DOD/FEA.

28. Rate Design

a. The Parties agree to the proposed rate design for each rate schedule as set forth in the form of Tariff Supplement provided as Attachment "A" to this Settlement. The Joint Petitioners agree that the rates contained in Attachment "A" are designed, to the maximum extent possible, to produce the level of revenues set forth in Table 1. A proof of revenues is provided as Attachment "B" to this Settlement. Based upon this rate design, monthly bills for an average residential customer using 1,000 kWh of electricity supplied by PPL Electric would increase by \$3.55 from "98.08 to \$101.52, excluding Gross Receipts Tax ("GRT"). Monthly bills for an average commercial customer using 1,000 kWh of electricity with a maximum demand of 3 kW supplied by PPL

Electric would decrease by \$0.22 from \$119.43 to \$119.21, excluding GRT. Monthly bills for an average industrial customer using 150,000 kWh of electricity with a maximum demand of 500 kW supplied by PPL Electric would decrease by \$41.48 from \$12,986.32 to \$12,944.84, excluding GRT.

b. For residential customers receiving service under Rate Schedule RS, the Company will hold the customer charge at \$8.00, and the existing Rate Schedule RS rate blocks will be increased by equal percentages.

29. Tariff Issues.

a. The Parties agree that PPL Electric's proposed tariff revisions, as reflected in Attachment A to this Joint Petition, are reasonable and should be approved. An itemized list of the tariff changes is provided in Attachment C to this Settlement. Attachment A reflects the tariff changes proposed by PPL Electric in this filing, as modified to reflect: (1) the revisions agreed to by PPL Electric in its rebuttal testimony; and (2) the revisions set forth below in this section.

b. The City of Scranton's issues regarding service to non-municipal customers under Rate Schedule SE are resolved by the further revisions to PPL Electric's tariff set forth in Attachment A to this Settlement. See City St. No. 1-SR.

c. PPL Electric agrees to further revise Tariff Rule 4A(2) to read as follows:

"The distribution system is defined, for the purposes of this rule, as including all lines energized at voltages less than the nominal

69,000 volts and excluding service extensions and lines energized at voltages of nominal 679,000 volts or higher. However, this definition does not affect the Company's obligations under the Federal Power Act and/or the Public Utility Code, as applicable: (1) to provide safe, reliable and adequate retail electric service to customers taking service at voltages of 69 kV and above, and (2) to provide just and reasonable and non-discriminatory distribution and transmission rates, terms and conditions of service to such customers."

d. PPL Electric confirms its existing practice regarding the portability of time of day ("TOD") rates under Rate Schedules GS and GH. That is, an existing TOD customer at a specific site may retain its status as a TOD customer even if the customer switches to another delivery service rate schedule. For example, if a TOD customer under Rate Schedule GS-1 migrates to the Rate Schedule GS-3, TOD rates would still be available. Similarly, a customer switching from Rate Schedule GH-1 (TOD) to Rate Schedule GS-3 may retain TOD status.

e. Effective January 1, 2008, new General Service customers will be placed on Rate Schedule GS-1 and GS-3 based on whether they receive single-phase or three-phase service. Customers receiving single-phase service will be served under Rate Schedule GS-1, and customers receiving three-phase service will be served under Rate Schedule GS-3. Customers taking service under Rate Schedule GS-1 or Rate Schedule GS-3 as of December 31, 2007 will continue to be allowed to switch from one rate schedule to the other until January 1, 2010, subject to existing rules and restrictions. On and after January 1, 2010, these customers may no longer switch between Rate Schedule GS-1 and Rate Schedule GS-3 except that: (1) three-phase customers on Rate Schedule GS-1 may switch to Rate Schedule GS-3 but may not thereafter switch back to Rate Schedule GS-1; and (2) single-phase customers on Rate Schedule GS-3 may switch to Rate Schedule GS-1, but may not thereafter switch back to Rate Schedule GS-3.

f. PPL Electric agrees that no later than February 1, 2008, it will prepare and provide rate comparisons to all customers then currently taking service on Rate Schedule GH-1, who qualify to take service on Rate Schedule GS-3, which show the current rate differences between the two schedules, based upon the customer's prior year's usage. It is understood and agreed that any such comparison will not include any recommendation regarding whether the customer should change rate schedules, and any decision whether to change rate schedules would be made by the customer.

g. Customers who wish to have special equipment installed by PPL Electric to enable them to receive data via KYZ pulses must pay the installed cost of that equipment as non-standard service. PPL Electric agrees, however, that it will not charge for annual maintenance of such non-standard equipment which enables customers to receive data via KYZ pulses.

Settlement ¶¶ 33-40.

DISCUSSION

Pursuant to our Regulations at 52 Pa. Code § 5.231, it is the Commission's policy to promote settlements. However, the Commission must review proposed settlements to determine whether the terms are in the public interest. *Pa. PUC v. Philadelphia Gas Works*, Docket No. M-00031768 (January 7, 2004).

Section 332(a) of the Public Utility Code (Code), 66 Pa. C.S. § 332(a), provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding. It is axiomatic that "[a] litigant's burden of

proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of evidence which is substantial and legally credible.” *Samuel J. Lansberry, Inc. v. Pa. PUC*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990).

In addition, we note that any Exception that we do not specifically address has been duly considered and will be denied without further discussion. It is well settled that we are not required to consider, expressly or at length, each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC*, 625 A.2d 741 (Pa. Cmwlth. 1993); *see also, Univ. of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

Consumer Proceedings

A copy of the Settlement was served upon the twenty-two customer Complainants who did not participate in the litigation with a letter which directed that any objection be submitted on or before September 11, 2007.⁵ The *pro se* Complainants were also given the option of joining the Settlement or doing nothing. Mr. Epstein was the sole *pro se* Complainant to join the Settlement. Three objections were received timely, one was late-filed, and only two of those presented any specific facts or argument against approving the settlement. Each of those arguments was discussed in the record, or the arguments are not relevant to the rate case. R.D. at 17-23. Legitimate issues such as the basic affordability of rates were raised in the objections. Review of the record reveals that consumer

⁵ Eric Joseph Epstein is not included in this number since his experience and familiarity with the PUC ratemaking process has resulted in his presenting a more sophisticated Complaint. He participated in the settlement negotiations.

issues such as this were well-represented and developed in the record, in large part by the Office of Consumer Advocate.

Although no Complainant asked for an additional opportunity for litigation, an evidentiary hearing was held on September 24, 2007, in order to afford the objecting consumers an opportunity to provide evidence in support of their opinions. As correctly noted by the ALJ, while the objections themselves may be indicative of consumer dissatisfaction with rising utility rates, none of the objections presented facts or legal argument which would warrant rejection of the Settlement. R.D. at 23. As such, ALJ Colwell recommended dismissal of the consumer Complaints.

First, we will address the Exceptions of Mr. Ochs.⁶ Mr. Ochs expresses discontent with the review process and states that it is flawed. Specifically, Mr. Ochs takes issue with: (1) the time period allotted for the receipt of correspondence and the issuance of responses; (2) the fact that the Complainants were expected to physically appear at the hearing rather than have the option for a telephonic hearing; and (3) the fact that documents in the record were only available in Harrisburg and not on the internet. Mr. Ochs also states that no documentation was provided in order to educate the “first-time complainant” on what was appropriate during the formal process. Ochs Exc. at 1.

While we empathize with Mr. Ochs, his concerns are simply due to a lack of familiarity with the PUC processes and the fact that he is appearing *pro*

⁶ Mr. Ochs filed a document on October 25, 2007, which was marked as a “reply” to the Recommended Decision in this matter. We will treat this document as his Exceptions.

se.⁷ As the ALJ pointed out, however, the review process for this proceeding is governed by statute and beyond the Commission's ability to abrogate. R.D. at 20; see 66 Pa. C.S. § 1308. In any proceeding, the ALJ is granted the authority to regulate the course of the hearing. 66 Pa. C.S. § 331(d)(4). Here, the ALJ followed the schedule presented in the May 31, 2007 Scheduling Order, which was agreed to by the Parties, and we do not find that the due process rights of any Party were violated. Additionally, in the May 31, 2007 Scheduling Order, the ALJ provided a list of detailed instructions for all aspects of the proceeding, which even included examples of certain filings. These detailed instructions were readily understandable and eliminate much of Mr. Och's concerns. Accordingly, we will deny Mr. Ochs' Exceptions on this issue.

We note the Mr. Ochs also had some other concerns in his Exceptions that we will not discuss in detail. Ochs Exc. at 2-3. While Mr. Ochs states that he disagrees with the Recommended Decision, he does not point to any errors of law or fact to support his assertions or to support that approving the Settlement is not in the public interest. We find that ALJ Colwell's Recommended Decision provided a thorough analysis of the appropriate issues and that the ALJ fully considered the public interest when formulating her recommendation. As such, Mr. Ochs' Exceptions are denied.

We agree with the ALJ's conclusion that the consumer Complainants failed to prosecute their Complaints with sufficient facts or legal support necessary to successfully challenge the proposed rate increase. As such, we will adopt the ALJ's recommendation to dismiss the consumer Complaints.

⁷ We should note that the Commission is taking steps to improve efficiency within its processes. See *Proposed Rulemaking to Permit Electronic Filing*, Docket No. L-00070187 (August 30, 2007).

Revenue Requirement

The Settlement provides for an increase in distribution rates of \$54.6 million, or approximately 66% of the \$83.6 million originally requested by PPL. The Company states that the \$54.6 million increase will provide PPL with the opportunity to earn a reasonable return and thereby attract capital on reasonable terms and conditions. PPL states that the Settlement rate increase will permit it to recover its cost of providing service and will improve its financial condition so that it can continue to provide reliable service to its customers. Since its last base rate case, PPL has incurred significant cost increases in the materials it purchases and installs to maintain and improve its distribution system. For example, the cost of transformers has increased about 80% and the cost of wire used for power lines has increased approximately 25%. During the next five years, PPL states that intends to spend \$1.1 billion to expand and improve its distribution system. PPL St. in Support at 3-4.

The Settlement reflects a compromise among PPL, the OCA and the OTS regarding revenue requirement issues. A review of the Company's Rebuttal and the OCA's Surrebuttal Testimony reveals that the differences between PPL's and the OCA's positions, concerning net operating income at present rates without considering return on equity, was reduced to approximately \$4.7 million. OCA St. No. 1S, Sch. LKM-1S at 1; PPL St. in Support at 4-5.

The major difference among the Parties' litigation positions was the cost of equity. PPL, the OTS and the OCA proposed an 11.5%, 10.13% and 9.625% return on common equity, respectively. Based upon the Parties' evaluation of recent Commission decisions in PPL base rate cases, the negotiations focused on reaching a compromise position within that range that reflected an

acceptable outcome to each of the Parties presenting revenue requirement testimony. PPL St. in Support at 5.

With the exception of the following items, the Settlement is nonspecific as to any item of revenue, expense or the return on common equity.

The items specifically included in the Settlement are:

- (1) the anticipated January 1, 2008 reduction in the Pa. Capital Stock Tax rate (OTS Stmt. In Support at 3);
- (2) \$2.4 million for consumer education related to PPL Electric's Meter Data Management System (OTS Stmt. In Support at 3);
- (3) PPL's proposed amortization of storm damage expenses relating to the January 2005 ice storms and the distribution-related portion of the premium for storm damage insurance (Settlement at 6);
- (4) PPL's modified universal service expense claim and Universal Service Rider as described on paragraph 25 a. of the Settlement;
- (5) PPL's revised claim for pension and other post retirement benefits expense (Settlement at 6);
- (6) PPL's claimed normalized level of rate case expense and several other items (Settlement at 6);
- (7) reflects PPL's alternative claim to accrue an Allowance for Funds Used During construction (AFUDC) on plant held for future use (Settlement at 6);
- (8) \$150,000 for Leadership in Energy and Environmental Design (LEED) certification assistance (Settlement at 9) and,
- (9) \$250,000 for the development of a small business loan guarantee pilot program (Settlement at 10).

The relevance of stating these specific items is threefold. First, they provide guidance to all parties in the evaluation of future PPL Electric distribution base rate filings. Second, they ensure that customers will receive the benefits associated with certain programs. Third, they will aid PPL in obtaining necessary accounting approvals to reflect the results of this proceeding. PPL St. in Support at 5-6. Also, it should be noted that the Settlement rates will take effect on January 1, 2008, which is the same effective date that would have occurred had this case been fully litigated. PPL St. in Support at 6.

In support of the Settlement increase, the OCA states that it believes that the amount is within the range of likely potential outcomes in the event of full litigation of this case. OCA St. in Support at 4. The OTS points out that the public interest is served because PPL agreed to incorporate the anticipated January 1, 2008 reduction to the Pennsylvania Capital Stock Tax rate into this filing, which eliminates the need for the Company to file a state tax adjustment surcharge to become effective on that date. OTS St. in Support at 3.

The Commission generally refers to this type of settlement as a “black box” where all items of revenue, expense, cost of capital and return on equity are not specifically agreed upon. In this proceeding, however, nine items have been identified as specifically agreed to by the Parties and are allowed as expenses, at the levels adopted by the Parties. All other items of revenue, expense, rate base or rate of return, are not identified or established by this Settlement. Of the nine items specifically agreed to by the Parties as being included within the “black box” settlement and, accordingly, are not allocated to any specific customer class or customer classes, are the \$150,000 LEED certification program and the \$250,000 Small Business Loan Guarantee Program. While the ALJ recommended adoption of these two programs, she also stated that the funding for these programs should not be allocated to those classes of ratepayers whose members

are ineligible for participation or who will not receive any benefit from them.

R.D. at 35.

It should be noted that PPL proposed allocating the LEED Certification program expense of \$150,000 to all customer classes and that the \$250,000 Small Business Loan Guarantee Program was not allocated in any particular fashion. PPL St. No. 8 at 20. The Small Business Loan Guarantee Program was not included in PPL's case-in-chief but was a program agreed to in response to a settlement proposal by the SEF. Tr. at 389. Accordingly, as stated by PPL, it could be argued that it is in rates and paid by all customer classes, or that it is not in rates and is being paid by shareholders. There is no specification regarding the source of the funding for this program. Tr. at 389, 390. The allocation proposed by PPL for the LEED Certification program is moot in light of the Settlement wherein the allocation for recovery of all items is undefined.

In the SEF's Statement in Support of the Settlement, it states that although PPL's funding is contingent on the review of the final details of the Small Business Loan Guarantee Program, the SEF has reviewed similar, already existing programs in Pennsylvania and Delaware. Based upon that review, the SEF believes, that through a collaborative effort, a cost effective program can be designed and implemented in the PPL service territory. SEF St. in Support at 2.

PPL noted that the terms of the Joint Settlement, including the revenue requirement, were reached after four rounds of testimony, settlement discussions and the Company's responses to approximately 600 formal discovery requests. PPL St. in Support at 2. The ALJ found that this level of scrutiny from the other litigating parties and their experts provided sufficient reason to believe that the amount agreed to is justified. R.D. at 29.

We support the finding of the ALJ and are in agreement with the \$54.6 million in additional annual distribution revenue, as presented in the Settlement. Additionally, we find that the Settlement will avoid the necessity of further administrative proceedings, thus limiting the cost to PPL, its ratepayers and the Parties to the proceeding. Also, based upon the original positions of the Parties and the final Settlement amount, we believe that the \$54.6 million annual increase is in the public interest.

Universal Service Programs

The Code provides that universal service and energy conservation policies, activities and services are to be fully funded and available, and that the cost be fully recoverable by the utility. 66 Pa. C.S. § 2804(8) and (9). PPL states that the number of low-income customers enrolled in its customer assistance program (OnTrack) rose from 12,420 in 2003, to approximately 22,000 by the end of 2007. To meet this demand, the Company proposed to increase its spending by approximately 44%, from \$13.2 million to \$19 million. The Company proposed increasing its weatherization assistance program (WRAP) from \$6.25 million to \$7.25 million. Additionally, PPL proposed increasing its corporate contributions to Operation HELP, which pays for any type of home heating bill, by 57%. PPL seeks approval for a universal service rider (USR) to be reconciled annually in order to recoup its costs. PPL St. 8 at 10; PPL St. in Support at 6-7.

With the approval of the USR, the Settlement provides for full funding of the 44% increase in OnTrack spending with internal administrative costs to be recovered in base rates. The USR includes an annual credit of \$40 for each customer enrolled over 22,000, which represents the amount agreed upon for the savings from having a paying customer instead of one for whom collection efforts must be expended. WRAP funding will be increased to \$1.5 million, and

any unspent WRAP funds will be carried over and spent in subsequent years. PPL St. in Support at 7-8.

The OCA opines that the universal service program is consistent with Commission policy and that the Settlement includes incremental improvements and a cost recovery mechanism that will benefit ratepayers. OCA St. in Support at 8. The OCA notes that the Settlement requires that the Company not remove from its universal service programs those customers who exceed their CAP credit limit for reasons beyond the customer's control. *Id.*

The CEO approves of the Company's increased spending for its low income usage reduction program (LIURP) as it will help to alleviate the impact of the rate increase on low-income residential customers. The CEO also supports PPL's commitment to use community based organizations in its universal service programs. CEO St. in Support at 1-2.

We will adopt the ALJ's recommendation that the universal service provisions of the Settlement should be approved. We find that the universal service provisions of the Settlement are in the public interest as they are consistent with Commission policy, with the needs of PPL's low-income customers, and with the law requiring that the Company recoup its costs for these programs.

Consumer Education

PPL recognizes the need for conservation and renewable energy management. The Company has proposed installation of a Meter Data Management System, a Demand-Side Management Education Program, an Energy Efficient Equipment Rebate Program, an Energy Alerts Program, a Time-of-Use (TOU) Pricing Program, and a TOU Pricing for Residential Thermal Storage

Customers Program. PPL St. 9 at 4; PPL St. in Support at 9. The Settlement establishes an amount of \$2.4 million per year to fund consumer education for the Company's Meter Data Management System. Settlement ¶ 24(b). PPL will convene a collaborative to discuss TOU rate issues. Settlement ¶ 26(b).

The Settlement provides \$150,000 for LEED certification assistance. This program, administered by the U.S. Green Building Council, sets standards for silver, gold and platinum status depending on the level of energy efficiency designed into construction plans for a building. The goal of LEED certification is to produce energy savings over the life of the building. Tr. at 390-394; Settlement ¶ 26(c).

The Settlement allows PPL to provide funding of \$250,000 for the Solar Scholars™ Program to be paid over a two-year period. PPL and the SEF will implement the program at twelve to fifteen universities within PPL's service territory over 2 1/2 years. The SEF states that the program is a high-visibility consumer education program providing students and their schools with funding and incentives for research and training in photovoltaic technology as part of a curriculum in renewable energy. SEF St. in Support at 1-2.

Finally, the Company will provide \$250,000 of capital for the development of a small business loan guarantee pilot program tied to energy efficiency improvements. The plan calls for the SEF to develop and administer a one-year pilot collaboratively with PPL and participating financial institutions within PPL's service territory. Settlement ¶ 26(c). The SEF opines that the program will assist small businesses to fund energy-related improvements thereby defraying some of the higher electricity costs projected by 2010. SEF St. in Support at 2.

The benefits of consumer education initiatives to customers is measured by: (1) improved consumer awareness of the benefits of energy efficiency and conservation measures; (2) increased demand for energy efficient products; and, (3) increased willingness of customers to engage in changed behaviors. PPL St. 9 at 14; PPL St. in Support at 10. These are commendable goals which will benefit all within PPL's service territory. The consumer education portion of the Joint Stipulation for Settlement, therefore, is approved as being in the public interest.

Rate Design

The Parties compromised to achieve the reduction in rates from the original \$77 million requested to the Settlement amount of \$55 million. The Company proposed distribution rates that were more demand and customer based and less usage based, which is consistent with how the Company incurs costs for distribution service. PPL St. in Support at 16. This method was adopted for rate schedules with the exception of Rate Schedule RS (residential), where the customer charge is limited to \$8.00 and the revenue increase is collected through equal percentage increases in each of the rate blocks. This is a compromise in response to the OCA's position, which allows residential customers to reduce their distribution costs by limiting their usage.

As the OCA points out, "the allocation of rate increase among the customer classes was a major issue in this proceeding." OCA St. in Support at 4. Under the Settlement, residential customers will pay \$47 million, or approximately 87% of the total increase. OCA St. in Support at 4. This heavily weighted allocation is the result of the changes in the law generated by the Commonwealth Court's decision in *Lloyd*. In *Lloyd*, the Commonwealth Court reviewed and vacated the Commission's approval of PPL's 2004 base rate increase and

remanded the matter for the setting of nondiscriminatory reasonable rates and rate structure for each class of service. In that case, the Commission had adopted rates which were based on the principles of gradualism and avoidance of rate shock. As such, the rates were distributed across the three basic rate classes without an acceptable “explanation how the existing discrimination in distribution and transmission rate structures are eventually going to be gradually alleviated” *Lloyd*, 904 A.2d 1010, 1020.

On remand, the rate increase in that case was redistributed to allocate the bulk of the increase to the residential classes. *Pa. PUC, et al. v. PPL Electric Utilities Corp.*, Docket No. R-00049255 (July 25, 2007). The parties, on remand, agreed upon a settlement which incorporated the Company’s proposal to gradually adjust the distribution and transmission rates to reflect the cost of service to each class over the course of three base rate cases. PPL St. in Support at 11. The PPL Remand Proceeding is the first, and the present case is the second. Therefore, the rates agreed upon by the Parties in the instant Joint Stipulation for Settlement: (1) reflect higher increases to those classes whose rates are subsidized by other classes; (2) move all rate classes closer to distribution cost of service; and (3) do not consider total bill impacts. PPL St. in Support at 14-15.

The Commonwealth Court held that while gradualism can be used to justify differences between rate classes for each unbundled rate, it may not be applied on a total bill basis, since the total bill approach effectively rebundles those rates which must be unbundled under the Act. *Lloyd* at 1021. Accordingly, a gradual move to cost of service is consistent with *Lloyd* where the parties have clearly articulated the intent to allocate the move among three consecutive rate cases and where the proposed rates implement that intent. See OCA St. in Support at 6-7; PPL St. in Support at 11-12.

The OSBA supports the Settlement as a reasonable compromise on the issue of revenue allocation. OSBA St. in Support at 4. The OSBA noted that the Settlement assigns a rate *decrease* to the GS-1 commercial and small industrial class and a less than system average rate increase to the GS-3 and GH commercial and small industrial customer classes. “Because those classes, on a relative basis, are overpaying their allocated distribution costs using PPL’s COSS (cost of service study) methodology at present rates, the Settlement will move the revenues for those customer classes more into line with allocated costs.” OSBA St. in Support at 4-5.

PPLICA also supports the rates structure because it moves PPL closer to rates which reflect the full cost of service and towards the elimination of interclass subsidies. PPL St. 7 at 10-11; PPLICA St. in Support at 4-5. The Settlement proposes revenue decreases for several schedules for large customers⁸ and a slight increase for Rate Schedule LP-6.⁹

ALJ Colwell recommended approval of the Settlement because the gradual adjustment to distribution and transmission rates to reflect the cost of service complies with the Electric Competition Act, reflects higher increases to those classes whose rates are subsidized by other classes, moves all rate classes closer to distribution cost of service, and does not consider total bill impacts. R.D. at 34.

The ALJ recommended approval of two new programs introduced for Commission approval under the Settlement: the Small Business Loan Guarantee (SBLG) Program and the LEED Certification Program. However, ALJ

⁸ Rate Schedules LP-4, IS-P, LP-5 and IS-T.

⁹ PPLICA points out that the increase is a function of the expiration of the DOE/SEF rate credits applicable during 2007.

Colwell noted that the funding for each program should not be assessed to those classes of ratepayers whose members are ineligible for the programs. R.D. at 34-35. The ALJ explained that this restriction is consistent with the Commonwealth Court's interpretation of the Electric Choice Act in *Lloyd* that the rates for each rate class should reflect the cost of serving the rate class.

In its Exceptions, the OSBA argues that the ALJ erred in concluding that the LEED and SBLG programs may not be funded by any customer rate class whose members are not eligible for those programs. OSBA Exc. at 2. The OSBA states that under the terms of the Settlement, if the Commission approves the ALJ's recommended modifications, any Party may withdraw from the Settlement, thereby invalidating the agreement in its entirety. OSBA Exc. at 4. The OSBA states that, “[a]s a general principle, the OSBA is entirely in agreement with the ALJ that the rates for a customer rate class should reflect the cost of serving that rate class.” OSBA Exc. at 5 (emphasis in original). The OSBA contends that, because this Settlement is a product of compromise and did not adopt a particular cost of service study, the \$400,000 that will fund the programs is subsumed in the “black box” total revenue increase of \$54.6 million. The OSBA argues that the interests of judicial economy will not be served if the Parties have to litigate the allocation of the revenue requirement. OSBA Exc. at 6. The OSBA notes that the ALJ's modifications will assign more of the \$55 million revenue requirement to the three small business classes (GS-1, GS-3, and GH) even though they continue to pay in excess of the system-average rate of return. According to the OSBA, the modifications will undermine the goal of moving all classes closer to their cost of service. *Id.*

This Settlement is non-specific with respect to the recovery of any expense item from any particular customer class or customer classes. The Settlement does not identify the funding of specific expenses by specific rate

classes. Rather, the Parties have agreed upon the overall revenue requirement, an allocation of the increase among the various customer classes, and specific rates designed to recover class revenue requirements. There is, however, no agreement among the Parties, on all of the components of revenue requirement or upon a class cost of service study to allocate the revenue requirement among customer classes.

We support the ALJ's recommendation to adopt these two programs; however, we do not support the ALJ's recommendation regarding the allocation of the associated costs. Because the Parties agreed to a "black box" revenue requirement without an agreed upon cost of service study, the Commission need not direct the allocation of any programs in any particular fashion. Even though we are not requiring the allocation of these specific programs here, this Settlement is nonetheless consistent with *Lloyd*. The Settlement achieves the goal of *Lloyd* and the Remand Proceeding by gradually moving all rate classes closer to their distribution cost of service over the course of three base rate cases. Essential to our determination is the fact that, while the small business classes continue to pay in excess of the system-average rate of return, this Settlement moves them closer to their true cost of providing service. Accordingly, we shall grant the OSBA's Exception, modify the ALJ's recommendation, and adopt the Settlement's distribution of the agreed upon revenue requirement.

Tariff

The City of Scranton objected to the Company's proposal to expand Rate Schedule SE to non-municipal customers because it anticipated that the method used by developers to obtain approvals before installing and utilizing rights-of-way would be changed in a manner which would remove controls from the purview of the City. Accordingly, the City of Scranton and PPL negotiated a settlement regarding Rate Schedule SE – Energy Only Street Lighting and its

proposed expanded availability to non-municipal users. PPL and the City agreed to the following language which provides assurances that non-municipal Rate SE street lighting will be properly engineered before street lighting facilities are energized. Scranton St. in Support at 2.

Any non-municipal customer will be required to demonstrate that it has complied with all municipal requirements pertaining to lighting before being eligible for service under Rate SE. In addition, before street lighting facilities may be energized, the non-municipal customer shall provide the Company and the municipality with an inspector's certification that the street lighting facilities are constructed to applicable electrical code requirements and also provide the Company and the municipality with as-built drawings certified by engineering seal of the final placement, configuration, and cut sheets for street lighting facilities to be energized. The non-municipal customer shall provide certification to the municipality of continued compliance with the National Electric Code requirements as required by the municipality.

Stipulation, Appendix C, Eighth Revised Page No. 37B.

In addition to the above paragraph, the City and PPL agreed upon additional language to the identification paragraph of Rate SE that will assure the public is aware of a non-municipal customer's ownership of street lights and that a telephone number for the customer is published and advertised. Scranton St. in Support at 2.

Pursuant to the Settlement, in response to objections of PPLICA, PPL clarified its retail service obligations to high voltage customers by adding new language to the Rules for Electric Service, Rule 4 – Supply of Service. The first sentence below was initially offered by PPL to which the second sentence

was added to address PPLICA's concerns. The following Rule 4A(2) has been incorporated into the Tariff:

The distribution system is defined, for the purposes of this rule, as including all lines energized at voltages less than the nominal 69,000 volts and excluding service extensions and lines energized at voltages of nominal 69,000 volts or higher. *However, this definition does not affect the Company's obligations under the Federal Power Act and/or the Public Utility Code, as applicable: (1) to provide safe, reliable and adequate retail electric service to customers taking service at voltages of 69 kv and above, and (2) to provide just and reasonable and non-discriminatory distribution and transmission rates, terms and conditions of service to such customers.*

Stipulation, Appendix C, Eighth Revised Page No. 8. (emphasis added).

In the Settlement, PPL confirmed that customers with time of day (TOD) rates currently under Rate Schedules GS¹⁰ and GH¹¹ may retain TOD rates

¹⁰ Rate Schedule **GS-1**, Small General Service at Secondary Voltage. The billing demand is limited to 5 KW for accounts served under discontinued Rate Schedule FC as of June 28, 1980. New applications with voltage levels higher than the secondary voltage will not be accepted after January 1, 2005. Rate Schedule **GS-3**, Large General Service at Secondary Voltage. Where necessary, the Company furnishes and maintains one transformation from line voltage to a lower Company standard service voltage. New applications with voltage levels higher than the secondary voltage will not be accepted after January 1, 2005.

¹¹ Rate Schedule **GH-1(R)**, Single Meter Commercial Space Heating Service. This is in the process of elimination and is available only to service locations supplied continuously on or after August 21, 1972, and to locations served under discontinued Rate Schedule GH-4 as of September 26, 1984. Rate Schedule **GH-2(R)** Separate Meter General Space Heating Service. This is in the process of elimination and is available only to service locations supplied hereunder continuously on or after August 21, 1972, and also prospective service locations where a definite rate commitment has been made as of that date for so long as service is continuous thereafter.

when, at a specific site, a customer switches from GS to GH or from GH to GS. Settlement at 13.

The REG did not agree with PPL's proposal to change Rate Schedule GS-1 to be single-phase service only and for Rate Schedule GS-3 to be applicable only for multiple-phase service. As a compromise, the REG and PPL agreed to begin this change in service to be applicable only to new customers commencing January 1, 2008. PPL St. in Support at 18. Also, customers taking service under Rate Schedules GS-1 and GS-3 may continue to switch from one rate schedule to the other until January 1, 2010, subject to existing rules and restrictions. Commencing January 1, 2010, these customers may switch only once from GS-1 or GS-3 and may not subsequently return to their original rate schedule. Settlement at 13. The REG also reached an agreement with PPL which provides for PPL to eliminate the annual maintenance charges for non-standard equipment which would enable customers to receive data via KYZ pulses. This will help EGSs like REG to perform energy audits for its customers. PPL St. in Support at 19; REG St. in Support at 3.

In response to a request of the OSBA, PPL has agreed to provide a schedule of current Rate Schedule GS-1 customers who qualify for service under Rate Schedule GS-3. This schedule will present the current rate differences between GS-1 and GS-3, based upon the customer's prior year's usage. Settlement at 14.

Conclusion

This Settlement was achieved by the Joint Petitioners after an extensive investigation of PPL's filing, including informal and formal discovery and the filing of direct, rebuttal and surrebuttal testimony. Approval of this

Settlement will avoid the necessity of further administrative and appellate proceedings, which would result in further cost to PPL and ultimately, its ratepayers. The reduction in the requested revenue and revenue allocation, along with the other terms of the Settlement, is a fair and reasonable resolution of the investigation. We have carefully reviewed the record as developed in this proceeding including the proposed Settlement, the supporting Statements, the ALJ's Recommended Decision, and the Exceptions filed thereto. For the reasons stated in this Opinion and Order, we will adopt the ALJ's Recommended Decision as modified; **THEREFORE,**

IT IS ORDERED:

1. That the Exception of the Office of Small Business Advocate is granted.
2. That the Exceptions of Mr. Michael Ochs are denied.
3. That the Joint Stipulation for Settlement of Rate Investigation signed by all litigating Parties and submitted in the case captioned *Pennsylvania Public Utility Commission, et al. v. PPL Electric Utilities Corporation* at Docket No. R-00072155, and attached hereto as Attachment A with Appendices A through M, is hereby approved as submitted.
4. That the following Complaints are dismissed:

<u>Complainant</u>	<u>Docket Number</u>
Andrew T. Bosak	R-00072155C0004
Daniel D. Graham	R-00072155C0005
Stephanie Crayton	R-00072155C0006
Judith A. Lewis-Walton	R-00072155C0007
Margaret Gay	R-00072155C0008

Deb Eastman	R-00072155C0010
Frank Tokarz	R-00072155C0011
Gregory B. Clemens	R-00072155C0012
William J. Vigilante, Jr.	R-00072155C0013
Richard and Eleanor Cobb	R-00072155C0014
Denise M. Sater	R-00072155C0015
James Hronich	R-00072155C0016
Fred Charles	R-00072155C0017
Joseph McAndrew	R-00072155C0019
Lillian Falcone	R-00072155C0021
Michael Ochs	R-00072155C0023
Anayansi Acosta-Gamboa	R-00072155C0024
Charles W. Pursel	R-00072155C0025
Christine M. Checke	R-00072155C0026
Bob Branson	R-00072155C0027
Malcolm Nelson & Belinda Ortiz	R-00072155C0028

5. That the Complaints filed by the Office of Consumer Advocate, R-00072155C0001, the PP&L Industrial Customers Alliance, R-00072155C0002, the Office of Small Business Advocate, R-00072155C0003, Eric Joseph Epstein, R-00072155C0009, City Complainants, R-00072155C0018, and the U.S. Department of Defense and All Federal Executive Agencies, R-00072155C0020, are considered to be satisfied by the Joint Stipulation for Settlement and shall be marked closed.

6. That PPL Electric Utilities Corporation shall not place into effect the rules, rates and regulations contained in Supplement No. 54 to PPL Electric's Tariff – Electric Pa. P.U.C. No. 201, as filed March 29, 2007, at PUC Docket No. R-00072155.

7. That PPL Electric Utilities Corporation is hereby authorized to file the tariffs, tariff supplements, or tariff revisions containing rates, rules and regulations, consistent with the Joint Stipulation for Settlement and the findings herein, to produce a revenue increase not in excess of \$54,610,854.

8. That PPL Electric Utilities Corporation's tariffs, tariff supplements, or tariff revisions described in Ordering Paragraph No. 7 may be filed upon less than statutory notice, pursuant to the provisions of 52 Pa. Code §§ 53.31 and 53.101, and may be filed to be effective for service rendered on and after January 1, 2008.

9. That, after approval by the Commission of the tariff filed by PPL Electric Utilities Corporation, the investigation at Docket No. R-00072155 shall be terminated and the record shall be marked closed.

BY THE COMMISSION



James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: December 6, 2007

ORDER ENTERED: **DEC 06 2007**

PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105-3265

PA Public Utility Commission
v.
PPL Electric Utilities Corporation

Public Meeting held December 6, 2007
DEC-2007-OSA-0273

Docket No. R-00072155, et al.

STATEMENT OF CHAIRMAN WENDELL F. HOLLAND
CONCURRING IN PART AND DISSENTING IN PART

PPL Electric Utilities Corporation (PPL) requested a rate increase that, after revision, totaled \$76.996 million. The Joint Stipulation for Settlement of Rate Investigation (Settlement) provides for an increase of \$55 million in lieu of the revised request.

I support the \$55 million increase provided in the Settlement and recommended by Administrative Law Judge Susan D. Colwell. However, what is most troubling is the manner in which the increase is to be allocated. \$47.830 million, or 87% of the increase is placed on the residential class. The basis for skewing this increase to the detriment of the residential customer is predicated upon the recent Commonwealth Court decision in *Lloyd v. PaPUC*, 904 A2d 1010 (Pa. Cmwlth. 2006). The allocation of the rate increase in this proceeding shocks the fundamental principle of gradualism. This is an unacceptable additional burden to place on PPL's residential consumers and it is not one that I, unlike the court and others, feel they should have to bear.

For this reason I can not accept the allocation of the revenue increase provide for in the Settlement; consequently I respectfully dissent from this part of the majority decision.

December 6, 2007

DATE

Wendell F. Holland

WENDELL F. HOLLAND, CHAIRMAN

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Re: PA PUC v. PPL Electric
Utilities Corporation, et al.

Public Meeting: December 6, 2007
DEC-2007-OSA-0273*
Docket No. R-00072155

STATEMENT OF VICE CHAIRMAN JAMES H. CAWLEY

On March 29, 2007, PPL Electric Utilities Corporation (PPL) requested an increase in distribution service base rates of \$83.6 million. On August 30, 2007, a unanimous Joint Settlement was filed, resulting in a reduced increase in base rates of approximately \$55 million.

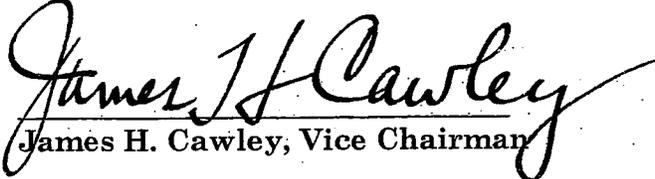
First, I commend the Office of Consumer Advocate for its successful efforts to maintain the existing Customer Charge Rate. This helps to ensure that Pennsylvania consumers have the proper incentives to conserve electricity and receive measurable benefits for conserving.

Second, I also commend the parties for their efforts to expand funding for the Low Income Usage Reduction Program (LIURP). Under the settlement, LIURP funding was increased \$1.5 million (from \$6.25 million to \$7.75 million, a 24% increase).

Third, the settlement provides for an even more substantial \$5.8 million increase in PPL's Customer Assistance Program (CAP) (from \$13.2 million to \$19 million, or 44%). This is laudable, although CAP programs (unlike LIURP programs which provide lasting benefits to low income consumers in terms of reduced energy consumption and energy costs) provide benefits only in the year of the payment and reduce short term and long term incentives to conserve energy. In the future, I encourage the parties to look harder to see if LIURP and similar energy conservation programs can play a greater role in solving our long term energy problems, especially for low income customers. Ideally, this should help mitigate rising CAP costs, provide better levels of comfort for low income customers, and provide macro benefits to our overall energy economy.

Lastly, I commend the parties for moving forward with the \$150,000 LEED certification program and the \$250,000 of capital for the development of a small business loan guarantee pilot program tied to energy efficiency improvements. I certainly concur that cost effective energy efficiency investments and higher efficiency standards are the most important tools to mitigate future price increases.

DATE: December 6, 2007


James H. Cawley, Vice Chairman

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION V. PPL ELECTRIC
UTILITIES CORPORATION**

**PUBLIC MEETING -
DECEMBER 6, 2007
DEC-2007-OSA-0273*
DOCKET NO: R-00072155**

STATEMENT OF COMMISSIONER TYRONE J. CHRISTY

Before the Commission for consideration are the Exceptions filed by the Office of Small Business Advocate (OSBA) to the Recommended Decision of Administrative Law Judge (ALJ) Susan D. Colwell, as well as the Letter in lieu of Reply Exceptions filed by PPL Electric Utilities Corporation (PPL Electric). In her Recommended Decision, the ALJ recommended that the Commission approve the Joint Petition for Settlement (Settlement) submitted by the Parties with one modification. The ALJ recommended that funding for two new specific programs, the Leadership in Environmental Design (LEED) certification assistance program and the Small Business Loan Guarantee Program (SBLG), come only from rate classes eligible for the programs. The ALJ stated that her recommended restriction for funding of the programs is consistent with the Commonwealth Court's interpretation of the Electric Choice Act in *Lloyd v. Pennsylvania Public Utility Commission (Lloyd)* that the rates for each rate class should reflect the cost of serving the rate class.

In its Exceptions, the OSBA notes that as a general principle, it agrees with the ALJ that the rates for a customer rate class should reflect the cost of serving that rate class. However, in this settlement, the Parties agreed that no specific allocation of the cost of these programs would be addressed. According to the OSBA, the \$400,000 that will fund these two programs is subsumed in the total revenue increase of \$55 million. The OSBA objects to the ALJ's recommended modification as it will undermine the settlement's goal of moving all classes closer to their cost of service and because it will have a chilling effect upon the potential for negotiating future settlements. In reply, PPL Electric agrees with the ALJ and the OSBA that programs should only be funded by customer classes eligible for the programs, but states that it is not necessary for the Commission to decide this issue in this proceeding. PPL Electric notes that because this settlement is a "black box" settlement in which the various bases for the allocation among the rate classes are not identified, the Commission can not identify or specify the actual source of funding for these two programs. The Office of Special Assistants recommends that the Commission grant the OSBA's Exception, modify the ALJ's recommendation accordingly, and adopt the Settlement in its entirety.

I will reluctantly support the OSBA Exceptions based on the "black box" nature of this Settlement agreement. However, in principle I am in complete agreement with the ALJ's position that the costs of the LEED and SBLG programs should not be imposed on customers that are not eligible for the programs. In other proceedings, the

OSBA and other parties have argued that the costs of universal service programs should be allocated to the residential class only, the customer class that benefits from the programs. This same principle should apply to this issue as well. In its Reply, PPL Electric notes that the issue of the source of funding for these programs will be addressed in its next base rate proceeding, if the programs are continued beyond the end of that base rate case. I would request that the Parties specifically address this matter in PPL Electric's future proceedings.

12-6-07

DATE

Tyrone J. Christy
TYRONE J. CHRISTY, COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105-3265

Re: PA PUC v. PPL Electric Utilities Corporation, et al.

PUBLIC MEETING
December 6, 2007
DEC-2007-OSA-0273*
Docket No. R-00072155

STATEMENT OF COMMISSIONER KIM PIZZINGRILLI

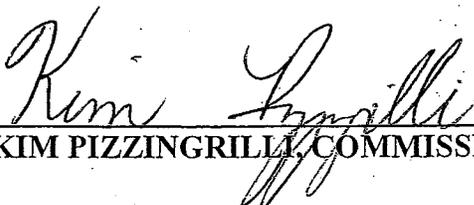
Today the Commission adopts a Joint Petition for Settlement submitted by the parties which permits PPL to place into effect a distribution rate increase of \$55 million and grants exceptions of the Office of Small Business Advocate (OSBA).

The majority of this increase will be borne by PPL's residential customers as a result of changes in the law brought about by the Commonwealth Court's decision in Lloyd v. Pa. PUC, 904 A.2d 1010 (Pa. Commw. Ct. 2006). Lloyd requires that rate structures be gradually adjusted to reflect the cost of service to each rate class and eliminate the subsidization of the cost of serving the residential class by commercial and industrial customers. As stated by the Administrative Law Judge, "...this allocation would have been unthinkable a few short years ago [but] changes in the law mandate an allocation of this manner." Recommended Decision at 32.

The Office of Consumer Advocate (OCA), in its Statement in Support of the Settlement noted that "[t]he allocation of revenues contained in the Settlement will move each class closer to the system average return in a measured manner, consistent with the principles set forth by the Commonwealth Court." OCA Statement in Support at 5. In supporting the Settlement, OCA recognized that the increase to residential rates under the Settlement is lower than those originally proposed by PPL. The percentage of the increase is also lower than that proposed by the other parties, who advocated that a larger portion of the rate increase be allocated to residential customers. Id. The Commission is bound by the Commonwealth Court's decision in Lloyd and therefore, must continue to move distribution rate allocation in line with cost of service.

Although the approved rate increase is allocated primarily among the residential customer class, it is noteworthy that the Settlement contains a number of universal service provisions that will aid residential customers such as: increased contributions to PPL's Low Income Usage Reduction Program; an increase in corporate contributions to Operation Help and additional funding for PPL's OnTrack Program and Winter Relief Assistance Program. I commend the parties in their efforts to increase customer assistance programs and believe that the successful operation of these programs is vital in assisting low-income consumers. Additionally, the Settlement provides funding for consumer education relating to conservation and renewable energy management. It also provides funding for a Leadership in Energy and Environmental Design Program, the Solar Scholars Program and the Small Business Loan Guarantee Program. The efforts to enhance consumer education and to promote energy efficiency programs will benefit all of PPL's territory.

December 6, 2007
Date


KIM PIZZINGRILLI, COMMISSIONER

