BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities for Approval of its Energy Efficiency and Conservation Plan Under Act 129 of 2008

Docket No. M-2009-2093216

PPL Electric Utilities Corporation

Statement No. 4

Direct Testimony of Joseph M. Kleha

Date: July 1, 2009

Direct Testimony of Joseph M. Kleha

Q. Please state your full name and business address.

A. Joseph M. Kleha, Two North Ninth Street, Allentown, Pennsylvania, 18101.

Q. By whom are you employed and in what capacity?

A. I am employed by PPL Electric Utilities Corporation ("PPL Electric"), a subsidiary of PPL Corporation, as Manager - Regulatory Compliance and Rates. I assumed this position on January 12, 2009.

Q. What are your duties as Manager - Regulatory Compliance and Rates?

A. I am responsible for PPL Electric's compliance with the regulatory requirements of the Pennsylvania Public Utility Commission ("PUC" or the "Commission"), the Federal Energy Regulatory Commission ("FERC") and other regulatory agencies, as necessary. As part of this function, I am responsible for the preparation and review, and technical oversight and guidance, of the development, content and structure of cost allocation and revenue requirement studies. In addition, I am responsible for all aspects of PPL Electric's rates, tariffs, load research, and load and revenue forecasting. I also prepare and present expert testimony regarding these and other cost-of-service and ratemaking-related issues.

Q. What is your educational background?

A. I graduated from The Pennsylvania State University in May 1974 with a Bachelor of Science Degree in Accounting. Since that time, I have taken specialized courses dealing with public utility accounting, depreciation and rate design. In addition, I attended the National Association of Regulatory Utility Commissions' ("NARUC") Regulatory Studies Program.

Q. Please describe your professional experience.

A. I was employed by the Pennsylvania Department of Public Welfare as Field Auditor and Institutional Collections Officer from 1974 to 1977. In 1977, I joined the technical staff of the Pennsylvania Public Utility Commission ("PUC") as a Utility Rate Analyst in its Bureau of Rates and Research. In this position, my responsibilities included review of proposed retail electric rate filings, and the preparation and presentation of testimony in formal rate proceedings. This testimony primarily dealt with the allowable levels and jurisdictional allocations of claimed operating revenues, operating expenses, and rate base. In 1981, I joined PPL Electric, formerly Pennsylvania Power & Light Company, as a Senior Accountant with responsibility for assembling financial data and preparing revenue requirement studies to support its retail and wholesale rate filings. I was named Manager - Regulatory Projects in PPL Electric's Office of General Counsel in 1990. In 2000, as part of a corporate realignment, I became an employee of PPL Services, along with the other employees in the Office of General Counsel. In 2009, I assumed my current position.

Q. Have you previously testified as a witness on cost-of-service and ratemaking-related issues?

A. Yes, I have testified before this Commission and the Federal Energy Regulatory Commission ("FERC") in numerous proceedings regarding cost-of-service and ratemaking-related issues. See Appendix A for a list of those proceedings. In addition, I have testified regarding cost-of-service and ratemaking-related issues before the United States Tax Court at Docket No. 25393-07.

Q. Mr. Kleha, briefly describe the subject matter of your testimony in this proceeding.

A. I will describe the calculation of PPL Electric's spending cap for the programs in its Energy Efficiency and Conservation Plan ("EE&C Plan"). I also will describe and support PPL Electric's proposed methodology for assigning or allocating the costs of these programs to each customer class. Finally, I will explain the ratemaking mechanism that PPL Electric proposes for recovery its EE&C Plan compliance costs.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am primarily responsible for and am sponsoring Sections 1.7 and 7 of PPL Electric Exhibit No. 1, the Company's EE&C Plan. In addition, I am sponsoring PPL Electric Exhibit JMK-1, which is a pro forma tariff supplement implementing the Company's proposed cost recovery mechanism – the Act 129 Compliance Rider ("ACR").

Q. What is PPL Electric's spending limit for its Energy Efficiency and Conservation ("EE&C") Plan under the 2 percent cap in Act 129?

A. The spending limit for the entire four years of this initial EE&C Plan is $246 million.

Q. How was that limit calculated?

A. Act 129 requires that the total cost of any EE&C Plan cannot exceed 2% of the Electric Distribution Company's ("EDC") total annual revenues as of December 31, 2006. PPL Electric's total annual revenues for calendar year 2006 were approximately $3 billion ($3,075,068,824). Accordingly, the 2% cost cap established by Act 129 is approximately $61.5 million ($61,501,376). In the Implementation Order entered on January 16, 2009, at Docket No. M-2008-2069887, the Commission concluded that this limitation on the "total cost of any plan" should be interpreted as an annual amount, rather than an amount for the full term of the Plan. Although the 2% cost cap will be calculated on an annual basis, PPL Electric believes that it should be applied on a total EE&C Plan basis. Because the EE&C Plans will be implemented by program year (with each program year beginning June 1 and ending May 31), the initial Act 129 program will have a total duration of four program years. Multiplying PPL Electric's annual cost cap of $61.5 million per year by four program years produces a total spending cap for the Company's EE&C Plan of $246 million.

Q. In your opinion, is there a limit on the Company's annual expenditures for its EE&C Plan?

A. No. As I previously stated, I believe that the 2% cost cap should be applied to the total four-year EE&C Plan. However, spending during one year within that four-year period is not subject to the cap. Accordingly, annual spending could be less than or greater than the cap. Because many of its EE&C programs will require some time to ramp up, PPL Electric anticipates that spending in the early years of its Plan will be less than 2%, and spending in the later years will be greater. I want to emphasize, however, that total spending over the four years will not exceed the Company's cap of $246 million.

Q. How are the costs to design and develop the Company's EE&C Plan reflected in its budget for the plan?

A. The Company's total cost of its EE&C Plan will include the costs that PPL Electric incurred to develop that Plan. In the Implementation Order, the Commission found that EDCs should be permitted to recover the incremental cost incurred to design, create, and obtain Commission approval of a plan. In addition, in an Order entered on May 28, 2009 at Docket No. P-2009-2091818, the Commission granted PPL Electric's request to defer such plan development costs on its balance sheet as a regulatory asset. Accordingly, the Company proposes to amortize and recover those deferred costs ratably over the 42-month life of its initial EE&C Plan (i.e., December 1, 2009 through May 31, 2013). The amortization of those costs will be included within the $246 million spending cap.

Q. What is the Company's overall approach for determining which customer class is responsible to pay for the programs in its EE&C Plan?

A. Act 129 requires that EE&C measures must be paid for by the same customer class that receives the energy and conservation benefits of those measures. Accordingly, in its January 16, 2009 Implementation Order, the Commission directed EDCs to first assign the costs relating to each measure to those classes that will receive the benefits. PPL Electric will follow this direct assignment approach wherever possible. However, some costs will relate to EE&C measures that are applicable to more than one customer class or that provide system-wide benefits. The Commission directed EDCs to allocate those costs, and general administrative costs, using reasonable and generally acceptable cost-of-service principles as are commonly utilized in base rate proceedings. Consistent with this provision of the Implementation Order, PPL Electric proposes to allocate such costs using an allocation factor equal to the percentage of the EE&C costs directly assigned to each customer class to the total of the EE&C costs directly assigned to all customer classes.

Q. Please describe the rate mechanism PPL Electric is proposing for recovery of the costs of its EE&C Plan.

A. Act 129 authorizes EDCs to recover the costs of their EE&C Plans through a reconcilable adjustment clause under Section 1307 of the Public Utility Code. The Commission reiterated this requirement in its January 16, 2009 Implementation Order. In its EE&C Plan filing, PPL Electric has included pro forma tariff pages to implement such a cost recovery mechanism. Those tariff pages also are attached to my testimony as PPL Electric Exhibit JMK-1. The Implementation Order also directs that such cost recovery mechanisms must be non-bypassable, and that those mechanisms not affect the EDC's price-to-compare, if the EE&C Plan benefits both shopping and non-shopping customers. Because all of the programs included in PPL Electric's proposed

EE&C Plan will benefit both shopping and non-shopping customers, the Company has designed its cost recovery mechanism to be non-bypassable. In this regard, PPL Electric proposes that the cost recovery mechanism be applied to the distribution charges for each customer class rather than appear as a separate line item on customers' bills.

Q. How many different rates will be reflected in the ACR?

A. The Company proposes to calculate separately the applicable EE&C costs for each of the three major customer classes on its system, i.e., (1) residential, (2) small commercial and industrial ("Small C&I"), and (3) large commercial and industrial ("Large C&I"). These costs will vary in each program year of the EE&C Plan. As I discussed previously, in some program years, they may be greater than the annual 2% cost cap; in other program years, they may be less than the cap. However, over the four program years, the total costs of the EE&C Plan for all customer classes will not exceed $246 million.

Q. Please describe how PPL Electric proposes to set the annual rates under the ACR.

A. Although costs will vary year-to-year, PPL Electric proposes to recover those costs on a levelized basis. Annual budget amounts for each customer class will be developed on a levelized basis for the four years of the Company's proposed EE&C Plan. On a total system basis, that levelization will equate to an EE&C Plan budget in program year one of approximately $30 million and EE&C Plan budgets in program years two through four of approximately $72 million per year. These budget amounts will be adjusted to include the annual costs that PPL Electric will incur to pay for the statewide Act 129 evaluator. Act 129 provides that the Commission can recover such program implementation costs from EDCs, and logically it follows that EDCs can recover those costs from customers. However, the costs for the statewide Act 129 evaluator should not be included under the Company's 2% cost cap. In establishing that cost cap, the Act specifically characterizes the cap as a limitation on the "total costs of any plan required under this section." Because the costs of the statewide Act 129 evaluator are not the costs of PPL Electric's EE&C Plan, they are not subject to the limitation set forth in the Act.

Q. Please describe the Company's proposed ACR reconciliation mechanism.

A. The adjusted budget amounts that I just described will be included each year in the Company's cost recovery mechanism. These amounts will be recovered from customers in the residential and small commercial and industrial classes on a levelized cents per kWh basis. They will be recovered from customers in the large commercial and industrial class on a levelized dollar per kW basis. In addition, for this class of customers, there may be some costs that are more appropriately assigned directly to the individual Large C&I customer who is undertaking the measure and receiving its benefit. For each customer class, PPL Electric proposes to separately reconcile the revenues collected under the cost recovery mechanism with the adjusted budget amounts for that year. This reconciliation, which will be performed on an annual basis, primarily will reflect variations in actual sales from forecasted sales. The

Company does not propose to reconcile the revenues collected under the cost recovery mechanism to its actual spending levels in each year. As I discussed previously, those spending levels can vary from year-to-year.

Q. Is PPL Electric proposing any other mechanisms for adjusting the ACR?

A. Yes. In addition to the annual reconciliation, PPL Electric proposes to make "mid-course" corrections in the cost recovery mechanism to reflect major changes to any of its EE&C programs. Finally, at the end of the four-year EE&C Plan, the Company will reconcile total revenue collected to its total budget for the four-year EE&C Plan. Of course, the annual reconciliation, any "mid-course" corrections and the end of Plan reconciliation will be subject to Commission review and approval before PPL Electric actually adjusts customers' rates.

Q. Is the Company proposing any expiration date for the ACR?

A. No. PPL Electric is not proposing an expiration date for the ACR. First, the mechanism will be needed to refund any over collection or recover any under collection existing at the end of the four-year EE&C Plan. Second, the Company may be able to reduce the overall costs of its EE&C Plan by entering into contracts with CSPs that extend beyond May 31, 2013. If that approach is approved by the Commission, the cost recovery mechanism will be needed to collect the costs incurred during the latter years of contract costs incurred during the latter years of those contracts.

Q. Does this conclude your direct testimony?

A. Yes, it does

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Exhibit JMK-1

Proposed Cost Recovery Mechanism

**Proceedings in Which Mr. Kleha
Provided Expert Testimony**

As an analyst in the Pennsylvania Public Utility Commission's ("PUC") former Bureau of Rates and Research, Mr. Kleha offered testimony in the following electric utility rate proceedings:

Company	Docket No.
Duquesne Light Company	R-79010740
UGI Corp. - Luzerne Division	R-79050863
Philadelphia Electric Company	R-79060865
West Penn Power Company	R-80021082
Pennsylvania Power & Light Co.	R-80031114
Metropolitan Edison Company	R-80051196
Pennsylvania Electric Company	R-80051197

As an employee of PPL Electric and PPL Services, Mr. Kleha has offered expert testimony the following electric and gas utility proceedings before the PUC and the Federal Energy Regulatory Commission ("FERC").

PUC	FERC
Docket No. I-900005	Docket No. ER88-545-000
Docket No. P-910521	Docket No. ER91-322-000
Docket No. M-00930406	Docket No. ER95-1267-000
Docket No. C-00935175	Docket No. ER96-930-000
Docket No. C-00935403	Docket No. ER96-931-000
Docket No. R-00943271	Docket No. ER96-932-000
Docket No. C-00957559	Docket No. ER96-933-000
Docket No. P-00961023	Docket No. ER96-1428-000
Docket No. C-00967591	Docket No. SC97-1-000
Docket No. C-00967955	Docket No. OA96-142-000
Docket No. C-00968035	Docket No. ER97-4829-000
Docket No. P-00961114	Docket No. ER97-3189-007
Docket No. R-00973954	Docket No. EL98-25-000
Docket No. P-00001789	Docket No. ER02-597-000
Docket No. M-FACE9908	Docket No. ER03-421-002
Docket No. R-00005277	Docket No. ER04-056-000
Docket No. M-FACE0008	Docket No. ER08-1457-000
Docket No. M-FACE0111	
Docket No. R-00016850	
Docket No. M-FACE0212	
Docket No. M-FACE0311	
Docket No. R-00049255*	
Docket No. M-FACE0411	
Docket No. M-FACE0510	
Docket No. M-FACE0511	
Docket No. R-00061398	

* Includes Remand proceeding.

PUC	**FERC**
Docket No. P-00062227	
Docket No. M-FACE0611	
Docket No. M-FACE0612	
Docket No. M-2008-2012856	
Docket No. R-00061906	
Docket No. R-2008-2013780	
Docket No. R-00072155	
Docket No. A-2008-2034047 etc.	
Docket No. P-2008-2060309	
Docket No. A-2008-2022941	
Docket No. M-2008-2078645	
Docket No. M-2008-2078647	
Docket No. M-2008-2078709	
Docket No. M-2008-2078713	
Docket No. A-2009-2082652	

ACT 129 COMPLIANCE RIDER

An Act 129 Compliance Rider (ACR) shall be applied, on a non-bypassable basis, to charges for electricity supplied to customers who receive distribution service from the Company under this Tariff.

The ACR shall be computed separately for each of the following three customer classes:

(1) Residential: Consisting of Rate Schedules RS, RTS (R), and RTD (R),
(2) Small Commercial and Industrial: Consisting Rate Schedules GS-1, GS-3, IS-1 (R), BL, SA, SM, SHS, SE, TS (R), SI-1 (R), GH-1 (R), and GH-2 (R) (Small C&I), and
(3) Large Commercial and Industrial: Consisting of Rate Schedules LP-4, IS-P (R), LP-5, LP-6, LPEP, IS-T (R), ISA (R), and L5S (Large C&I).

The ACR, as computed using the formulae described below, shall be applied to the monthly bill of each customer receiving distribution service from the Company and shall be reconciled on an annual basis for undercollections and overcollections experienced during the previous year.

The ACR for the Residential class and the Small C&I class shall be computed using the following formula:

ACR = [ACc/S - E/S] X 1 (1-T)

The ACR for the Large C&I class shall be computed using the following formulae:

ACR = [ACc/D - E/D] X 1 (1-T)

Where:

ACc = A levelized annual budget of all costs required for the Company to implement its Commission-approved energy efficiency and conservation (EE&C) Plan during a compliance year. A compliance year is the 12-month period beginning June 1 of each calendar year and ending May 31 of the following calendar year, except the first compliance year which begins on December 1, 2009 and ends on May 31, 2010. The levelized annual budget amount is the sum of all direct and indirect costs (including all deferred design and development costs, general administrative costs, and applicable statewide evaluator costs) required to implement the Company's EE&C Plan divided by the number of months during which the Company's EE&C Plan will be in effect multiplied by the number of months in the compliance year.

The costs of each EE&C program available to only one customer class will be directly assigned to that customer class. Costs of EE&C programs which cannot be directly assigned to one customer class will be allocated to the customer classes benefiting from those programs using an allocation factor determined by dividing the EE&C costs directly assigned to each customer class by the total of the Company's EE&C Plan costs directly assigned to all customer classes.

(Continued)

ACT 129 COMPLIANCE RIDER (CONTINUED)

D = For the Large C&I customer class, the total of the monthly billing demands for all customers in the class, projected for the computation year

E = Net over or undercollection of the ACR charges as of the end of the 12-month period ending April 30 immediately preceding the next compliance year. Reconciliation of the ACR will be conducted separately for each of the three customer classes based upon the annual EE&C budget for each customer class. Interest shall be computed monthly at the appropriate rate, as provided for in Section 1308(d) of the Public Utility Code, from the month the over or undercollection occurs to the effective month that the overcollection is refunded or the undercollection is recouped.

S = The Company's total retail KWH sales to customers in each customer class who receive distribution service under this tariff (including distribution losses), projected for the computation year.

T = The total Pennsylvania gross receipts tax rate in effect during the billing period, expressed in decimal form.

The ACR shall be filed with the Pennsylvania Public Utility Commission (Commission) by May 1 of each year. The ACR charge shall become effective for distribution service provided to all customers on or after the following June 1, unless otherwise ordered by the Commission, and shall remain in effect for a period of one year, unless revised on an interim basis subject to the approval of the Commission. Upon determination that a customer class's ACR, if left unchanged, would result in a material over or undercollection of Act 129 Compliance costs incurred or expected to be incurred during the current 12-month period ending May 31, the Company may file with the Commission for an interim revision of the ACR to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.

At the conclusion of each EE&C Plan, collections under the ACR for each customer class will be reconciled to the total cost of the EE&C Plan allowed by the Commission for that customer class. Overcollections or undercollections will be reflected in the E factor, defined above, and will be refunded or recovered through the ACR calculated for the first compliance year of the subsequent EE&C Plan. If the Company does not implement a subsequent EE&C Plan, the current ACR will be continued for an additional year to refund any overcollections or recover any undercollections.

Minimum bills shall not be reduced by reason of the ACR, nor shall charges hereunder be a part of the monthly rate schedule minimum. The ACR shall not be subject to any credits or discounts. The State Tax Adjustment Surcharge (STAS) included in this Tariff is applied to charges under this Rider.

The Company shall file a report of collections under the ACR within thirty (30) days following the conclusion of each computation-year quarter. These reports will be in a form prescribed by the Commission. The third-quarter report shall be accompanied by a preliminary forecast of the ACR for the next computation year.

Application of the ACR shall be subject to review and audit by the Commission at intervals it shall determine. The Commission shall review the level of charges produced by the ACR and the costs included therein.