

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-2010-2161694

PPL Electric Utilities Corporation

Statement No. 4

Direct Testimony of Denise A. Cunningham

1 **Direct Testimony of Denise A. Cunningham**

2 **Q. Please state your name and business address.**

3 A. Denise A. Cunningham, Two North Ninth Street, Allentown, Pennsylvania
4 18101.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by PPL Services Corporation ("PPL Services") as the Manager-
8 Financial Analysis in the Financial Planning Department.

9
10 **Q. What are your responsibilities as Manager- Financial Analysis?**

11 A. I am responsible for the preparation of various financial presentations to
12 executive management, as well as the Board of Directors and the Finance
13 Committee of the Board of Directors of PPL Corporation ("PPL"). I also prepare
14 presentations to outside stakeholders including PPL's quarterly earnings
15 presentations. I lead initiatives within the Financial Department and represent
16 the Financial Department on high profile inter-departmental teams throughout
17 PPL.

18
19 **Q. What is your educational background?**

20 A. I received a Bachelor's Degree in Accounting from Bloomsburg State College in
21 May 1975 and a Master's Degree in Business Administration from Lehigh
22 University in May 1985. I also am a Certified Public Accountant. Before
23 starting with Pennsylvania Power & Light Company, the predecessor of PPL

1 Electric Utilities Corporation (“PPL Electric” or the “Company”), in December
2 1978, I worked in public accounting.

3
4 **Q. How long have you been employed by PPL, the parent of PPL Electric, or**
5 **a subsidiary of PPL, and in what capacities?**

6 A. I have worked for PPL or its subsidiaries for 31 years. I began my employment
7 as an Auditor in the Internal Audit Department performing various financial and
8 operational audits. I remained there for six years. I then transferred to the
9 Financial Planning Department as a Senior Accountant. This department was
10 responsible for the development of the corporate operating budget. Initially, I
11 was responsible for the preparation of corporate payroll, and operation and
12 maintenance expense (O&M) budgets. While there, I was promoted to
13 Accounting Analyst and assumed responsibility for the development of the
14 other line items of the corporate operating budget, including sales, the Energy
15 Cost Rate, unbilled revenues, etc. I also was involved in the corporate long-
16 range planning function. I worked in Financial Planning for almost 10 years. In
17 November 1994, I was promoted to Supervisor - Financial Accounting
18 responsible for the maintenance and closing of the corporate books and
19 records, as well as the completion and filing of the Annual Report to
20 Shareowners, Form 10-K and the Quarterly Reports, Form10-Q for the
21 Securities and Exchange Commission and the FERC Form No. 1. Through my
22 experience in Financial Planning and Financial Accounting, I developed a
23 thorough knowledge of accounting and reporting concepts applicable to the
24 regulated electric industry. In September 1996, I transferred to the position of

1 Project Manager - Business Management Information System responsible for
2 the implementation of a new general ledger and reporting system that became
3 operational in November 1998. In 2000, I moved to the position of Manager -
4 Competitive Marketing and Derivative Accounting responsible for
5 implementation of Statement of Financial Accounting Standard No. 133,
6 Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), and
7 the accounting and settlement activities of the energy marketing group. In mid-
8 2002, I became a Special Projects Leader and have been involved in many
9 diverse projects which provide the opportunity to draw on my previous
10 experience. I coordinated the Financial Department's activities in the
11 preparation of PPL Electric's 2004 and 2007 distribution base rate cases. I was
12 also a witness in PPL Electric's 2007 distribution base rate case at Docket R-
13 00072155 and in the former PPL Gas Utilities Corporation 2006 base rate
14 proceeding at Docket No. R-00061906. I was promoted to Manager- Financial
15 Analysis in January 2008.

16
17 **Q. What is the purpose of your testimony?**

18 A. My testimony will describe and support PPL Electric's calculation of certain
19 ratemaking adjustments to retail rate base, operating revenues and operating
20 expenses for the historic and future test years. In addition, my testimony will
21 describe and support the embedded cost of debt and preferred and preference
22 stock for both the historic and future test years, and PPL Electric's capital
23 structure. I also will describe and support the calculation of specific information
24 developed by PPL Services and included in PPL Electric's 2010 budget. This

1 includes depreciation and amortization, financing, and support group costs.
2 Mr. Kleha will describe and support tax issues and adjustments.

3
4 **Q. Ms. Cunningham, are you sponsoring any exhibits in this proceeding?**

5 A. Yes, I am sponsoring portions of Exhibit Regs., Part I-General Information, Part
6 II-Primary Statements of Rate Base and Operating Income, Part III-Rate of
7 Return, Part V-Plant and Depreciation Supporting Data, Including Related
8 Depreciation Study Report and Part VI-Unadjusted Comparative Balance
9 Sheets and Operating Income Statements.

10
11 Exhibits Historic 1 and Future 1

12 **Q. Are you sponsoring any schedules in Exhibits Historic 1 and Future 1?**

13 A. Yes. I am sponsoring the following: Schedules B-6, B-7, B-8, B-9, C-1, C-2,
14 C-5, D-1, D-2, D-3, D-4, D-5, D-7, D-8, and D-9 of Exhibits Historic 1 and
15 Future 1.

16
17 **Q. Ms. Cunningham, would you describe the material presented on**
18 **Schedules B-6 through B-9 of Exhibits Historic 1 and Future 1?**

19 A. Schedules B-6 and B-7 set forth the embedded cost of debt and preferred and
20 preference stock at December 31, 2009 and December 31, 2010. PPL
21 Electric's capital structure at December 31, 2005 through December 31, 2010 is
22 shown on Schedules B-8.

23 Schedules B-9 set forth the claimed composite rate of return as of
24 December 31, 2009 and December 31, 2010. In each instance, the

1 capitalization ratios at the end of the respective year, as shown on Schedule B-
2 8, were used. The composite cost rate for long-term debt (Schedule B-6) and
3 the composite cost rate for preferred and preference (Schedule B-7) are
4 reflected as embedded costs. As for common equity, the claimed rate of return
5 on common equity is 11.75%. PPL Electric's rate of return expert, Mr. Moul, is
6 recommending, and his studies support, a fair rate of return on common equity
7 at this level. The overall rate of return reflected on Schedule C-1 in Exhibit
8 Future 1 will produce a return on common equity of 11.75%.

9 All of the data shown in Schedules B-6 through B-9 were taken either
10 from the books and records of PPL Electric, excluding all its non-regulated
11 subsidiaries, for the 12 months ended December 31, 2009 and prior, or were
12 derived from operating and construction budget data for the 12 months ending
13 December 31, 2010.

14
15 **Q. Ms. Cunningham, would you explain Schedules C-2, Electric Plant in**
16 **Service –Original Cost in Exhibits Historic 1 and Future 1?**

17 A Schedule C-2 of Exhibit Historic 1 represents electric plant in service and the
18 accumulated reserve for depreciation at December 31, 2009, which were taken
19 from PPL Electric's fixed asset records, as explained in the testimony of Mr.
20 Banzhoff. Schedule C-2 of Exhibit Future 1 represents the projected electric
21 plant in service and the accumulated reserve for depreciation at December 31,
22 2010. The projected electric plant in service at December 31, 2010 is
23 determined by adjusting the December 31, 2009 balance for projects expected
24 to be placed in service and projected retirements during 2010. The

1 accumulated reserve for depreciation at December 31, 2010 was determined
2 by adjusting the December 31, 2009 balance for the 2010 provision for
3 depreciation and amortization, and projected retirements.

4
5 **Q. Ms. Cunningham, would you explain Schedules C-5, "Plant Materials and**
6 **Operating Supplies"?**

7 A. Schedules C-5 set forth the Company's investment in the materials and
8 supplies stored at service area storerooms to supply line crews. Schedule C-5
9 in Exhibit Historic 1 shows the average dollars invested by PPL Electric in
10 materials and operating supplies for the 13 months ended December 31, 2009,
11 and the stores expense applicable to this inventory balance. Projected monthly
12 balances of materials and operating supplies, and the applicable stores
13 expense, for the 13 months ending December 31, 2010 are shown on Schedule
14 C-5 of Exhibit Future 1.

15
16 **Q. Please explain the adjustment on Schedules D-5 "Adjustment to Wages**
17 **and Benefits."**

18 A. The number of employees that PPL Electric employs can fluctuate throughout
19 any given year. This, in turn, impacts the wages and benefits incurred or
20 projected for that period. Schedules D-5 annualize transmission and
21 distribution wages, payroll taxes and benefits based on the number of
22 transmission and distribution (T&D)- related employees to be employed at the
23 end of each test year, and the corresponding average monthly T&D-related
24 wages to expense per employee.

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Q. Ms. Cunningham, please explain Schedule D-8 “Adjustment for Company Use Generation Supply Costs” in Exhibit Future 1.

A. Beginning in 2011, PPL Electric will need to purchase generation supply for the facilities it owns, i.e., offices, service centers, crew quarters, warehouses, etc., (Company Use). This schedule calculates the net increase in distribution operating expense for that portion of the generation supply costs which PPL Electric is expected to incur for its use of the indicated facilities in the normal course of business.

Q. Please describe other aspects of the filing for which you are responsible.

A. I will describe and support those components of PPL Electric’s operating budget that are not directly budgeted by PPL Electric. PPL Electric budgets information such as employee levels and the associated wages, materials, contractor work, rents and postage. Also included in PPL Electric’s budget are certain expense components of a specialized nature that are generally supplied by PPL Services’ staff who have expertise in forecasting this information. This includes employee benefit costs, depreciation and amortization, financing, and service group support costs.

For example, PPL Services administers PPL’s benefits plans. At the beginning of the budget cycle, PPL Services provides a summary of total PPL Corporation benefits and their expected costs to the Financial Planning Department. The Financial Planning Department develops a corporate benefits loading rate as a percentage of total budgeted corporate payroll costs. This

1 benefits loading rate then is applied to the payroll costs in each of PPL's
2 subsidiaries to develop their respective benefits budget.

3 In developing service group support costs for PPL Electric, each Support
4 Group computes the level and expected cost of providing identifiable services
5 (direct costs) to PPL Electric based on discussions of required services
6 between the Support Group and PPL Electric personnel. The Support Groups
7 enter these direct support costs into the Corporate Budget System.

8 Additionally, the Support Groups identify and enter into the Corporate Budget
9 System budgeted costs that are not directly identifiable and chargeable to a
10 specific PPL Corporation subsidiary, but instead do benefit various PPL
11 subsidiaries (indirect costs). Financial Planning has developed and
12 incorporated into the Corporate Budget System an allocation methodology, as
13 recommended by the Commission in its 2002 Focused Management and
14 Operations Audit confirmed in its 2009 Focused Management and Operations
15 Audit, to distribute these indirect support costs to PPL Electric and other PPL
16 subsidiaries. The Corporate Budget System accumulates and incorporates all
17 the direct and indirect support costs into PPL Electric's Operating Budget.

18
19 After all components of the budget are received from the three sources
20 discussed above and approvals have been obtained, a tentative operating
21 budget is prepared for PPL Electric. The tentative budget is reviewed with
22 management with particular emphasis on key operational and financial
23 indicators. After this review, the final budget is prepared and reviewed with the
24 President and Board of Directors of PPL Electric. This budget is the key tool

1 used by PPL Electric and senior management to establish an operating plan for
2 the upcoming year and for measuring actual results against this plan.

3
4 **Q. You stated that certain specialized data for the budget are provided by**
5 **PPL Services' staff groups. Could you tell us specifically what data are**
6 **provided, and who provides this data?**

7 A. Yes. Exhibit DAC 1 lists the specialized information used in completing the
8 operating budget and identifies the specific PPL Services' staff groups
9 responsible for providing that data.

10

11 **Q. Does this conclude your direct testimony?**

12 A. Yes, it does.