

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2010-2161694**

**PPL Electric Utilities Corporation**

**Statement No. 1**

**Direct Testimony of David G. DeCampi**

1 **Direct Testimony of David G. DeCampli**

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

3 A. David G. DeCampli, Two North Ninth Street, Allentown, PA 18101.

4

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

6 A. I am President of PPL Electric Utilities Corporation ("PPL Electric" or the  
7 "Company").

8

9 **Q. What is your educational background?**

10 A. I hold a bachelor's degree in electrical engineering from Drexel University and  
11 a master's degree in organizational dynamics from the University of  
12 Pennsylvania.

13

14 **Q. Please summarize your employment history.**

15 A. I began my career at PECO Energy as a project engineer and held a number  
16 of positions of increasing responsibility before being named director of  
17 customer Service and Business Process reengineering in 1992. I was named  
18 director of Transmission and Substations in 1995, the director of Engineering  
19 and System Planning in 1998, and vice president of Gas and Electric  
20 Operations in 1999. Following PECO's merger with Commonwealth Edison in  
21 2000, I became vice president of Merger Implementation and Operations  
22 Strategy. I later served as vice president of Regional Operations for  
23 Commonwealth Edison, vice president and chief integration officer for Exelon

1 Energy Delivery and vice president of asset management for Exelon Energy  
2 Delivery.

3 I joined PPL Electric in December 2006 as senior vice president of  
4 Transmission and Distribution Engineering and Operations. I assumed my  
5 current position as president on April 1, 2007.

6

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. I will provide an overall summary of the rate filing, the principal reasons for this  
9 filing and a description of the Company's management effectiveness.

10

11 **Q. Are you sponsoring any exhibits to the filing?**

12 A. I am co-sponsoring the Statement of Reasons, which is included as Section A  
13 of Exhibit Future 1. I say that I am co-sponsoring the Statement of Reasons  
14 recognizing that it summarizes all of the critical aspects of PPL Electric's filing  
15 and, in that sense, it is sponsored and supported by all of the Company's  
16 witnesses.

17

18 **Q. Please summarize the Company's filing for a distribution rate increase.**

19 A. The filing requests Pennsylvania Public Utility Commission ("PUC" or the  
20 "Commission") approval of a \$114.7 million distribution rate increase, or  
21 approximately 2.4% on a total billed revenue basis, effective for service  
22 rendered on and after June 1, 2010. Assuming the standard seven-month  
23 suspension period for investigation and review, we anticipate an effective date

1 of January 1, 2011. This level of rate relief is designed to provide the  
2 Company with an opportunity to earn an overall rate of return of 9.11%,  
3 including an 11.75% return on common equity, on a claimed rate base of  
4 \$2,245 million. Without rate relief, the Company projects a return on common  
5 equity of only about 4.00% in 2010 and 2.00% in 2011. Such returns are  
6 clearly deficient under any reasonable standard, would almost certainly result  
7 in a loss of the Company's A minus bond rating and would preclude the  
8 Company from obtaining capital on reasonable terms to finance infrastructure  
9 improvements needed to maintain reliable service to customers.

10 This filing deals only with distribution base rates. Default service and  
11 transmission service are not at issue in this proceeding. The revenues and  
12 expenses associated with these services are recovered through the  
13 Generation Supply Charge ("GSC") and Transmission Service Charge  
14 ("TSC"), respectively. In addition, all revenues and expenses from the  
15 Company's other automatic adjustment clauses, e.g., Competitive Transition  
16 Charge ("CTC"), Universal Service Rider ("USR"), the Act 129 Compliance  
17 Rider ("ACR"), Merchant Function Charge ("MFC") and the State Tax  
18 Adjustment Surcharge ("STAS") have been removed from the calculation of  
19 the requested revenue requirement.

20 Based on the results of a class cost allocation study and the  
21 requirements of the Commonwealth Court's decision in Lloyd v. Pa. PUC, the  
22 Company proposes to allocate the entire increase to the residential class with  
23 no proposed change in class rates for commercial and industrial customers.

1 The results of the cost-of-service study support even further increases to  
2 residential rates and decreases to commercial and industrial rates, but the  
3 Company has limited the increase to residential customers to avoid disparate  
4 impacts on this class of customers. The proposed rate design also reflects an  
5 effort to recover fixed costs through customer charges rather than through  
6 kWh energy charges. This is consistent with the results of the cost-of-service  
7 study and sends proper price signals to customers regarding cost causation.  
8

9 **Q. What are the principal reasons which led to this rate filing?**

10 A. As explained in more detail in the Statement of Reasons, the filing, to a  
11 very large degree, reflects the current business environment faced by the  
12 Company. This business environment includes declining sales due to the  
13 ongoing recession and implementation of mandatory conservation  
14 requirements imposed by Act 129 (a decrease in sales from 37.9 gWh in 2007  
15 to 37.4 gWh in 2010), increased operating expenses that are largely beyond  
16 the Company's control (an increase from \$337 million in 2007 to \$368 million  
17 in 2010), the need to undertake a major increase in capital expenditures to  
18 replace aging infrastructure and optimize the use of our assets in order to  
19 continue to provide reliable service to customers (\$1.5 billion over the next five  
20 years), and the need to access the capital markets on reasonable terms in  
21 order obtain the funds necessary to undertake these important capital projects.

22 The ability to access capital markets on reasonable terms is always  
23 important to capital intensive industries such as the electric utility business, but

1 it is critically important, at this time, given the major capital spending required  
2 by PPL Electric and the major disruptions in the capital markets which have  
3 made raising capital very difficult and more expensive. PPL Electric currently  
4 holds an A minus rating from Standard & Poor's and a Baa1 rating from  
5 Moody's Investor Services. Both of these agencies have recently issued a  
6 "negative outlook" for PPL Electric. Without a reasonable and supportive  
7 result from this proceeding, it is almost certain that PPL Electric will be  
8 downgraded. This is never a desirable result, but would be particularly  
9 problematic given the current condition of the current capital markets and  
10 the need to raise significant amounts of external capital.

11  
12 **Q. Please describe the Company's management effectiveness.**

13 A. In my view, the ultimate measure of an electric utility's management  
14 effectiveness is its ability to provide safe, reliable and high quality service at  
15 reasonable rates. Judged against this standard, I believe that the Company  
16 has demonstrated excellent management effectiveness which should be  
17 reflected in the Commission's return on common equity allowance in this  
18 proceeding.

19  
20 **Q. What has the Company done to manage its costs?**

21 A. The Company has not simply "reacted" to the current business environment  
22 summarized above. The Company has aggressively worked to control  
23 expenses and has only sought rate relief when expense increases beyond its

1 control have necessitated a rate increase in order maintain the Company's  
2 financial integrity, so that it can continue to provide safe and reliable service to  
3 its customers. As detailed in the Statement of Reasons, the Company has  
4 used new technology extensively to improve its productivity and manage its  
5 costs. Such technology includes: (1) the installation of an extensive  
6 advanced metering system; (2) a Mobile Operations Management Project  
7 which equipped all construction vehicles with mobile data terminals with GPS  
8 tracking capability which has significantly streamlined operations and  
9 improved efficiency; (3) an automated system for employees to respond more  
10 efficiently and effectively to after-hours electric service interruptions and  
11 emergencies; (4) a new centralized storm management site, Storm Central,  
12 which allows employees to more effectively and quickly restore service after  
13 major storms; (5) significant improvements to call center technology which  
14 allows employees to handle customer complaints and needs more quickly and  
15 accurately; and (6) expanded "self service" capabilities which allow customers  
16 to conduct business with the Company after normal business hours and on  
17 weekends. In addition, the Company has undertaken an extensive review of  
18 its processes and organizational designs to consolidate its operations where  
19 possible and better manage its costs.

20  
21 **Q. Have these cost control measures adversely affected reliability of**  
22 **service?**

1 A. No, they have not. In 2008, PPL Electric achieved first quartile performance  
2 when measured against comparable Edison Electric Institute (“EEI”)  
3 companies. In 2009, the Company outperformed each of its PUC-mandated  
4 reliability performance indicators. To build on this outstanding performance,  
5 the Company continues its efforts to improve service reliability. An increasing  
6 trend in equipment failures associated with an aging infrastructure has  
7 reached a point that requires substantial reinvestment in our delivery  
8 system. In 2009, PPL Electric completed an Asset Optimization Strategy to  
9 assess aging infrastructure which provided an assessment of 17 distribution  
10 asset classes comprising approximately 30,000,000 units of equipment.  
11 Based on this study, the Company plans a series of targeted infrastructure  
12 improvements designed to maintain reliable service to customers.

13  
14 **Q. Have the Company's cost control measures adversely affected quality of**  
15 **service?**

16 A. No, they have not. As explained above, the Company has undertaken a  
17 number of initiatives to improve service quality. Our customers consistently  
18 rank the Company as one of the best electric utilities in the country for quality  
19 and service. Over the past 11 years, PPL Electric has won numerous industry  
20 awards for quality of service and customer satisfaction. In 2010, for the eighth  
21 time in eleven years, PPL Electric was ranked highest among electric utilities  
22 in the eastern United States in J.D. Power and Associates' annual study of

1 business customer satisfaction. This 2010 award was the Company's  
2 sixteenth overall award, more than any other electric utility in the country.

3  
4 **Q. Does the Company have plans to expand its support for low-income,  
5 payment-troubled customers?**

6 A. Yes, we do. The Company has long been a leader in programs to assist low-  
7 income, payment-troubled customers. We plan to continue that commitment  
8 in our upcoming triennial universal service plan filing with the PUC in June  
9 2010. That filing will include substantial increases in our OnTrack program to  
10 assist low-income customers in obtaining affordable electric service. These  
11 costs will be recovered in the USR beginning in 2011 and are not part of this  
12 rate filing.

13  
14 **Q. Has the Company undertaken programs to encourage customers to  
15 conserve electricity?**

16 A. Yes. The Company always has supported customer efforts to conserve  
17 energy, including extensive consumer education programs, demand side  
18 management programs, and regular bill inserts that provide energy  
19 conservation tips. More recently, Act 129 has required electric utilities to  
20 achieve certain minimum conservation goals and the Company has  
21 aggressively supported these goals and has a comprehensive plan which has  
22 been approved by the Commission to achieve these goals. These costs are  
23 recovered in the ACR and are not part of this proceeding.

1

2 **Q. Has the Company continued to support the development of retail**  
3 **competition?**

4 A. Yes. The Company was an early supporter of retail competition and has led  
5 the effort in Pennsylvania to promote retail competition. The Company's  
6 generation rate caps expired at the end of 2009, a year earlier than most other  
7 major EDCs, and the Company undertook extensive efforts late last year  
8 to make sure that the transition to market-based rates went smoothly. These  
9 efforts included accelerated implementation of a Purchase of Receivables  
10 program to further support retail competition. The results so far have been  
11 very impressive, with over 46% of the Company's load already shopping just  
12 three months after the expiration of generation rate caps

13

14 **Q. Please summarize your conclusions.**

15 A. As we explain in the Statement of Reasons, PPL Electric is proposing a  
16 distribution rate increase appropriate for the restructured electric utility industry  
17 now in place in Pennsylvania. It reflects PPL Electric's status as a distribution-  
18 only electric utility and is based on financial and operating data for that single  
19 business line. The requested rate increase reflects the business environment  
20 the Company currently faces, particularly its need to make significant capital  
21 investments to help ensure that its reliability performance remains strong for  
22 customers today and in the future. The increase will move PPL Electric's  
23 inadequate return on equity in 2011 from an estimated 2.0 percent to an

1 allowed 11.75 percent. This return is the minimum required for the Company  
2 to attract capital on reasonable terms, provide safe and reliable service to its  
3 customers and fully fund the various innovative programs described above.  
4 The return on equity proposed in this filing is particularly appropriate in view of  
5 PPL Electric's management effectiveness and award-winning customer  
6 service in the face of challenging economic conditions. For all of these  
7 reasons, PPL Electric's proposed distribution rate increase is just and  
8 reasonable and should be approved by the Commission.

9

10 **Q. Does this complete your direct testimony?**

11 A. Yes, it does.