

PPL ELECTRIC UTILITIES CORPORATION

Statement of Reasons for the Proposed Increase

Docket No. R-2010-2161694

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1. Introduction

In this filing, PPL Electric Utilities Corporation ("PPL Electric" or the "Company") requests that the Public Utility Commission ("PUC" or the "Commission") approve an overall annual increase in distribution revenues of approximately \$114.7 million, which is equivalent to a 2.4 percent increase in total rates, based on a future test year ending December 31, 2010. Based on the results of the class cost-of-service study and the Commonwealth Court's decision in *Lloyd v. Pa. Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006), the Company is proposing to allocate the total requested increase, but no additional increases, to the residential customer class.

This filing affects only the Company's distribution rates, not its generation or transmission rates. The timing of the request reflects PPL Electric's intent to seek smaller rate adjustments every few years as higher costs warrant, rather than waiting for an extended period of time and seeking a much larger increase. This approach reflects customer preferences and provides more current cost-of-service information.

As described below, this filing is, in large part, PPL Electric's response to the challenging business environment it currently faces, including declining distribution sales, increasing operating expenses and the need to make significant capital investments in order to maintain system reliability and continue to provide

dependable customer service. The filing also reflects PPL Electric's management effectiveness, which has allowed the Company to control costs, while at the same time maintaining high quality service and expanding service options for customers. For more than a decade, PPL Electric has been a staunch supporter of competitive retail electricity markets. Continuing that commitment, the Company is proposing in this filing: (1) a voluntary purchase of receivables plan, (2) a customer education program and (3) a customer energy efficiency program. Finally, although not included in this filing, PPL Electric plans to substantially enhance its assistance to low-income customers who have difficulty paying their electric utility bills through universal service programs such as bill assistance and home insulation services.

2. Business Environment

PPL Electric is facing an extremely challenging business environment today, and expects those challenges to continue over the next decade. This environment is the result of a confluence of four principal factors: (1) a decline in distribution sales; (2) an increase in operation and maintenance expenses; (3) a need to make substantial investments in distribution assets; and (4) a need to raise capital to pay for those investments when capital markets are constrained. Each of these factors is discussed in more detail below.

The Company's distribution sales are projected to decline between 2007, the future test year in PPL Electric's last distribution base rate proceeding, and 2010, the future test year in this filing. During that three-year period, the Company's billed distribution sales are projected to decrease from 37.9 Gwh to 37.4 Gwh. The

Company believes that this trend is being driven primarily by two factors. First, the economic downturn, which began over a year ago, is continuing to depress electricity consumption, particularly in the non-residential customer classes. Second, the energy conservation and demand reduction mandates in Act 129 of 2008, P.L. 1592 (“Act 129”), 66 Pa. C.S. § 2807(f)(5), are expected to reduce electricity consumption in 2010 and beyond. The Company acknowledges that it is difficult to predict with precision the future impact of these two factors. However, based on data currently available to PPL Electric, the outlook for the near term future continues to reflect flat or declining distribution sales.

At the same time, PPL Electric's distribution operation and maintenance expenses are increasing. Over the 2007 to 2010 time period, the Company projects that its distribution operation and maintenance expenses will increase from \$337 million to \$368 million on a cost-of-service basis. PPL Electric expects that these expenses will continue to increase beyond 2010. Although PPL Electric has been highly effective in managing its business and its costs, there are limits to what this strategy can accomplish. The Company now is approaching those limits.

Much of the Company's existing electric delivery system was constructed and placed into service in the 1960s and 1970s. PPL Electric has been able to maintain that equipment in a way that continues to keep customer reliability at a high level. But much of that equipment has an expected useful life of approximately 40 years, and today is nearing or past the end of that lifespan. Equipment failures have steadily increased during the past decade and are slowly

eroding overall reliability performance. To continue to maintain high levels of reliability, PPL Electric will need to replace much of this equipment.

Replacing these delivery system facilities will require PPL Electric to make significant capital investments. Over the past five years, the Company has invested almost \$1.0 billion in the delivery system, associated information technology and facilities infrastructure. PPL Electric intends to significantly increase spending levels over the next five years, with plans to invest an additional \$1.5 billion in the delivery system over that timeframe. The Company's commitment to maintaining and improving system performance is demonstrated by its growing capital investments. In 2007, PPL Electric made a total of \$202 million in distribution capital additions. In 2010, it plans to increase those investments by over \$90 million to a total of \$296 million. Beyond 2010, the level of distribution capital additions is projected to remain relatively constant at just above \$300 million per year. To make those planned investments, the Company will have to raise a significant amount of capital.

In 2009, PPL Electric borrowed \$400 million to support various reliability projects. This year, PPL Electric plans to borrow an additional \$300 million. Clearly, access to capital at reasonable borrowing rates is extremely important to the Company and, ultimately, to its customers. But under current economic conditions, credit is difficult to obtain and can be quite expensive. For these reasons, it is critical that the financial community view PPL Electric as an attractive investment. Unfortunately, recent events seem to indicate that the Company is becoming less attractive. Last year, both Moody's Investors Service and Standard & Poor's changed their outlook on PPL Electric's rating from stable to negative.

Without the distribution rate increase requested in this filing, PPL Electric will become even less attractive to the financial community, and there is significant risk that it could lose its A minus bond rating, which would substantially increase its borrowing costs. The Company's last distribution rate increase, at Docket No. R-00072155, became effective January 1, 2008. Because that case was settled, the Commission's final order did not specify an allowed return on equity. However, the Company has calculated that in 2008 it earned an actual return on equity for the distribution business of approximately 9.4 percent. PPL Electric projects that in 2010 it will earn a return on equity of approximately 4.6 percent for the distribution business and, without the distribution rate increase requested in this filing, PPL Electric projects that in 2011 its return on equity for the distribution business will plummet to approximately 2.0 percent. This return is inadequate by any standard and constitutes one of the principal reasons that PPL Electric now is requesting an increase in its distribution rates. In this filing, the Company is requesting an allowed return on equity of 11.75 percent, which PPL Electric believes is necessary to successfully raise capital in today's market conditions for financing. Even if the Commission were to grant this request in full, the Company would actually earn a lower return beginning in 2011 as a result of regulatory lag. In light of the business environment described above, PPL Electric believes that its requested return on equity is the minimum required to attract needed capital at reasonable costs.

3. Management Effectiveness

PPL Electric's management is effectively controlling costs while, at the same time, providing customers with high quality service and expanded service options. The Company owns a substantial number of facilities that are required to deliver electricity to its customers, and the costs associated with operating and maintaining these facilities continue to increase. Specifically, PPL Electric owns approximately 880,000 distribution poles, more than 44,000 circuit miles of primary and secondary distribution lines and 337 distribution substations/switching stations. The Company must repair and replace those facilities as needed. PPL Electric has invested more than \$960 million to maintain, improve and expand its delivery system over the past five years. The Company expects to invest an additional \$1.5 billion in capital to maintain, improve and expand the system over the next five years.

PPL Electric's operating expenses also are substantial and projected to continue to increase. In an average year, PPL Electric connects or transfers service for 28,000 customers, at an average cost of approximately \$2,000 for each service request. In an average year, the Company also answers two million telephone calls, repairs or replaces approximately 11,000 street lights and trims trees along more than 5,500 miles of distribution lines. Finally, PPL Electric processes approximately 18.5 million bills annually and, this year, incorporated into that process billing transactions and administrative activities to support almost 400,000 shopping customers. The cost of labor, transformers, and health care has increased since the Company's current rates became effective on January 1, 2008.

To address the earnings implications of this increasing capital and expense needs, PPL Electric has pursued an aggressive program of cost-effective operations. The Company also utilizes new technology to improve productivity and manage its costs. For example, PPL Electric's Automated Meter Reading ("AMR") system has reduced costs associated with manual meter reading processes and aided in the outage restoration process. In addition, it has provided more detailed information to customers and to Electric Generation Suppliers ("EGSs") and consultants they engage, which is important as Pennsylvania's competitive electric market continues to evolve and expand. PPL Electric has steadily improved upon its advanced metering infrastructure to the benefit of all customers by adding features such as a data management system that makes daily and hourly electric-use information available to customers.

PPL Electric will explore new capabilities for the Company's meters as part of its smart meter plan required by Act 129. That plan currently is pending before the Commission. Because the Company's existing system already meets the PUC's basic requirements for smart meter technology, PPL Electric does not need to replace its metering equipment. Rather, the Company plans to test a variety of applications that will expand the capabilities of the current system and equipment over the next five years.

The Company is planning to test and pilot several new features and to evaluate the associated customer benefits. If the tests are successful, PPL Electric could implement substantial new capabilities, including:

- Direct, in-home customer access to electricity price and usage information;
- Easier to use formats for displaying hourly electricity use information;
- Load-control devices;
- Automatic outage detection;
- Improved capability to support customer-owned generation such as windmills or solar panels;
- Monitoring of performance and reliability through meters installed at strategic locations on power lines; and
- Remote connections and disconnections of electric service.

PPL Electric also has proposed two pilot programs for residential customers in 2013 and 2014. One program would test prepay metering to give customers a pay-as-you-go option for electric service. The second would test a feature that limits electric current, thereby allowing customers to maintain a basic level of service for essential needs rather than the present practice of shutting off service as a last resort when customers do not pay their bills.

Further building upon its prior successes in the implementation of AMR/Smart Grid technologies, in October of 2009, PPL Electric was selected to receive a \$19 million matching grant award from the U.S. Department of Energy to implement Smart Grid technologies in the Harrisburg region, and in the operations and planning departments across the entire service territory. The PPL Smart Grid project will accelerate the effectiveness of Smart Grid technology and migrate to a

holistic and sustainable Distribution Management System-anchored platform. It should be noted that capital and operating costs associated with the Smart Grid project are not reflected in this filing.

In addition to the Distribution Management System (“DMS”), PPL Electric will deploy over 500 centrally controllable Distribution Automation (“DA”) devices which will be connected to PPL Electric’s systems through modern and reliable optical fiber and wireless radio technology. The deployment of these devices will be used to improve energy efficiency and reliability for over 60,000 customers in the Harrisburg region. The DMS will be used with the new DA equipment in addition to all existing distribution equipment for the entire service territory. This system-wide DMS deployment will streamline the operations and planning processes, and also allow for more cost-effective deployments of DA technology in the future.

Implementation of the Mobile Operations Management (“MOM”) Project, which equipped all construction vehicles with mobile data terminals to more efficiently and effectively dispatch, receive and complete maintenance, revenue, capital and emergency work, was completed in October 2009. The MOM Project has totally replaced the former paper-based job assignment system. The workflow of approximately 1,300 employees, primarily field workers, has become more efficient on a daily basis. Laptop computers installed in many Distribution Operations and Customer Services vehicles are equipped with software that provides access to maps, directions, transmission and distribution system information, and more. The real-time view of field work, assisted by built-in GPS capability, enables more efficient dispatching and job tracking. In addition, as work is completed, the priorities of

remaining work are automatically readjusted and communicated to ensure that the next job also is the next most critical. Efficiencies from implementation of the MOM Project are saving several million dollars per year.

Another recent technology advancement is the implementation of an automated system to call employees into work to respond to after-hours electric service interruptions and emergencies. The new call-out system frees dispatchers to concentrate on answering 911 calls, assisting customers, analyzing data and supporting employees working in the field to restore service. One of the major advantages of the new system is that managers in the field can immediately see on a computer screen the progress of the call outs.

To further improve the Company's storm restoration response capabilities, PPL Electric recently implemented a new comprehensive storm management site — Storm Central — which provides faster, easier and more efficient operations. The site uses SharePoint software that provides extensive collaboration capability and content management. Storm Central's home page provides PPL Electric employees with a view of several areas of information critical to outage restoration activities, including an outage map, work crew status, manpower status, live weather radar, and projected storm outages and restoration times.

PPL Electric's Customer Service Representatives ("CSRs") handle approximately two million calls annually. Payment agreements account for half of that total. The Company recently designed, built, and implemented a new payment agreement tool for CSRs, which has improved compliance, operational flexibility, call-handling efficiency, employee satisfaction, and customer satisfaction. This new

system has improved call flow by accessing all of the pertinent information from the Customer Service System and presenting it directly to the CSR's computer screen. The system automatically establishes the payment agreement, documents the account and generates confirmation letters. Additionally, it automatically voids termination orders and reinstates agreements when the appropriate conditions are met, and begins the process to enroll eligible customers in available assistance programs. This new tool has helped PPL Electric reduce payment agreement call times by one minute, cut the training time for new CSRs in half, and nearly double the number of customer referrals to its Customer Assistance Program.

In addition, the Company's self-service capability enables customers to transact business with PPL Electric during and after normal business hours, using the Web and the IVR telephone system. In addition to being more cost-effective and available after normal business hours, this capability also increases customer satisfaction for those customers who prefer not to deal directly with a CSR. In 2003, only 14 percent of all customer transactions were completed through these self-service applications; today nearly 50 percent are completed in this manner.

PPL Electric also reviews and, where appropriate, modifies business processes and organizational designs to better manage costs. For example, in the first quarter of 2009, PPL Electric's Distribution Operations organization consolidated six regions into three to streamline operations and improve consistency. The Susquehanna and Central regions were combined, as were the Harrisburg and Lancaster regions and the Lehigh and Northeast regions.

At the same time, a new Restore the Customer (“RTC”) organization was established to be responsible for the initial response to customer service interruptions and other power problems. The RTC organization includes Emergency Planning and Distribution System Operations, Facility Records and System Dispatch. Large Project and Contract Management were combined into one organization within Distribution Operations. This group is responsible for project management and field-related contract management, including vegetation management. It includes the transportation and pole attachments groups, as well.

PPL Electric currently is consolidating five smaller operating offices into two regional centers. The new centers will improve service to customers by streamlining operations and allowing PPL Electric to better manage the distribution network. These regional centers also will reduce the cost of technology and general operation and make training more consistent.

The Company brought its western regional center on line in mid-2009, completing the consolidation of the offices that control and operate the distribution system in its three western regions. That center now handles the Harrisburg, Lancaster and Susquehanna regions. The separate centers that formerly monitored operations in each region have been closed. The eastern regional center will be located near Allentown, where a new transmission control center has been constructed. That work is expected to be finished in the second quarter of 2010.

The Company evaluates and prioritizes reliability improvement and maintenance initiatives based upon several criteria, including the System Average Interruption Duration Index (“SAIDI”), which is the number of minutes an average

customer is without electric service over the course of a year. In this way, attention is directed to those circuits that contribute most to poor system reliability performance. PPL Electric regularly reviews worst-performing circuits and develops initiatives to alleviate conditions that contribute to poor performance. The Company also implements projects targeting improvements for Customers Experiencing Multiple Interruptions (“CEMI”) on portions of the distribution system exhibiting particularly high interruption frequencies.

In 2008, PPL Electric achieved first quartile SAIDI performance when measured against comparable Edison Electric Institute (“EEI”) companies. In 2009, the Company outperformed each of its PUC-mandated reliability performance indicators, i.e. SAIDI, SAIFI and CAIDI, as measured against the respective PUC benchmarks and standards for each of these indices. These empirical results reflect the effectiveness of the Company’s reliability improvement and maintenance programs.

PPL Electric currently provides highly reliable electric delivery service to its customers. To help preserve continued reliable performance, the Company has developed a comprehensive plan to mitigate the risks associated with aging infrastructure. An increasing trend in equipment failures, a precursor to future impacts on reliability metrics such as SAIDI, combined with the fact that a significant portion of the delivery equipment is nearing the end of its expected useful life indicates that substantial reinvestment in the delivery system is necessary. In addition, the increase in equipment failures is driving an increase in operation and maintenance spending that exceeds inflationary influences.

In 2009, PPL Electric completed an Asset Optimization Strategy to assess aging infrastructure based on equipment demographics and condition, and quantify future investment opportunities. This comprehensive strategy provided an assessment of 17 PPL Electric distribution asset classes comprising approximately 30,000,000 units of equipment.

The distribution system assessment included all distribution lines and equipment, area supply substations and high-voltage switching devices. Based on recommendations from this study, the Company plans to invest approximately \$135 million in capital over the next five years to implement targeted distribution infrastructure improvements. These improvements will initiate life-cycle replacements, rebuild circuits wherein equipment failure will have a significant impact on reliability and replace electric facilities such as low-tension networks and deteriorated underground cables in residential developments.

In aggregate, the Company's efforts to control costs through effective management, use of improved business processes and application of new technology have been highly successful. Moreover, PPL Electric has been able to manage its costs without adversely affecting the quality of service to its customers. PPL Electric's customers consistently rank the Company as one of the best electric utilities in the country for quality and service. Over the past eleven years, PPL Electric has won numerous industry awards for quality of service and customer satisfaction.

In 2010, for the eighth time in eleven years, PPL Electric was ranked highest among electric utilities in the eastern United States in J.D. Power and

Associates' annual study of business customer satisfaction. The J.D. Power and Associates study ranks companies on a 1,000-point scale, measuring power quality and reliability; billing and payment; corporate citizenship; price; communications; and customer service. PPL Electric's overall score of 667 was up 46 points from the 2009 study of business customer satisfaction. The award is the Company's sixteenth overall – more than any other electric utility in the country – since J.D. Power and Associates began studying utility customer satisfaction. In addition to its eight business customer satisfaction awards, PPL Electric has earned the top honor for residential customer satisfaction in the East eight times, in 1999 and from 2001-2007.

4. Other Programs

For more than a decade, PPL Electric has been a staunch supporter of competitive retail electricity markets. The Company's commitment to the successful development of those markets in Pennsylvania was particularly evident throughout 2009 as it prepared for the end of its generation rate cap on December 31, 2009. PPL Electric undertook a massive education effort to inform its customers about retail competition and how they could save money by shopping. It worked with EGSs planning to do business in its service area to test systems and protocols in preparation for the expected increase in shopping in 2010. The Company released to EGSs a comprehensive list of its 1.4 million retail customers and instituted a voluntary purchase of receivables ("POR") program for interested EGSs. Continuing that commitment, the Company is proposing in this filing: (1) a voluntary purchase of

receivables plan, (2) a customer education program and (3) a customer energy efficiency program.

A. Purchase of Receivables

On September 10, 2009, PPL Electric filed a voluntary 2010 POR program, which the Commission approved in an order entered on November 19, 2009, at Docket No. M-2009-2104271. The Company's 2010 POR program is available for residential and small commercial and industrial accounts. To be eligible to participate, an EGS must sell to PPL Electric all of its accounts receivables for a customer class, and must participate in Electric Distribution Company ("EDC") consolidated billing.

Under its 2010 POR program, the Company purchases EGS accounts receivables at a discount from standard EGS supply charges. The discount is different for residential and small commercial and industrial customers. The discount rates are composed of two components: (1) uncollectible accounts expense factor, and (2) POR administration expense factor. In addition, PPL Electric unbundled its default service generation-related uncollectible accounts expense from base rates and is collecting that expense through a Market Function Charge ("MFC"). The current uncollectible accounts expense factor and MFC percentages are equal the uncollectible accounts expense percentages for residential and small commercial and industrial customers reflected in PPL Electric's most recent distribution rate proceeding at Docket No. R-00072155.

In this filing, the Company is proposing to extend its current POR program beyond the end of 2010. It is not proposing any changes to the basic

features of the program as previously approved by the Commission and as currently implemented by PPL Electric. However, the Company is proposing to update the MFC and the EGS uncollectible accounts expense factor to reflect uncollectible data from the future test year in this filing. As updated, the MFC/EGS discount for residential accounts will be 1.804 percent; the discount for small commercial and industrial accounts will be 0.007 percent. In addition, the Company proposes to continue to collect its program administrative costs through a 0.05 percent adder to both of these discount amounts.

B. Customer Education

The Company has included \$2.5 million in its 2010 operating budget and in the future test year in this proceeding to continue providing consumers with information on the wise use of electricity and the importance of energy conservation, as well as increase their understanding of how they can shop for electricity supply. The Company plans to employ multiple channels to communicate this information in order to cost-effectively reach various segments of the consumer population. These methods will include consumer-based media education aimed at raising consumer awareness of the energy efficiency programs and tools the Company can offer consumers to help them save energy and money, printed materials, presentations in service area communities, and web-based information and tools. Communications will build on prior efforts to reach consumers, and include enhancements to the website that permit customers to analyze and better understand their electricity usage and bills. The Company believes that these communications continue efforts

implemented as part of its Consumer Education Plan approved in a Tentative Order entered on May 6, 2008 at Docket No. M-2008–2032279.

C. Customer Energy-Efficiency Programs

The Company has included \$2.7 million in its 2010 operating budget and in the future test year in this proceeding to continue providing consumers with programs and information that demonstrate to them how to use electric energy more efficiently, and how these actions contribute to energy conservation and demand management. The Company's programs will use a variety of methods to reach target audiences including curriculum programs, demonstration projects, benchmarking initiatives and technology enhancements that allow customers to explore, understand and implement actions that can help save energy. Program offerings will include a continuation of successful efforts such as an energy curriculum for school age children and energy efficiency benchmarking for school buildings, as well as appearances by the E-Power team which bring energy conservation and efficiency tips and programs to various groups in the community. School energy curriculum programs will expand to include lower primary grades, and benchmarking will be offered to municipal governments across the service area, along with a small demonstration project for energy efficient street lighting. Programs also will be offered to help companies develop energy efficiency programs for their employees.

D. Customer Assistance Programs

PPL Electric currently administers a family of universal service programs to assist customers who, for a variety of reasons, are not able to pay their electric utility bills. Pursuant to Commission regulations, the Company plans to file, in

June 2010, a proposed Universal Service Plan for the period 2011 through 2013. The Company anticipates that it will propose a substantial expansion of its OnTrack program to reflect the increased need of its customers. Any expansion ultimately approved by the Commission will be recovered in the Universal Service Rider, beginning January 1, 2011, and, accordingly, is not included in this filing. In addition, a portion of the costs of the Company's low-income weatherization programs was included in its Energy Efficiency & Conservation Plan, which the Commission approved at Docket No. M-2009-2093216. Those costs will be recovered through the Company's Act 129 Compliance Rider ("ACR").

5. Overview of Filing

In this filing, PPL Electric is requesting an overall annual net distribution revenue increase of approximately \$114.7 million, based on a future test year ending December 31, 2010, and a proposed allowed rate of return on equity of 11.75 percent. If granted by the Commission, this request will produce an average increase in distribution rates of approximately 13.4 percent which equates to an average increase in total rates (distribution, transmission, generation and transition charges) of approximately 2.4 percent. Although this is a distribution rate request not affecting generation or transmission rates, if 2011 wholesale generation prices remain at current levels, some customers could see a net decrease in their total electric bills.

Generally, the Company is proposing to allocate the increase to customer classes based on a class cost-of-service study and is proposing to move the rate of return for each customer class toward the system average rate of return.

Based on the results of the class cost-of-service study and the Commonwealth Court's decision in *Lloyd v. Pa. Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006), the Company is proposing to allocate the total requested increase, but no additional increases, to the residential customer class. However, this approach would have a disparate impact on customers served under Rate Schedule RTS. For this reason, PPL Electric is proposing to limit the increase in distribution rates to Rate Schedule RTS, with the associated revenue shortfall allocated to Rate Schedule RS.

The Company is proposing to update its retail tariff to clarify certain provisions and eliminate other provisions that no longer are effective. The Company also is proposing to restructure a number of the rate schedules in its tariff to more closely follow cost-of-service signals, specifically to recover a greater portion of its revenue requirements through demand and customer components. The Company also proposes that the monthly Customer Charge be the same for all residential service provided under Rate Schedules RS, RTS, and RTD. All the rate schedules applicable to residential service will have a flat kWh charge for distribution service.

For Rate Schedules GS-1, GS-3, GH-1, GH-2 and LP-4, the Company proposes that the distribution revenue requirement be recovered through a customer charge with a corresponding reduction in demand charges. Also, the minimum of billing KW for billing purposes has been eliminated. In this filing, PPL Electric proposes that the revenues produced by these rate schedules remain essentially unchanged.

The Company also proposes to combine the revenue requirements for several rate schedules. When PPL Electric's generation rate caps expired on December 31, 2009, most of the Interruptible service customers either shopped with an EGS or migrated to firm power rate schedules because the advantage of lower energy costs previously reflected in the interruptible service rates had been eliminated. Accordingly, the Company proposes to combine the revenue requirements of Rate Schedules LP-4 and IS-P into Rate Schedule LP-4, and combine the revenue requirements of Rate Schedules LP-5, IS-T, LP-6 and ISA into Rate Schedule LP-5.

Finally, PPL Electric is proposing to modify the Net Metering for Renewable Customer-Generators Rider to reflect changes in the Alternative Energy Portfolio Standards Act and to clarify the net metering provisions for shopping customers.

Included in the filing as Exhibit OGK 1A is a black line version of the tariff reflecting these changes; Exhibit OGK 1 is a clean version of the revised tariff.

6. Conclusion

In this filing, PPL Electric is proposing a distribution rate increase appropriate for the restructured electric utility industry now in place in Pennsylvania. It reflects PPL Electric's status as a distribution-only electric utility and is based on financial and operating data for that single business line. The requested rate increase reflects the business environment the Company currently faces, particularly its need to make significant capital investments to help ensure that its reliability

performance remains strong for customers today and in the future. The increase will move PPL Electric's inadequate return on equity in 2011 from an estimated 2.0 percent to an allowed 11.75 percent. This return is the minimum required for the Company to attract capital on reasonable terms, provide safe and reliable service to its customers and fully fund the various innovative programs described above. The return on equity proposed in this filing is particularly appropriate in view of PPL Electric's management effectiveness and award-winning customer service in the face of challenging economic and capital market conditions. For all of these reasons, PPL Electric's proposed distribution rate increase is just and reasonable and should be approved by the Commission.