

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: PP&L ELECTRIC UTILITY'S PETITION FOR
APPROVAL OF A RATE INCREASE
JUNE 23, 2010
HARRISBURG, PA.

STATEMENT OF DENNIS BAYLOR
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The purpose of this correspondence, is to confirm, and amplify the testimony I presented to the PUC during your public hearings in Harrisburg on June 23rd.

The petitioner has recently announced record profits of since deregulation. While the temptation is great to ask, what level of profitability would satisfy PPL, that is a temptation I will avoid.

However, asking for more money because you have instituted, a "customer energy efficiency program"¹ as required by Act 129, for which you have already received approval of a \$246 million rate increase, can only be characterized as pure greed. Which makes this rate filing another example of "crybaby capitalism", which is becoming increasingly common in America today. Merely mention regulation, taxes or any check on a businesses unbridled ability to profit, and the knee-jerk reaction is to not only complain but to make all kinds of outrageous claims before the facts are known.

During my testimony I explained that Met-Ed for years fought implementation of a forced cooling tower for its Titus plant, to prevent fish kill, due to the temperature of the water the plant was discharging into the Schuylkill River. It was "environmentalism run amok", it was going "to destroy the profitability of the plant". However, after the tower was installed, Met-ed never raised a peep, because of the improved Carnot delta t of the plant, its output increased 2%.

I compared that to the instant rate filing, because if PPL actually made improvements to its distribution system, those improvements would literally pay for themselves in a short period of time, by avoiding the line and equipment losses that older systems, that are in need of maintenance, incur. According to the Electric Power Research Institute (EPRI), American utilities have estimated T&D line and equipment losses of 300,000 Gwh each year.² I have also attached EPRI's research presentation on the subject, as "exhibit A".

2. Business Environment

That however is not the main thrust of PP&L's filing, in fact throughout it, there is almost no mention of improving the efficiency of its system, but rather there is considerable discussion of programs which to deal with PP&L's ever increasing number of non-performing accounts. And there is an irony in that, since yet another rate increase for the petitioner can only create more non-performing accounts.

¹ Pages 2 and 18 of the petition

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http://my.epri.com/portal/server.pt/gateway/PTARGS_0_2_317_205_776_43/http%3B/uspalecp604%3B7087/publishedcontent/publish/epri_unveils_initiative_to_improve_transmission_system_efficiency_da_675176.html

Once again instead of explaining how PP&L will apply its rate increase to improving its distribution systems they go one to bemoan the adverse and cruel business environment of their own creation, as the fundamental basis for this rate increase.

That aside, things are not as dire as PP&L, as a distribution company, might suggest. In terms of consumption, the movement from 37.9 Gwh to 37.4 Gwh will become 36.4 Gwh in three years if PPL becomes fully Act 129 compliant. Does this filing mean that with every incremental reduction Act 129 commands, that there will be another rate filing? After all, it has been only two years since their last distribution rate increase. And doesn't PP&L realize that its customers will catch on to the fact that they are being penalized for conserving? That the more they sacrifice - the more they will pay!

At the same time, PPL is totally silent on favorable business factors. They are a capital-intensive enterprise, and look at the cost of capital. Many suggest that a Utility's Return On Equity (ROE) should be indexed to ten year treasury rates, in 2000 ten year treasuries were at 6.58%, today they stand at 3.29%. I think citing Moody's and S&P's rating declines, is somewhat disingenuous because they could just as well have been downgraded because of management failure, rather than PPL Electric's business fundamentals.

PP&L zealously championed deregulation, and took an industry that was once so free of risk that their stocks were called "widow stocks", into a much more risky environment for utilities overall. That is not true for EDC's since they remain regulated, but the ratings agencies are not fools, and they are not willing to take the compartmentalized view of the industry, that PP&L would urge upon you.

But PPL's basic argument for its rate increase, namely that their capital costs will go down as the ROE goes up was fully debunked by David M. Boonin, NRRI in his presentation to NARUC Electricity Staff Subcommittee, at its Annual Convention, in New Orleans, November 2008. He characterized the claim that higher ROE means higher bond ratings and lower long-term total revenue requirements, was a myth.³ In fact, his analyses showed revenues needed to support AAA ratings were more costly to ratepayers than the cost capital associated with an A rating.

In closing, regulated industries develop an organizational culture that makes them vulnerable when they are suddenly thrust into the "free market", they simply can't shake the business strategies that worked so well for them when they were regulated. In fact, one could look at electric deregulation as power generation being split off from rate filing. And if the net effect of all this would be to see the PP&L's of the world in a perpetual struggle for higher rates, I would not mind; however, in the process they are ignoring how the electric loads they are called upon to supply have changed, thereby

³ <http://www.narucmeetings.org/Presentations/Return%20on%20Equity.pdf>

compromising system reliability. In the past utilities pretty much ignored power factor and other power quality issues. Fast Voltage Collapse Incidents (FVCI), are the direct consequence of neglecting the changing electric needs of modern America. (See Exhibit B)

Does PP&L deserve to be rewarded for allowing system reliability, and grid reliability to degrade - I, for one think not.

EXHIBIT A -

<http://mydocs.epri.com/docs/CorporateDocuments/SectorPages/PDU/1017894TransmissionEfficiencyWorkshop11-09.pdf>

EXHIBIT B -

<http://my.epri.com/portal/server.pt?space=CommunityPage&cached=true&parentname=ObjMgr&parentid=2&control=SetCommunity&CommunityID=405>