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August 26, 2010

BY E-FILE

Rosemary Chiavetta  
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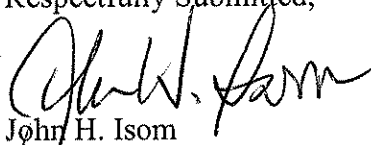
**RE: Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation**  
**Docket No. R-2010-2161694**

Dear Secretary Chiavetta:

Enclosed please find the original of PPL Electric Utilities Corporation's Statement in Support of the Joint Petition for Partial Settlement of Rate Investigation in the above-referenced proceeding.

Copies have been provided to the persons in the manner indicated by the certificate of service.

Respectfully Submitted,



John H. Isom

JHI/jl

Enclosures

cc: Honorable Susan D. Colwell  
Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of **PPL Electric Utilities Corporation's Statement in Support of the Joint Petition for Partial Settlement of Rate Investigation** has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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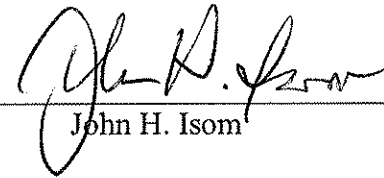
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Date: August 26, 2010



John H. Isom

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
<i>et al.</i>	:	
	:	
v.	:	Docket No. R-2010-2161694
	:	
PPL Electric Utilities Corporation	:	

**PPL ELECTRIC UTILITIES CORPORATION'S  
STATEMENT IN SUPPORT OF JOINT PETITION  
FOR PARTIAL SETTLEMENT OF RATE INVESTIGATION**

**TO ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL:**

**I. INTRODUCTION**

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby submits this Statement in Support of the Joint Petition for Partial Settlement of Rate Investigation (“Settlement”) entered into by the Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), Richards Energy Group, Inc. (“REG”) and PPL Electric.

In addition, all other active parties have indicated that they do not oppose the Settlement. These parties include the PP&L Industrial Customer Alliance (“PPLICA”), the Office of Small Business Advocate (“OSBA”), the Commission on Economic Opportunity (“CEO”), Dominion Retail, Inc. (“Dominion”), Sustainable Energy Fund of Central Eastern Pennsylvania (“SEF”), Retail Energy Supply Association (“RESA”) and Eric Joseph Epstein, *Pro Se*. No party who has participated in the technical hearings in this proceeding opposes the Settlement.

Although certain issues, which are identified in the Settlement, are reserved for litigation and adjudication by Administrative Law Judge Susan D. Colwell (“ALJ”) and the

Commission, the Settlement, if approved, will resolve many important issues, including revenue requirement, universal service and certain rate design and tariff issues. PPL Electric believes that the Settlement achieved in this proceeding is in the best interests of PPL Electric, its customers and the Parties, and therefore is in the public interest and should be approved.

Initially, the fact that the Settlement is unopposed in this major electric rate proceeding in and of itself provides strong evidence that the settlement is reasonable and in the public interest, particularly given their diverse interests of these parties and the active role they have taken in this proceeding.

Moreover, the Settlement was achieved only after a comprehensive investigation of PPL Electric's operations. In addition to informal discovery, PPL Electric responded to more than 630 formal discovery requests, many of which had multiple subparts. Parties filed five rounds of testimony, including PPL Electric's direct testimony, other parties' direct testimony, rebuttal testimony, surrebuttal testimony and rejoinder testimony. Moreover, the parties participated in numerous settlement discussions and formal negotiations which ultimately led to the Settlement.

Finally, the parties in this proceeding, and their counsel, have considerable experience in rate proceedings. Their knowledge, experience and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus in this proceeding on the settled issues.

The Settlement reflects a carefully balanced compromise of the interests of all parties to this proceeding. For these reasons and the reasons set forth below, the Settlement is just and reasonable and should be approved.

## II. SPECIFIC SETTLEMENT TERMS

In filing this rate case, PPL Electric sought to accomplish several major goals, including: (1) improvement in PPL Electric's financial condition so that it can attract capital on reasonable terms in order to continue to provide safe and reliable service to customers; (2) obtain funding for increased levels of maintenance and reinforcement of PPL Electric's aging distribution infrastructure that will be needed to implement PPL Electric's Asset Optimization Strategy in order to avoid future deterioration in the quality of service; (3) increase staffing for PPL Electric's Customer Assistance Centers so that customers can continue to receive timely and proper assistance in obtaining appropriate services from PPL Electric and in moving to a competitive retail market for electric generation supplies and (4) continue movement to cost-of-service rates pursuant to the Commonwealth Court decision in *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (2006), appeal denied, 591 Pa. 676, 916 A.2d 1104 (2007) ("*Lloyd*"); and (5) clarify certain tariff issues regarding the terms and conditions of electric service. As explained below, the Settlement achieves each of these goals in a fair and reasonable manner.

### A. REVENUE REQUIREMENT

The Settlement provides for a distribution revenue increase of \$77.5 million, or approximately 67.6% of PPL Electric's original request of \$114.7 million. As explained by PPL Electric's President, David G. DeCampli, PPL Electric requires additional revenues to maintain its financial health in order to continue providing high quality service to customers. PPL Electric St. 1, p. 3-4. The need for rate relief at this time arises principally from confluence four 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 in

order to reinforce aging distribution infrastructure and (4) a need to raise capital to pay for those investments at a time when capital markets are constrained.

Due to these factors, in the last several years, PPL Electric's return on equity has declined to unacceptable levels, despite PPL Electric's substantial efforts to control costs. PPL Electric projects that it will earn a return on equity for 2010 of about 4 percent and, without rate relief, a return on equity of approximately 2.00 percent in 2011. PPL Electric St. 1, p. 4. The \$77.5 million increase, although less than that requested by the Company, will provide PPL Electric the opportunity to earn a reasonable return and thereby attract capital on reasonable terms and conditions to allow PPL Electric to continue to provide safe and reliable service to its customers.

Overall, the increase of approximately 1.6 percent, on a total billed revenue basis, is reasonable in light of the significant costs incurred by PPL Electric since its prior base rate case in 2007. As explained by Mr. DeCampli, since 2007, PPL Electric has installed extensive advanced metering systems, a Mobile Operations Management Project which equipped all construction vehicles with mobile data terminals with GPS tracking capability which has streamlined operations and improved efficiency, an automated system for employees to respond more efficiently and effectively to after-hours electric service interruptions and emergencies, a new centralized storm management site, "Storm Central," which allows employees to more effectively and quickly restore service after major storms, improvements to call center technology which allows employees to handle customer concerns and needs more quickly and accurately and expanded "self-service" capabilities which allow customers to conduct business with the Company after normal business hours and on weekends. It is expected that the increase in annual operating revenues will enable

PPL Electric to raise capital efficiently even in the present constrained market and therefore be able to fund these types of expenditures needed to maintain a high quality of service and reinforce its aging infrastructure. PPL Electric St. 1, p. 7.

In this proceeding, PPL Electric, OTS and OCA presented testimony on PPL Electric's overall revenue requirement.<sup>1</sup> All three principal parties on revenue requirement issues are joining in this Settlement. The Settlement on revenue requirement reflects a compromise of these competing litigation positions.

The Settlement, although generally a "black box," does include several important specifications as to what is included and excluded. For example, it specifically includes the insurance premium for storm damage insurance, Company-use generation supply, the adoption of Internal Revenue Service regulations regarding repair allowance as explained in the testimonies of Mr. Kleha, and \$5.09 million of customer education and consumer programs. These specifications are important because they provide guidance to PPL Electric and the Parties for the evaluation of future rate filings, will ensure that customers receive the benefits associated with certain programs and will support proper accounting to reflect the results of this proceeding.

The customer education and consumer programs are particularly important because they will provide substantial benefits to customers. The Company's customer education programs address: (1) customer choice; (2) energy efficiency and demand side response; (3) meter data management, energy analyzer, customer rate options and (4) energy efficiency programs. PPL Electric Statement 6, p. 30.

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<sup>1</sup> Although the OSBA presented substantial evidence, such evidence focused on rate structure and rate design. The OSBA took no position on PPL Electric's overall revenue requirement.

Finally, it is important to emphasize that the Settlement does not provide for an early effective date for new rates. New rates will take effect for service rendered on and after January 1, 2011. This is the same effective date that would have occurred if this case had been fully litigated.

**B. UNIVERSAL SERVICE**

Although PPL Electric plans significant expansion of programs for low-income customers, as a result of the decisions made in PPL Electric's prior base rate case in 2007, the costs of such programs now is substantially recovered outside of base rates through the Universal Service Rider. Therefore, the expansions of low-income customer programs proposed by PPL Electric are not to be funded by the increase in distribution base rates proposed by PPL Electric in this proceeding.

Nevertheless, the Settlement resolves several universal service issues. First, under the Settlement, PPL Electric will credit \$50 per customer for incremental customers in PPL Electric's Customer Assistance Program, which is known as "OnTrack," above 32,500 with an annual true-up for the number of customers. This provision resolves certain issues raised by the OCA with regard to effects on uncollectible accounts expense recovered by PPL Electric through base rates when a customer is enrolled in the OnTrack program.

Second, the Settlement resolves the concerns of CEO regarding the continued use by PPL Electric of Community Based Organizations ("CBOs"). In the Settlement, PPL Electric renewed its commitment to continue to use CBOs to implement universal service programs so long as it remains an efficient and cost-effective practice.

Third, PPL Electric agreed to adopt OCA's CAP Plus methodology of implementing the ruling of the Pennsylvania Department of Public Welfare's ("DPW") that LIHEAP grants must be applied to the amounts "asked for" by energy public utilities for services. Prior to

the DPW ruling, PPL Electric's practice had been to apply LIHEAP grants first to reduce the CAP credit, which is the reduction in the bill to OnTrack customers from the bill that is sent to most non-OnTrack customers under Rate Schedule RS. This discount is paid for by non-OnTrack customers through the Universal Service Rider ("USR"). Thus, the effect of PPL Electric's practice was to use LIHEAP grants to reduce amounts paid by non-OnTrack residential customers through the USR. PPL Electric believed that this practice was appropriate since bills to an OnTrack customer are based on the customer's ability to pay.

After the DPW ruling, LIHEAP grants could only be used to offset "asked for" amounts, that is, bills to customers under the OnTrack program. PPL Electric initially implemented the DPW ruling by applying LIHEAP grants first to any arrearages of the customer under the OnTrack program. If there was money left over, such amounts were applied to current OnTrack bills. If there was still money left over, it was applied to future OnTrack bills. One effect of this procedure was that CAP credits, which are recovered from non-OnTrack customers, were no longer reduced by the LIHEAP grants.

OCA proposed that, instead, PPL Electric should implement OCA's "CAP Plus" approach to implementing the DPW ruling. Under the "Cap Plus" approach, since the amounts of LIHEAP grants could no longer be used to reduce the CAP credit that are recovered from non-OnTrack customers, bills to all OnTrack customers should be increased to produce an amount approximately equal to the total of LIHEAP grants for a given year so that these additional funds from OnTrack customers would reduce amounts to be recovered from non-OnTrack customers through the USR. OCA calculates the effect of its proposal to be approximately \$6 per OnTrack customer per month based on data from the 2009-2010

winter. Under OCA's "Cap Plus" approach, non-OnTrack customers would not be negatively affected by the DPW ruling.<sup>2</sup> See generally Tr. 356-60.

### **C. RATE STRUCTURE AND RATE DESIGN**

Although the Settlement reserves many issues related to rate structure and rate design for litigation, the Settlement does achieve some progress in the movement toward cost-based rates that is mandated by the decision of Commonwealth Court in *Lloyd*. There, the Court held that cost is the "polestar" of utility rates. The Settlement provides for movement to this ratemaking objective in two respects. First, it establishes a new, higher level of residential customer charge under Rate Schedule RS, for Residential Service (under which most residential customers receive service), from the present rate of \$8.44 (including the Universal Service Rider charge) to \$8.75 (excluding the Universal Service Rider charge, which will be recovered instead through energy charges). The remaining base rate distribution revenue requirement to be recovered under Rate Schedule RS will be recovered through a flat energy rate.

In addition, the increase to Rate Schedule RTS (Residential Thermal Storage service) will be limited to 150 percent of the system average increase. This will limit the impact on Rate RTS customers who have recently seen substantial increases in their bills with the end of generation rate caps and also will provide for some movement of the RTS class rate of return toward the system average rate of return. The Settlement also establishes the rate design for Rate RTS, including a customer charge of \$18.06 (the same as the current charge) and a flat energy charge to recover the remainder of the revenue requirement.

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<sup>2</sup> The Settlement also provides that PPL Electric will revert to its original practice of using LIHEAP grants initially to reduce arrearages if DPW reverses its ruling.

#### **D. TARIFF CLARIFICATIONS**

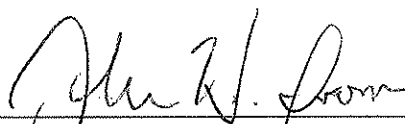
In its filing, PPL Electric proposed numerous tariff modifications to clarify and improve various tariff provisions. Under the settlement, all of these clarifications and modifications will be approved except two. One clarification that will not become effective is the proposed change to the definition of PPL Electric's standard service, which candidly was incorrectly drafted by PPL Electric, as noted by the Richards Energy Group. PPL Electric, Richards Energy Group and other parties developed appropriate alternative language.

The second clarification that will not become effective under the Settlement are the net metering provisions. These provisions pertain to compensation to customer-generators who deliver more kWh to PPL Electric than they receive from PPL Electric. Issues relating to these net metering tariff provisions are reserved for litigation and adjudication.

### III. CONCLUSION

The Settlement is the result of detailed examination of PPL Electric's operations, multiple rounds of testimony and compromise by all Parties. PPL Electric believes that a fair and reasonable compromise has been achieved in this case, as is evident by the fact that all Parties, including PPL Electric, OTS and OCA. PPL Electric fully supports this Settlement and respectfully requests that the ALJ and the Commission expeditiously review and approve the Settlement in its entirety.

Respectfully submitted,



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