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PA PUC
SECRETARY'S BUREAU

September 2, 2010

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
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P.O. Box 3265
Harrisburg, PA 17105-3265

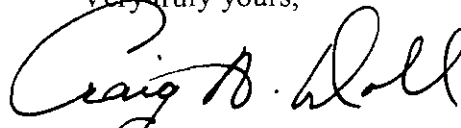
Re: Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation
R-2010-2161694

Dear Secretary Chiavetta:

Enclosed for filing is the original and nine (9) copies of the Main Brief of Richards Energy Group, Inc. in the above proceeding. Copies have been served in the manner set forth on the Certificate of Service appended to this cover letter.

If you have any questions, please feel free to contact this office.

Very truly yours,



Craig A. Doll

CAD/kmv
Enclosure

cc: Honorable Susan D. Colwell, Administrative Law Judge
Per Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility
Commission, *et al.*

v.

PPL Electric Utilities Corporation

Docket Number
R-2010-2161694, *et seq.*

MAIN BRIEF
OF RICHARDS ENERGY GROUP, INC.

PA PUC
SECRETARY'S BUREAU

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Respectfully submitted,

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Attorney I.D. # 22814

Attorney for Richards Energy Group, Inc.

Dated: September 2, 2010

SUMMARY OF ARGUMENT

Before Your Honor are two remaining categories of issues to be adjudicated in this proceeding – Miscellaneous Issues and Rate Design. Richards Energy Group, Inc. presented testimony of its President, Mr. Frank Richards regarding the furnishing of data by PPL via its web site to commercial and industrial customers which would assist customers in analyzing their electric bills. Such data includes, but is not limited to, Annual Peak Load Contribution kW values, Annual Transmission Obligation kW values, 4 year billing histories, etc. Further, Mr. Richards pointed out a mismatch between the 15 minute interval data upon which PPL renders a customer's bill and the hourly data that is available for customer access on PPL's web site.

Richards acknowledges that there may exist technical issues that need to be resolved in making this information available and requests that Your Honor recommend to the Commission that a PPL specific working group be formed to review these technical issues. Mr. Richards also presented testimony regarding the design of rate GS-3 and the transition from a kWh to a customer charge/demand charge basis for recovering costs. While Richards does not generally oppose the revenue recovery concept advanced by PPL, concern was raised regarding the level of the customer charge and the impact that it would have on the smaller GS-3 customer. Richards requests that Your Honor recommend to the Commission that it establish the GS-3 customer charge at \$30 per month and the demand charge at \$4.5106 per kW of billing demand. Testimony has been present that at these levels there is no revenue impact.

ARGUMENT

I. Introduction

On or about March 31, 2010, PPL Electric Utilities Corporation (“PPL” or “Company”) filed Supplement No. 83 to Tariff Electric Pa. PUC No. 201, containing proposed changes in rates, rule and regulations designed to produce approximately \$114 million in additional annual distribution service revenues.

PPL proposed that the total increase be allocated to the residential rate classification in an effort to reflect the results of its cost of service studies and the Commonwealth Court decision of *Lloyd v. Pennsylvania Public Utility Commission*, 904 A. 2d 1010 (Pa. Cmwlth., 2006). In addition, PPL made various changes in the method of collecting those rates from customers. For example, PPL proposed the elimination of a minimum demand charge for all GS-1 and GS-3 customers and a shifting of revenue recovery from kWh charges to a customer and demand charge only.

On May 10, 2010, Richards Energy Group, Inc. (“REG” or “Richards”) filed a Petition to Intervene which was granted by Your Honor in your Scheduling Order dated May 27, 2010. A Prehearing Conference was held on May 26, 2010 preceded by the filing of Prehearing Memorandum by various parties including Richards. Within its Prehearing Memorandum, Richards raised six issues which it planned to address within the context of this proceeding:

1. Whether PPL’s cost of service study appropriately reflects the Commonwealth Court decision in *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006). Commission issue No. 3.
2. Whether the shifting of revenue recovery from kWh charges to customer and demand charges is just and reasonable. Commission issue No. 5.

3. Whether the reallocation of revenues from a minimum charge to a customer charge and increased demand charge is just and reasonable.
4. Richards seeks clarification of PPL's proposal involving net metering for shopping customers. Commission issue No. 11.
5. Richards seeks clarification of the imposition of the Merchant Function charge being added to transmission services. Commission issue No. 12.
6. Richards will also address various tariff updates. Commission issue No. 14.

Immediately after the Prehearing Conference, several proposals and counter proposals were exchanged in an effort to resolve some, if not all, of the issues raised by the various parties to this proceeding. As a result of those negotiations, PPL, the Office of Consumer Advocate, the Office of Trial Staff, and Richards signed a Joint Petition for Partial Settlement of Rate Investigation.¹ As a result of the Joint Petition, Richards submits that only Miscellaneous Issues (Item VIII on the Commission's Standard Format for Briefs) and Rate Structure (Item IX) remain to be adjudicated.

II. Miscellaneous Issues

PPL has made significant strides in keeping its customers informed through its web site and other channels, but there is always room for improvement. REG Witness Frank Richards outlined several areas of improvement as follows:

At present, PPL calculates billing demand in 15 minute increments. The difficulty is that when a customer requests "interval" demand data to determine when his peak actually occurs, PPL can only provide hourly data rather than 15 minute data for the vast majority of its customers. As a result the customer is unable to get an accurate picture of his peak, which

¹ As set forth in its Statement of Support, Richards took no position with respect to the numerous issues resolved via the Joint Petition. However, as one of the tariff issues raised by Richards was resolved within the context of the Joint Petition, Richards became a signatory to that agreement.

is confusing at best. Perhaps it is time for PPL to shift to an hourly demand. This would conform to pricing signals, which are hourly, and other components of certain bills (example: Peak Load Contribution). PJM Interconnection peaks are measured in hourly increments as well.

REG Statement 1, p 6. In his rebuttal testimony, PPL Witness Kasper disagrees with Mr. Richards' proposal claiming that it is impractical and "would require expensive new metering at all premises of all customers who pay a demand charge." PPL Statement 8-R, p. 30. Richards submits that Mr. Kasper misunderstands Mr. Richards' concern. Richards acknowledges that a complete shift to the calculating of billing demand on an hourly basis rather than 15 minute increments is a vast undertaking. While REG does not suggest that PPL undertake such a project, the mismatch between the 15 minute increment and the hourly data furnished upon customer request can lead to customer confusion. Richards submits that it is vital that a customer have the ability to see a complete picture of his or her electric consumption in order to make informed business decisions.

As further pointed out by Mr. Richards:

[C]alculation of some Tariff rates requires data that is not readily available on PPL's on-line website, including:

Annual Peak Load Contribution kW values

Annual Transmission Obligation kW values

Since these are not now available on PPL's online web site, they should be made available; or at least provided as standard when we request 4 year billing history information. Since PPL is required to provide 4 year billing history data, all of this data should be available on the PPL on-line website, but only 2 years is currently available.

In addition, sales tax exemption data currently provided on the Online web site is sometimes incorrect, making it difficult to trust the data available.

REG Statement 1, pp 6-7.

Mr. Kasper acknowledges that the four year data is available by special request but offers no other reason why that information is not made available to the customer other than the information is archived. Similarly, Mr. Kasper explains that the Peak Load Contribution and Transmission Obligation values are available to suppliers such as Richards, but offers no explanation, other than not being stored in customer records, as to why they cannot be made available to individual customers through the customer web interface. PPL Statement 8-R, pp. 33-34.

Richards acknowledges that the changes it is requesting in this proceeding may involve technical issues which need to be explored in a context other than a rate proceeding. Accordingly, Richards respectfully requests that Your Honor recommend to the Commission that a PPL specific working group be formed to, by mutual agreement, review and recommend enhancements to the information being provided to C & I customers on PPL's web site.

III. Rate Design

A. System Rates of Return and the *Lloyd* decision

All parties to this proceeding agree that the allocation of revenues should be based upon cost of service studies tempered by judgment. Similarly, there does not appear to be any dispute that a reasonable difference in rates between classes of service is permissible. 66 Pa. C.S. §1304. The Commonwealth Court Decision of *Lloyd v. Pennsylvania Public Utility Commission*, 904 A. 2d 1010 (2006) firmly established what the Court determined to be a reasonable difference. In *Lloyd*, the Commonwealth Court, citing with approval its decision

in *Philadelphia Suburban Water Company v. Pennsylvania Public Utility Commission*, 808

A. 2d 1044 (Pa. Cmwlth. 2002), stated:

[I]n order for a rate differential to survive a challenge brought under Section 1304 of the Public Utility Code, 66 Pa. C.S. § 1304, the utility must show that the differential can be justified by the difference in costs required to deliver service to each class. The rate cannot be illegally high for one class and illegally low for another. *Allegheny Ludlum Corp.*, 612 A. 2d at 611. Overall, the rate differentials must advance efficient and satisfactory service to the greatest number at the lowest overall cost.

904 A.2d at 1016.

PPL has stated that this proceeding is the third in a series of proceedings to which it agreed to address the historical disparity in rates and cross subsidies among its rate classifications. Richards submits that while the level of subsidy from traditionally commercial and industrial customers appears to have decreased, the cost of service studies produced in this proceeding indicate that some sort of subsidy continues.² Richards submits that the *Lloyd* and *Philadelphia Suburban* decisions require that if an illegal rate disparity exists it should be eliminated no matter how many proceedings it may take. With this general principle in mind, Richards will address specific issues which it raised with respect to rate design.

B. Rate GS-3 Customer Charge and Billing Demand

Richards has not taken a position regarding the level of proposed rates, but has provided testimony on rate design issues.

The basic premise behind the development of rates for customers is to assign the costs to provide service to the cost causer. In order to accomplish this, the Commission has relied

² Only one of the cost of service studies offered by OCA witness Watkins indicated that the GS-3 class rate of return is below that of system average and therefore should bear some portion of the PPL requested rate increase. OCA Statement No. 3, p. 25.

upon cost of service studies to guide it in the development of specific rates for differing rate classifications. In doing so, the Commission has recognized that there is no hard and fast set of rules that can be applied and that a certain degree of judgment must be employed in any cost of service study. *Pennsylvania Public Utility Commission v. Pennsylvania Gas and Water Company*, 79 Pa. P.U.C. 349 (1993); *Pennsylvania Public Utility Commission v. Pennsylvania Power & Light Company*, 67 P.U.R. 4th 30, 59 Pa. P.U.C. 332 (1985). In utilizing its judgment to formulate rates designed to recover a specific level of revenue, the Commission must now also be guided by the principles set forth in *Lloyd*.

Within the context of his direct testimony, Mr. Richards generally agreed with the cost of service study proposed by the company but did have some reservations regarding the transition from a rate design relying upon kwh charges to one based upon customer and demand charges.

Unlike the rate classifications of many jurisdictional utilities which are based upon electric consumption and are divided into rate classes based upon their consumption patterns, PPL's rate classifications are primarily based upon the type of service received, particularly with respect to its GS-1 and GS-3 rate classifications. GS-1 is available for all small general single phase non-residential service at secondary voltage. Supplement 83 to Tariff Pa. PUC 201, page 24. GS-3 service is available as two phase and greater service at secondary voltage. Supplement 83 to Tariff Pa. PUC No. 201, page 25. Essentially, an in its most basic form, a GS-1 customer receives single phase service from PPL, while a GS-3 customer receives two or three phase service. Importantly, the difference in rate classification is not dependent upon the level of consumption or demand levels of the individual customer. Thus, there are "large"

and “small” customers in each classification dependent upon how their electricity is provided and not necessarily by how much electricity they utilize.

In this proceeding, PPL made significant changes to the way general service customers were to be charged for distribution services. As explained by Mr. Kasper:

The structure of Rate Schedule GS-1 is changed from a kwh-based structure with a customer charge to a demand-based structure with a customer charge. The minimum first 5 kW of the billing demand charge is being eliminated.

** *

In keeping with the general direction of moving toward more customer and demand-based rates, PPL Electric is proposing that Rate Schedule GS-3 rates will recover 100% of the overall distribution revenue through customer charges and demand charges.

PPL Statement No. 8, pp. 13-14. Further, the minimum demand charge of 25 kW was eliminated except in so far as it applies to the CTC. Supplement No. 83 to Tariff Electric Pa. PUC No. 201, p 25. While the total revenue contributed by rate class GS-3 may be neutral in absolute dollar amounts, the introduction of a customer charge for the GS-3 classification has created an intra-class subsidy of the customers with a larger demand being supported by those customers with a lower demand.

Mr. Richards explained his concern as follows:

Despite PPL’s claim that it has allocated the entire rate increase proposal to the residential class of customer, the changes in the customer charge and demand charge adversely affect the rates of many customers within the individual classes.

I do not dispute the fact that the revenue provided to the company by both the GS-1 and GS-3 classes as a whole has remained the same. I also accept the fact that in any intra-class rate realignment there will be individual winners and losers. Mr. Kasper’s Attachment IV-D provides both a graphic and arithmetic comparison of the effect of these changes on various customers at various levels of demand. The results with respect

to GS-1 customers are as expected. At various demand levels, there are some customers who will see their bills decline and some who will see slight increases in their monthly distribution charges. The same cannot be said for the GS-3 customer. At 25 kW of demand (the old minimum demand charge), the imposition of the customer charge and increased demand charge causes the monthly bill to increase by a flat \$40 per month; for a demand of 33kW the increase is a flat \$36 per month and for a demand of 55 kW, the customer will see his bill increase by a flat \$27 per month. Only those customers who experience a demand of 212 kW or greater will see a reduction in their bill. Attachment IV-D, pages 42, 46, 50, and 54. Since relatively few GS-3 customers have a demand of 212 kW or more, most GS-3 customers will actually see an increase in their bills.

REG Statement 1, pp 4-5. In order to remedy this situation, OSBA witness Knecht proposed a solution. As explained in his rebuttal testimony:

I believe that Mr. Richards' direct testimony raises a valid concern that the bill impact on smaller GS-3 customers may be unreasonable. For a 25 kW GS-3 customer, the impact of the PPL Electric proposal would be a monthly bill increase from \$116.93 to \$156.65, an increase of some 34 percent. This increase is about twice the system average distribution increase, and may result in customer dissatisfaction within a rate class that faces a zero overall increase.

Therefore, to mitigate the effect on smaller GS-3 customers, I recommend that the GS-3 customer charge in this proceeding be limited to \$30 per kW. Based on the figures in Attachment IV-C (page 9 of 27), I calculate that setting the GS-3 demand charge at \$4.5106 per kW of billing demand would produce the same revenues as PPL Electric's proposal. This change would reduce the bill impact on a 25 kW GS-3 customer from 34 percent to 22 percent.

OSBA Statement 2, pp 19-20. Richards supports Mr. Knecht's proposed remedy.

To summarize, Richards respectfully requests that Your Honor permit PPL to alter its GS-3 rate schedule to impose a customer charge of \$30.00 per month, a billing demand

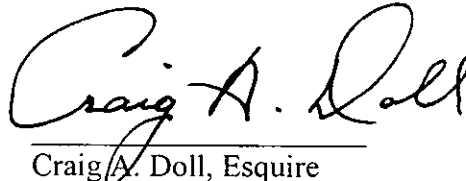
charge of \$4.5106 per kW of billing demand, and to eliminate the 25 kW minimum billing demand for GS-3 customers and the 5 kW billing demand minimum for GS-1 customers.

IV. Conclusion

REG respectfully requests that Your Honor:

1. Recommend to the Commission that a PPL specific working group be formed to, by mutual agreement, review the information being provided to commercial and industrial customers on the PPL web site.
2. Recommend to the Commission that the GS-3 customer charge be set at \$30.00 per month and the GS-3 demand charge be set at \$4.5106 per kW of billing demand.

Respectfully submitted,



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Attorney for Richards Energy Group, Inc.

Dated: September 2, 2010

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2010-2161694
	:	
PPL Electric Utilities Corp.	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the Main Brief of Richards Energy Group, Inc. upon the persons listed below via first class mail, postage prepaid in accordance with the provisions of 52 Pa. Code §1.54.

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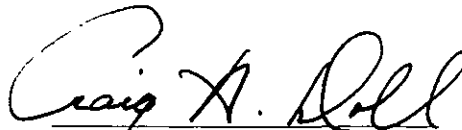
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