

COMMONWEALTH OF PENNSYLVANIA



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September 2, 2010

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Secretary
Pennsylvania Public Utility Commission
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400 North Street
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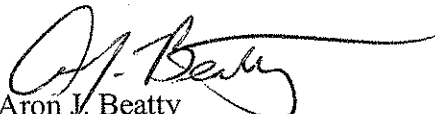
RE: Pennsylvania Public Utility Commission
v.
PPL Electric Utilities Corporation
Base Rate Proceeding
Docket No. R-2010-2161694

Dear Secretary Chiavetta:

Enclosed for filing please find the Office of Consumer Advocate's Main Brief, in the above-referenced proceeding.

Copies have been served on the parties of record as indicated on the enclosed Certificate of Service.

Sincerely,


Aron J. Beatty
Assistant Consumer Advocate
PA Attorney I.D. # 86625

Enclosures

cc: Hon. Susan D. Colwell/ALJ
Parties of Record

125999

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2010-2161694
 :
 PPL Electric Utilities Corporation :
 Base Rate Proceeding :

MAIN BRIEF OF THE
OFFICE OF CONSUMER ADVOCATE

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Dated: September 2, 2010

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I. INTRODUCTION

A. History of Proceedings.

On March 31, 2010, PPL Electric Utilities Corporation (PPL or the Company) filed Supplement No. 83 to Tariff Electric - Pa. P.U.C. No. 201 (Supplement No. 54) to become effective June 1, 2010, seeking Commission approval of rates and rate changes that would modify existing tariff provisions and increase the level of rates that PPL charges for providing electric distribution service to its customers. If Supplement No. 83 had become effective as proposed, the Company would have had an opportunity to recover an estimated annual increase in operating revenues of \$114.7 million, an approximate increase of 17.1% over the Company's present distribution rates. PPL serves more than 1.4 million residential, commercial and industrial customers in over twenty-nine counties throughout Pennsylvania.

On April 26, 2010, the OCA filed a Complaint against the proposed rate increase. Numerous other parties filed Petitions to Intervene or Complaints against the proposed rate increase, including: the Office of Trial Staff (OTS), the Office of Small Business Advocate (OSBA), the PPL Industrial Customer Alliance (PPLICA), the International Brotherhood of Electrical Workers Local 1600 (IBEW), the Commission on Economic Opportunity (CEO), Mr. Eric Epstein, Richards Energy Group (REG), the Sustainable Energy Fund (SEF), Citizens for Pennsylvania's Future (PennFuture), Dominion Retail, Inc. and the Retail Energy Supply Association (RESA).

The Commission suspended the Company's proposed tariff supplement pending investigation and provided a list of questions in its suspension order that the parties were to investigate and answer during the course of this case. The proceeding was assigned to the Office of Administrative Law Judge and specifically assigned to Administrative Law Judge Susan D.

Colwell (ALJ Colwell). On May 26, 2010, ALJ Colwell held an initial prehearing conference in this matter. Subsequently, ALJ Colwell issued a prehearing order establishing a procedural schedule and also setting forth certain modifications to the Commission's regulations regarding discovery matters.

On June 29, 2010, the OCA submitted the Direct Testimony of: Lafayette Morgan, OCA Statement No. 1 and OCA Statement No. 1 in Proprietary version; Stephen Hill, OCA Statement No. 2; Glenn A. Watkins, OCA Statement No. 3 and Roger D. Colton, OCA Statement No. 4. On July 27, 2010, the OCA submitted the Rebuttal Testimony of Glenn A. Watkins, OCA Statement No. 3-R. On August 5, 2010, the OCA submitted the Surrebuttal Testimony of: Lafayette Morgan, OCA Statement No. 1-S; Stephen Hill, OCA Statement No. 2-S; Glenn A. Watkins, OCA Statement No. 3-S and Roger D. Colton, OCA Statement No. 4-S. All parties in this matter agreed to stipulate admission of the OCA statements, as identified herein into the record without the need for cross-examination. Tr. at 462-466.

Following the filing of testimony, the parties engaged in settlement negotiations in an attempt to resolve some or all of the issues presented in this case. The parties were able to reach agreement on numerous issues, including the overall revenue increase that would be allowed to the Company. Under the Partial Settlement, the Company will be permitted to increase its annual distribution operating revenues by \$77.5 million rather than its requested increase of \$114.7 million. The parties also reached agreement on a number of other issues including universal service program issues, the return on equity for the smart meter surcharge, and certain rate design issues such as the level of the residential customer charge. Additionally, the Partial Settlement provides a limitation for the size of the rate increase to the residential Rate RTS customers within the residential customer class. The OCA has provided a Statement in

Support of the Partial Settlement. The parties, however, were not able to reach agreement on the allocation of the agreed upon \$77.5 million revenue increase among the customer classes. The OCA hereby provides its Brief regarding the revenue allocation issue that was reserved for litigation.

B. Statement of the OCA's Position.

In this case, PPL proposed to allocate virtually the entire rate increase to the residential customer class, with the residential class bearing \$114.638 million of a \$114.675 million rate increase request. Under PPL's proposal at its full revenue increase amount, the residential class would have seen their distribution rates increase by 27.67% compared to a system wide distribution increase of 17.14%. All other rate classes, except for a nominal increase to one industrial rate schedule (LP-5/LP-6) would have seen no rate increase at all under the Company's proposal. At the settlement rate levels, PPL's allocation proposal would still result in the residential class bearing virtually the entire settlement rate increase of \$77.5 million, as PPL's proposal is for a proportional scale back of any reduced amount of a revenue increase.

PPL argues in its testimony that its revenue allocation proposal in this case is in accord with the Commonwealth Court's decision in Lloyd v. Pa. PUC, 904 A.2d 1010 (Pa. Commw. 2006)(Lloyd) and seeks to implement the third stage of the settlement that resulted from the Lloyd decision.³ Under that prior settlement, the Company agreed, subject to certain caveats, to a plan that would move the distribution rates for its various customer classes to "at or near" the full cost of providing service over a series of three rate cases, with this rate case being

³ In Lloyd, the Commonwealth Court was reviewing the Commission's determination of revenue responsibility for the rate increase resulting from PPL's 2004 base rate case. The Court overturned the Commission's Order regarding the revenue allocation and remanded the matter to the Commission. The Court in Lloyd found that the Commission had allowed other factors to "trump" considerations regarding the cost to serve various customer classes.

the third in the series. PPL St. 6 at 17. PPL witness Krall recounted the three caveats to achieving full cost of service in the third rate case as follows:

First, for certain rate classes, most notably Rate Schedule RTS (Residential Thermal Storage) and street lighting rates, one or two more rate cases may be required because these rates currently are so far below full cost of service that it would take very disproportionate increases to move them to full cost of service in three rate cases. Second, as explained by Mr. Kleha, cost of service is an art, not a science, and while the Company will attempt to move rates reasonably close to full cost of service, some modest differences may remain. Finally, the Company would reserve the right to apply principles of gradualism to ameliorate individual customer rate impacts to the extent necessary in future proceedings.

PPL St. 6 at 18-19.

While PPL began this proceeding with the proper principles in developing its revenue allocation proposal, its implementation of these principles was seriously compromised by its reliance on a cost of service study that employed a new methodology for the classification and allocation of the major components of distribution facilities of the Company. In this case, PPL made a significant change to the methodology it had previously employed to conduct its cost of service study, which informs the decision as to whether customer classes are “at or near” the full cost of service as determined by that study. The change in methodology implemented by PPL for this proceeding significantly increased the costs assigned to the residential customer class as compared to its prior methodology. As a result, despite having shown significant progress towards cost of service in the prior two cases, the residential class now seemed to be moving backwards, *i.e.*, the return provided by the residential class was getting lower rather than higher despite having received disproportionately higher increases in the 2004 base rate case remand and the 2007 base rate settlement.

PPL's testimony on this material change in methodology was contained in a single sentence of the direct testimony of PPL's cost of service witness. PPL St. 7 at 24. Yet the impact of this change was remarkable. Based on PPL's new cost of service methodology, it appeared as if the primary residential rate class, Rate RS, was providing a return of 3.12% as compared to the system average return of 6.33%. That is, Rate RS appears to be providing a return that is only 49.3% of the system average return. Under PPL's prior method, which PPL used to guide its revenue allocations in the prior two distribution rate cases, the Rate RS has a return of 5.23% at current rates, or nearly 83% of the system average return. OCA St. 3-S at 7. As can be seen, under PPL's prior methodology, the residential class had already made significant progress toward the system average rate of return, and the distance to cover in this case is significantly less than what is shown under PPL's new methodology. In essence, PPL's material change in methodology moved the goal line just as the residential customer class was reaching it. As a result, PPL unnecessarily and improperly chose to allocate virtually the entire rate increase to the residential class.

By relying on its new cost of service study, which is not only based on a changed methodology from prior cases but is based on assumptions that are seriously flawed, PPL was led to an unreasonable proposed allocation of the revenue increase that is awarded in this case. OCA witness Glenn Watkins, however, corrected the significant flaws in PPL's cost of service methodology to produce a more reliable indicator of the cost of serving each class.⁴ Mr. Watkins

⁴ Mr. Watkins is a Principal and Senior Economist with Technical Associates, Inc., an economics and financial consulting firm. Mr. Watkins has conducted marginal and embedded cost of service, rate design, cost of capital, revenue requirement, and load forecasting studies involving numerous electric, gas, water/wastewater, and telephone utilities, and has provided expert testimony in Alabama, Arizona, Georgia, Illinois, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Vermont, Virginia, South Carolina, Washington, and West Virginia. A more complete description of Mr. Watkins education and experience is provided in Schedule GAW-1, attached to OCA St. 3.

performed his own cost of service study that corrected some of the errors in PPL's study, utilized a more appropriate classification and allocation methodology for distribution facilities and adjusted certain account allocators. Under Mr. Watkins' cost of service study which classifies distribution plant as demand related and allocates those costs based on class non-coincident peak (NCP) demand, it can be seen that the residential Rate RS is already providing a rate of return of 6.13% at current rates as compared to the system average return of 6.33%. In other words, Rate RS is already providing almost 97% of the cost of serving the class at current rates under Mr. Watkins' cost of service study. Rate RS is shown to already be "at or near" the cost of service. For the residential class as a whole, when Rate RTS customers' returns are accounted for, the residential class still shows a rate of return at current rates of 5.7%, thus providing 90% of the cost to serve the class.⁵ There is, therefore, no reason to impose such a disproportionate increase on residential customers, let alone virtually the entire increase as proposed by PPL.

As Mr. Watkins testified, cost of service studies are an art and not a science, and such studies cannot be used with surgical precision. In order to better inform his determination regarding revenue responsibility of the various customer classes, Mr. Watkins also reviewed the studies conducted by PPL in response to discovery using its original methodology. The following chart summarizes the results of the various cost of service studies at current rates that have been provided in this record:

⁵ Under Mr. Watkins alternative peak and average method performed for this case, the residential class as a whole is providing the system average return of 6.3%, i.e., the class as a whole is shown to providing all of the costs to serve the class. See, OCA St. 3 at 27.

Table 8(A)

ROR At Current Rates				
Class	PPL 67% Customer NCP	PPL Prior Method Primary At 100% Demand NCP	OCA 100% Demand Peak & Avg.	OCA 100% Demand NCP
Res	3.0%	4.9%	6.3%	5.7%
GS-1	10.1%	12.3%	13.8%	12.9%
GS-3	25.5%	10.6%	5.8%	7.1%
LP-4/ISP	17.7%	2.2%	0.7%	2.0%
LP-5/LP-6	-8.6%	-8.6%	-12.1%	-12.1%
LPEP	16.3%	16.5%	16.6%	16.6%
GH	15.3%	6.2%	5.2%	3.6%
Lighting	9.4%	8.7%	11.2%	11.1%
Total	6.3%	6.3%	6.3%	6.3%

Source: OCA St. 3 at 27.

What is clear from this chart is that the Company's new cost of service methodology produces the lowest return for the residential customer class, a return that is lower by an order of magnitude than the other cost of service studies. Using such an outlying result as the guide to the revenue allocation proposal as PPL did is wholly unreasonable.

Equally instructive is a review of some additional cost of service study results provided by the Company to show the movement of the various customer classes toward cost of service under the Company's proposed allocation. The Company, also testifying that cost of service is an art and not an exact science, provided the results of three additional cost of service studies using different methodologies for consideration by the Commission. These studies were conducted based on the proposed rates, assuming the full rate increase was assigned to the classes using the Company's allocation. The following chart from PPL Exh. JMK-5 compares these outcomes:

Class	PPL 2010 Methodology	50-50 Demand-Customer	50-50 Demand-Energy	1/3 Demand-customer-energy
RS	7.2%	8.0%	12.56%	10.10%
GS-1	10.53%	11.11%	15.19%	13.62%
GS-3	19.45%	14.60%	6.94%	11.35%
LP-4	17.85%	10.16%	0.19%	3.60%
LP-5	-8.00%	-8.16%	-7.81%	-4.55%
LPEP	16.14%	14.64%	0.84%	2.10%
GH	11.78%	8.83%	5.67%	9.06%
Lighting	9.35%	9.63%	14.79%	8.87%
Total	9.11%	9.11%	9.11%	9.11%

Source: PPL Exh. JMK-5.

Again, what stands out is that under two of the four cost allocation studies, PPL's proposed allocation of this rate increase entirely to the residential class will move the Rate RS customers well *above* the system average rate of return. It is only under the Company's new methodology, and a second study utilizing the same methodology as the Company's new study, that the Company's allocation shows the Rate RS class to still be slightly below the system average return.

The OCA submits that when all of the record evidence is taken together in this case, and the principles of cost of service and gradualism are properly applied, it is clear that the Company's allocation of virtually the entire rate increase to the residential class is unreasonable and will not result in rates that are just and reasonable. Applying the principles of cost of service based on the results of reasonable cost of service studies, and mindful of the need for gradualism and the avoidance of rate shock, OCA witness Watkins provided an alternative revenue allocation proposal that meets the requirements of Lloyd and achieves the goals of the prior settlement. Under Mr. Watkins' proposal, Rate classes GS-1, LPEP, and Lighting would receive no increase at all in this distribution rate case. The GS-3 class would receive an increase that is

80% of the system wide average increase. Given the currently low returns at current rates, Rate LP-5/LP-6 would be given an increase that is capped at 150% of the system average increase to avoid rate shock. The remaining classes, specifically the residential class (Rate RS, RTS) would receive the residual amounts on an equal percentage basis. OCA St. 3 at 29-30.⁶ The following chart presents Mr. Watkins' revenue allocation proposal at the full rate increase and at the agreed upon \$77.5 million rate increase level:

OCA PROPOSED ALLOCATION AT ORIGINAL REQUEST AND SETTLEMENT AMOUNT

Rate Class	Full Request of \$114.6 Million		Agreed Upon \$77.5 Million	
	\$	%	\$	%
Residential	\$89,800	21.68%	\$60,689	14.65%
GS-1	\$0	0.00%	\$0	0.00%
GS-3	\$16,166	13.71%	\$10,925	9.27%
LP-4/ISP	\$7,036	21.68%	\$4,755	14.65%
LP-5/LP-6	\$290	25.71%	\$196	17.37%
LPEP	\$0	0.00%	\$0	0.00%
GH	\$1,382	21.68%	\$934	14.65%
Lighting	\$0	0.00%	\$0	0.00%
SYSTEM TOTAL	\$114,675	17.14%	\$77,500	11.58%

Source: OCA St. 1 at 27-30.

Through this revenue allocation, all classes are moved closer to the cost of service when measured by reasonably conducted cost of service studies.

The OCA submits that the Company's revenue allocation proposal must be rejected. It starts from a flawed cost of service study that provides unreliable indications of the cost to serve the individual customer classes. Based on this incorrect starting point, the

⁶ Mr. Watkins recommended that the same methodology be used to allocate the rate increase even if the amount of the increase was reduced. OCA St. 3 at 30. The mathematical effect of this recommendation is to proportionally scale back Mr. Watkins' proposed revenue allocation at the Company's full request.

Company unreasonably allocates virtually the entire rate increase to the residential class, significantly burdening residential customers who have already borne two large distribution rate increases in 2004 and 2007.

Rather than improperly burden residential customers, OCA witness Watkins, based on all of the evidence in this proceeding, including the results of a cost of service study conducted by the Company using the methodology that guided PPL's proposals in the prior two cases, provided a revenue allocation that moves all customers closer to cost of service while respecting the principles of gradualism. Mr. Watkins' proposal still requires the residential class to bear a greater increase than the system average increase based on the cost of service study evidence in this proceeding that he used as a guide. Mr. Watkins' proposal, however, starts from a reasonable cost of service study as a guide and thus more properly reflects cost of service principles in the revenue allocation. As such, the OCA submits that Mr. Watkins' proposed revenue allocation should be adopted in this proceeding.

C. Burden Of Proof.

The burden of proof to establish the justness and reasonableness of every element of PPL's rate increase request is upon the Company. As set forth in Section 315(a) of the Public Utility Code:

Reasonableness of rates.—In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa.C.S. § 315(a).

This principle has been interpreted by the Commonwealth Court as follows:

Section 315(a) of the Public Utility Code, 66 Pa.C.S. § 315(a), places the burden of proving the justness and reasonableness of a

proposed rate hike squarely on the public utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial. (Citations omitted.)

Lower Frederick Twp. v. Pa. PUC, 48 Pa. Commw. Ct. 222, 226-27, 409 A.2d 505, 507 (1980) (emphasis added). See also, Brockway Glass v. Pa. PUC, 63 Pa. Commw. Ct. 238, 437 A.2d 1067 (1981). The Pennsylvania Supreme Court also has clearly stated that the party with the burden of proof has a formidable task before its position can be adopted by the Commission. Even where a party has established a *prima facie* case, the litigant still must establish that “the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary.” Burleson v. Pa. PUC, 501 Pa. 433, 461 A.2d 1234 (1983)(emphasis added).

With specific reference to base rate proceedings, it is well settled at the Commission and in the Courts that the utility’s burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one that remains with the public utility throughout the course of the proceeding. This burden does not shift to intervenors challenging a requested rate increase. There is no similar burden placed on an intervenor to disprove a company’s claim. See e.g., Berner v. Pa. PUC, 382 Pa. 622, 116 A.2d 738 (1955) (Berner). In Berner, the Pennsylvania Supreme Court stated:

[T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations and that is the burden which the utility patently failed to carry.

Berner, 382 Pa. at 631, 116 A.2d at 744.

This standard has been recognized by the Commission in its rate determinations:

The Respondent, Equitable has the burden of persuasion in the issue of the reasonableness of an expense level. Respondent must

affirmatively establish, on the record, that the test year claim is a reasonable and appropriate amount.

Pa. P.U.C. v. Equitable Gas Co., 57 Pa. PUC 423, 471 (1983) (emphasis added); accord, University of Pennsylvania v. Pa. PUC, 86 Pa. Commw. 410, 485 A.2d 1217 (1984).

The OCA submits that it is incumbent upon the Company to affirmatively prove the reasonableness of every element of its claim. The OCA submits that PPL has failed to sustain its burden of proof as to its proposed allocation of the revenue increase to the customer classes.

II. SUMMARY OF ARGUMENT

The Company has proposed to allocate virtually the entire rate increase to the residential customer class. The OCA submits that the Company's proposed allocation of the rate increase is based on a faulty cost of service study that deviates substantially from the studies presented by the Company in its 2004 and 2007 rate proceedings and from studies that more properly classify and assign the costs incurred to serve the various customer classes. In addition, the Company's allocation fails to recognize other critical factors such as the need for gradualism, that must also guide the Commission's decision. The rates resulting from the Company's proposal cannot be found to be just and reasonable, and as such, the Company's proposed allocation must be rejected.

Similarly, the proposed allocation of the rate increase proposed by the OSBA, particularly its proposal to significantly reduce the current rates of the commercial classes if the revenue increase is less than the Company's full request, must be rejected. OSBA's proposed revenue allocation rests upon the Company's flawed cost of service methodology that significantly overallocates costs to the residential customer class. When a more reasonable cost of service study is used to assess the movement of the classes toward the system average return, it becomes apparent that several of the commercial classes move in the wrong direction and would provide returns below the system average.

The OCA submits that the allocation of the revenue increase proposed by OCA witness Watkins should be adopted. Mr. Watkins' proposal is based on a reasonably conducted cost of service study that is used as a guide to inform the allocation process. In addition, Mr. Watkins considered the range of study results included in this case, including the results of a study conducted by the Company using the methodology employed by the Company itself in its

prior two base rate cases. Mr. Watkins' allocation proposal moves all classes toward the system average return and respects the principle of gradualism. Mr. Watkins's proposal achieves the goals of the prior settlement that sought to move all classes at or near cost of service at the end of this case and it fully complies with the Commonwealth Court's decision in Lloyd.

- III. RATE BASE
RESOLVED THROUGH PARTIAL STIPULATION.
- IV. REVENUES
RESOLVED THROUGH PARTIAL STIPULATION
- V. EXPENSES
RESOLVED THROUGH PARTIAL STIPULATION
- VI. TAXES
RESOLVED THROUGH PARTIAL STIPULATION
- VII. COST OF CAPITAL
RESOLVED THROUGH PARTIAL STIPULATION

VIII. RATE STRUCTURE

A. Introduction.

As part of its distribution rate increase request, PPL proposed to recover virtually all of the additional distribution revenues allowed by the Commission from its residential customers. PPL St. 4 at 26-27. Under the Company's proposal, the residential class would bear \$114.638 million of the originally proposed \$114.675 million rate increase request. Under the Company's proposal to scale back its allocation if awarded less than the full amount of its request, the residential class would still bear virtually the entire rate increase amount, now about \$77.5 million. As originally filed at its full request, the Company proposed increases for its residential distribution service of 27.67% as compared to its proposed distribution rate increase of 17.1%. OCA St. 3 at 30. All other rate classes, except for a nominal increase to one industrial rate schedule (LP-5/LP-6) would see no rate increase at all under the Company's proposal.

The OCA presented the testimony of Glenn A. Watkins contesting the Company's cost of service methodology, the proposed revenue allocation to the rate classes, and the proposed rate design for Rates RS and RTS.⁷ Mr. Watkins recommended modifications to the Company's class cost of service study so that it better reflects the costs that each customer class places on the system. The OCA submits that Mr. Watkins' cost of service study, which classifies distribution plant other than "Service and Meters" plant as demand-related, and allocates the costs based on peak demand, better reflects cost causality. This methodology is also more closely aligned with the Cost of Service study utilized by the Company in its 2004 and 2007 base rate proceedings and provided by the Company in its rebuttal testimony.

⁷ The rate design issues addressed by Mr. Watkins have been settled.

Mr. Watkins then used the results of this more reasonable cost of service study methodology, along with consideration of the results of the Company study using the same methodology as used by PPL in its past base rate cases as a guide to his revenue allocation decision. Notably, under Mr. Watkins' cost of service study results, Rate RS showed that it is providing a rate of return at current rates of 6.13% compared to the system average return of 6.33%. In other words, rather than being far from providing the cost to serve the class, Mr. Watkins' cost of service study demonstrates that Rate RS is already at or near its cost of service (97% of cost of service). Based on these results, and the results of the other studies performed by PPL, Mr. Watkins concluded that PPL's proposed allocation of the revenue increase to the residential class was not supportable. Mr. Watkins proposed an allocation that used his cost of service study as a guide to move all classes closer to the system average rate of return while respecting the principles of gradualism.

As discussed below, OCA witness Watkins' revenue allocation is based on a reasonable cost of service study used as a guide, respects the principles of gradualism, and achieves the objectives of the prior settlement while adhering to the principles set forth in Lloyd. Mr. Watkins' revenue allocation proposal will result in just and reasonable rates and should be adopted.

B. Cost of Service Study.

Commission's Area Of Concern, No. 9: Whether the cost allocation methodologies utilized in PPL's class cost-of-service study must be thoroughly scrutinized in order to ensure that the results of the study are reasonably accurate, and to determine whether or not they support the Company's proposed revenue allocation.

1. The Company's Cost of Service Study Must Be Rejected.

a. Introduction.

The Company has filed a Pennsylvania jurisdictional cost of service study for both the historic and future test year as required by the Commission's regulations. PPL St. 7 at 20-24. According to the Company, "the fundamental purpose of a cost allocation study is to aid in the design of rates to be charged by identifying all of the capital and operating costs incurred by a utility to provide service to all of its customers, and then assigning or allocating those costs to individual rate classes on the basis of how those rate classes cause the costs to be incurred." PPL St. 7 at 24. OCA witness Watkins defined the type of cost of service studies used in this proceeding as follows:

Embedded cost of service studies are often referred to as fully allocated cost studies. This is because the vast majority of an electric utility's plant investment serves all customers, and the majority of expenses are incurred in a joint manner such that these costs cannot be specifically attributed to any individual customer or group of customers. To the extent that certain costs can be specifically attributable to a particular customer (or group of customers), these costs are directly assigned in a CCOSS. However, the vast majority of PPL's distribution plant and expenses are incurred jointly to serve all (or most) customers. These company-wide joint costs are then allocated to rate classes. It is generally recognized that to the extent possible, joint costs should be allocated to classes based on the concept of cost causation; i.e., costs are allocated based on specific factors that cause costs to be incurred by the utility. Although cost analysts generally strive to abide by the concept of cost causation to the greatest extent practical, some costs, cannot be attributed to specific exogenous factors and must be subjectively assigned or allocated to rate classes. With regards to those costs in which cost

causation can be attributed, cost of service experts often disagree as to what is the most cost causative factor; e.g., peak demand, energy usage, number of customers, etc.

OCA St. 3 at 3.

Both Company witness Kleha and OCA witness Watkins testified that the process of developing a cost of service study is subject to considerable discretion. As Company witness Kleha testified, the “process inherently requires a substantial level of judgment and can be more accurately described as engineering/accounting art, rather than science.” PPL St. 7 at 24. OCA witness Watkins explained that, “Cost allocation studies involve art as much as science and are subjective by their very nature.” OCA St. 3 at 4. As both PPL witness Kleha and OCA witness Watkins testified, the cost of service study should serve as a guide and one of a number of tools in assigning revenue responsibility. OCA St. 3 at 4; PPL St. 7 at 19-23.

The Company presented two cost of service studies in this proceeding. The first study, (JMK-2 Revised and JMK-2A) is the Company’s preferred study for use in this proceeding.⁸ Under its preferred study, the Company classifies a significant portion of its distribution system as both customer-related and demand-related. For purposes of this Brief, this study will be referred to as the “PPL 2010 Method” study.

In the rebuttal phase of this proceeding, the Company submitted JMK-2B. According to Company witness Kleha, the study designated JMK-2B uses “exactly the same cost allocation methodology as it used in its two prior base rate proceedings.” PPL St. 7R at 10. Under this prior methodology, PPL classified its Primary distribution plant as 100% demand-

⁸ Both JMK 2 Revised and JMK 2A utilize the same basic methodology. JMK 2A provides an updated version of JMK-2 Revised based on updated data provided during the Rebuttal phase of this proceeding.

related. For purposes of this Brief, this study will be referred to as the “PPL 2004/2007 Method” study.⁹

The OCA submits that there are significant flaws in the PPL 2010 Method study that make it a wholly unreliable indicator of the cost to serve any particular class. Most notably, PPL’s significant change from its own 2004/2007 methodology for classifying and allocating its distribution plant has a major impact on the results of the cost of service study, and has a particularly negative impact on the Residential customer class. Indeed, under the PPL 2004/2007 Method, Rate RS provided a return of 5.23% at current rates (as compared to the system wide return of 6.33%) whereas under the PPL 2010 Method, the Rate RS return dropped to 3.12%. OCA St. 3 at 9, Table 2; OCA St. 3-S at 7. PPL’s change in methodology for its cost of service study led to anomalous results and resulted in an improper allocation of the revenue increase.

As discussed below, the OCA has proposed an alternative to the Company’s cost of service study that more accurately reflects the cost to serve the various classes. The OCA’s cost of service study reflects accepted cost of service principles and should be used as the primary guide for setting rates in this proceeding. Additionally, the OCA’s recommended cost of service study produces results that are more closely aligned with the PPL 2004/2007 Method study.

⁹ In addition to these two complete studies, the Company also provided a summary of the results of three other cost of service studies that it performed. PPL Exh. JMK-5. PPL presented alternative methodologies, including a 50-50 Demand-Customer Allocator split, a 50-50 Demand-Energy Allocator split, and a 1/3 Demand-Customer-Energy Allocator split. Id.

b. PPL's Classification of Distribution Plant Other Than "Services and Meters" As Partially Customer-Related And Partially Demand-Related Is Unsupportable.

i. Introduction.

PPL has assigned its distribution costs on two bases. First, PPL has classified the costs of "Services and Meters" plant, which consists of customer-related costs associated with those two components of service, on a customer basis. The residential classes, having by far the greatest number of customers in PPL's service territory, were assigned the greatest share of these costs. The OCA does not object to the Company's assignment of "service and meters" plant on a customer basis.

Second, and more significantly, PPL has classified the joint costs of its Primary and Secondary distribution plant partially on the basis of number of customers and partially on the basis of demand. For its Primary System accounts, PPL classified 69% of its system, or \$1.1 Billion dollars of investment, as customer-related. OCA St. 3 at 8. For the Secondary System, PPL classified 63% of its system, or \$555 Million, as customer-related. *Id.* Taking the Primary and Secondary system together, PPL classified 67%, or \$1.6 Billion, as customer-related costs. The bulk of all customer-related costs in PPL's study are assigned to the residential classes due to the number of customers in those classes. This is directly contrary to PPL's own 2004/2007 methodology in which all of these costs were allocated on a demand basis.

PPL arrived at the customer/demand split in its 2010 study by performing a minimum system study. Under the minimum system study, costs associated with the minimum sized system components currently installed by PPL were deemed to be customer-related, and the remainder of the costs in Common Distribution plant accounts were deemed to be demand-related.

The OCA submits that the Company's classification of a majority of its Primary and Secondary Distribution plant on a customer basis is seriously flawed in several respects and must be rejected. First, the underlying assumption in the Company's study that Primary and Secondary distribution plant has a customer component is unsupported and inconsistent with PPL's actual service territory. Second, even if there were a customer component to these facilities, which there is not, PPL's minimum system study to determine that component is significantly flawed. Third, the Company's preferred cost study in this proceeding deviates substantially from the studies it advocated in its 2004 and 2007 base rate proceedings. In those proceedings, Primary Distribution plant was classified as 100% demand related by PPL. In this proceeding, for the first time, PPL classified over \$1 Billion of Primary distribution plant as customer-related. This change in methodology has major impacts on the results of the Company's cost of service study particularly for the Residential customer class that has by far the greatest number of customers.

ii. There Is No Support For Classifying Distribution Plant Investment Based On Customer Counts.

OCA witness Watkins explained how the Company assigned distribution costs to individual customer classes as follows:

PPL witness Joseph Kleha classified and allocated distribution plant and expenses partially on the basis of number of customers and partially on the basis of peak demand. With respect to distribution plant allocations, recognition has been given to the fact that some large customers are either not connected to PPL's distribution system because these customers take power at the sub-transmission level or higher, or are directly assigned distribution costs. Furthermore, to recognize the diversity of localized demands throughout the Company's distribution system, Mr. Kleha allocated the demand-related portion of distribution plant on the basis of class non-coincident peak ("NCP") demands.

OCA St. 3 at 5. Underlying the Company's cost of service study is an assumption that it is appropriate to allocate some joint costs based on customer counts, and other joint costs based on the demands placed by customers on the distribution system. OCA St. 3 at 10. As OCA witness Watkins testified, the issue of the classification and allocation of distribution plant can be critical:

The classification of distribution plant may be the single most important factor affecting class rates of return. To illustrate the importance of this issue, consider the Residential class: whereas this class may account for only 40% to 50% of energy usage or peak demand, it is responsible for about 90% of the number of customers. Therefore, given the level of investment associated with distribution plant, wide variations in class rates of return usually result from different customer/demand classifications.

OCA St. 3 at 6. The wide variations in Rate of Return referenced by Mr. Watkins can clearly be seen in comparing the Company's own two studies. Using the PPL 2004/2007 Method, where Primary distribution plant is classified as 100% demand-related, the residential return at current rates was 5.23%. OCA St. 3-S at 7. Using the PPL 2010 Method, where Primary distribution is classified substantially as customer-related and only partially as demand-related, the residential return was 3.12%.

OCA witness Watkins testified that the only reason to classify a portion of joint distribution plant expenses based on customer counts as PPL did in its 2010 study, rather than based on the demands placed on the system, would be due to the customer mix and density in the service territory. Mr. Watkins explained:

Even though investment is made in distribution plant and equipment to meet the energy needs of its customers at required power levels, there may be considerable differences in both customer densities and the mix of customers throughout a utility's service area. As a hypothetical, suppose a utility serves both an urban area and a rural area. In this situation, many customers' electrical needs are served with relatively few miles of conductors,

few poles, etc. in the urban area, while many more miles of conductors, more poles, etc. are required to serve the requirements of relatively few customers in the rural area. If the distribution of customers (customer mix) is relatively similar in both the rural and urban areas, there is no need to consider customer counts (number of customers) within the allocation process, because all classes use the utility's joint distribution facilities proportionately across the service area. However, if the customer mix is such that Commercial and Industrial customers are predominately clustered in the urban area, while the rural portion of the service territory consists almost entirely of Residential customers, it may be unreasonable to allocate the total Company's investment based on usage or demand; i.e., a large investment in many miles of line is required to serve predominately Residential customers in the rural area while the Commercial and Industrial electrical needs are met with much fewer miles of lines in the urban area. Under this circumstance, an allocation of costs based on a weighting of customers and demand is usually considered equitable and appropriate.

OCA St. 3 at 6.¹⁰

As explained by Mr. Watkins, however, if all customer classes are equally represented in all portions of a utility's service territory, there is no basis for classifying or allocating distribution plant based on customer counts. OCA St. 3 at 10. OCA witness Watkins conducted an analysis of the mix of PPL's customers across the service territory in order to assess whether an allocation based on customer counts is supported by PPL's actual distribution

¹⁰ OSBA witness Knecht provided the same underlying rationale for classifying certain costs based on the number of customers in his Direct Testimony. OSBA witness Knecht testified as follows:

[E]lectric distribution systems must be constructed to interconnect each customer served by the utility to the distribution network, and eventually to the substation where the distribution network attaches to the transmission grid. The costs incurred to provide this service are related primarily to the distance from the substation to the customer and the geographic density of the customer base. Similarly, the number of transformers required to step down primary to secondary voltage are related to the geographic distribution of customers. Distribution plant costs are therefore also influenced by the location of the utility's customers, relative both to each other and to the transmission grid.

OSBA St. 1 at 14-15 (footnotes omitted).

system. Mr. Watkins explained the process by which he reviewed PPL's customer mix, as follows:

PPL provided a data base of the number of customers by rate schedule for each postal zip-code within its service area. I then evaluated the mix of customer rate classes for each postal zip-code within the PPL service area. In order to evaluate whether any differences exist in the distribution of customers across rural, suburban, and urban areas, I calculated the number of total PPL customers per square mile for each zip-code to serve as a measure of density for relatively small geographic areas. I was then able to readily compare PPL's mix of customers (by rate class) throughout its service area and delineate between very rural (sparsely populated) to very urban (densely populated) areas. As a further refinement, I also evaluated the distribution of customers on a stratified basis. That is, for each rate class I separated small geographical areas (zip codes) into five separate strata (lowest to highest customer densities). I examined each stratum (by rate class) to determine if any significant differences in customer mix occur within each stratum.

OCA St. 3 at 10-11.

As detailed in Schedule GAW-2 of Mr. Watkins Direct Testimony, PPL's customer classes are all well represented throughout the most urban population centers and the most rural regions served by the Company. In other words, there is no significant variation in customer mix across the urban and rural portions of PPL's service territory. OCA witness Watkins detailed the results of his study, as follows:

PPL's customers are dispersed in a reasonably proportional manner throughout its service area. In other words, there is no distinct difference in the mix of customers (by class) across the rural and urban portions of PPL's service area. The relationship of Residential customers relative to non-Residential customers is relatively constant throughout PPL's service area. While the rural areas of PPL's service area are comprised mainly of Residential customers, this relationship remains true for the more dense population areas of PPL's territory as well. More importantly, in the less dense portions of PPL's service territory (rural areas), PPL serves a proportionate number of GS-1, GS-3, GH, and LP-4 (non-Residential) customers. In PPL's service area, each customer class

is represented in a reasonably proportional manner in both rural and urban areas. As a result, it cannot be said that the less populated portions of PPL's service area (which require significant investment to serve few customers) are dedicated to any one class of customers. As such, PPL's distribution plant and expenses are properly assigned to classes based only on utilization and any consideration of customer counts is improper for the allocation of distribution plant, as such, these PPL distribution plant should be classified as 100% demand-related.

OCA St. 3 at 11-12.

The OCA submits that based on the mix of customers throughout PPL's service territory, there is no sound reason to classify or allocate Primary and Secondary Distribution plant on a customer-count basis in PPL's service territory. While customer counts may be used as a proxy to represent the costs of connecting customers throughout a utility's service territory, it should not replace actual analysis of customer density and mix necessary to determine if a customer classification of distribution plant is appropriate.

Finally, the Company failed to account for how the distribution system is engineered in classifying these primary facilities. OCA witness Watkins testified as follows:

There are several factors the analyst should keep in mind when classifying distribution plant. First, most of an electric utility's Primary distribution system is interconnected to prevent outages. That is, most of the system is interconnected so that when a circuit (line) is interrupted, the flow of electricity can be diverted to other facilities in order to prevent a black out of the entire system downstream from the break in the circuit. As a result, facilities (conductors, switches, etc.) are sized to meet not only the loads normally placed on a particular segment, but are also capable of carrying additional load in the case of emergencies and interruptions from other line segments.

OCA St. 3 at 13.

The OCA submits that the PPL Primary distribution system is not built such that the majority of costs are incurred simply to connect customers. The Company's proposal to

allocate the majority of Primary distribution costs on the basis of customer counts is technically incorrect and should be rejected.

OCA witness Watkins analyzed the density and mix of customers throughout PPL's territory and found that the distribution of customer classes was relatively consistent in both urban and rural communities. In addition, PPL's electric system is engineered to meet goals that are not limited to connecting customers. As a result, the underlying rationale for allocating costs on a customer basis is not present here, making such an allocation wholly unreasonable. PPL's cost of service study that classifies 69% of its Primary system as customer-related and 63% of its secondary system as customer-related must be rejected.

iii. Even If A Customer Classification Was Appropriate, The Company's Minimum System Study Used To Determine The Customer Percentage Is Flawed.

As detailed by the customer density analysis undertaken by OCA witness Watkins, the classification of the majority of Primary and Secondary costs based on the number of customers is not supported for PPL. The Company's classification of Primary distribution plant substantially on a customer basis is unreasonable for additional reasons. In determining how much of the plant to classify as customer-related, the Company performed a minimum system study. OCA witness Watkins explained this method as follows:

The minimum size method rests on the premise that the minimum, or smallest size, installed equipment makes up the distribution network to connect customers to the distribution system, and that all larger sizes of equipment serve peak demands. In practice, the cost per unit of the smallest sized installed equipment is usually determined as a surrogate for the cost per foot of equipment just large enough to connect customers and meet only minimal or no load. This minimum cost per unit is then multiplied by the total number units in the system to arrive at a total customer amount. The total customer amount is then divided by the total cost for the account to determine the customer percentage. Obviously, one minus the customer percentage equals the demand percentage.

OCA St. 3 at 12. Mr. Watkins explained that the other method commonly used is the zero intercept method. Both methods suffer from several weaknesses. Mr. Watkins further explained the weaknesses with both methods:

The major criticisms I have regarding the minimum size method are that this method overstates the customer percentage because even the smallest installed size is used to meet the required level of peak demand. The primary weakness of the zero-intercept method is that more data and a good working knowledge of statistical linear regression analyses are required.

OCA St. 3 at 13.

The minimum system study used by Mr. Kleha to reach his customer/demand split suffers from several serious shortcomings. Mr. Watkins explained some of these shortcomings as follows:

First and foremost, it should be remembered that if a customer/demand separation is deemed necessary, the objective should be to estimate the cost of simply connecting a customer and that all costs over and above these connection costs are required to meet load (demand) requirements. On their face, it is apparent that Mr. Kleha's minimum size studies are unreasonable. As examples, Mr. Kleha's studies indicate that 74% of the cost of Primary overhead conductors is required to simply connect customers to the system with little or no load, and that only 26% of the costs are needed to meet the load requirements of the system.

Furthermore, because the Primary system is upstream from the Secondary system, and therefore is more of a bulk power provider than the Secondary system, it is only logical that the Primary customer percentage should be less than the Secondary customer percentage. However, Mr. Kleha's studies result in the opposite, in that he classifies a higher customer percentage for Account 365, Primary overhead conductors than for Secondary overhead conductors (74% vs. 69%).

Mr. Kleha's anomalous results are even more pronounced for Account 367, underground conductors. That is, 84% of Primary underground conductor costs were found by Mr. Kleha to simply connect customers, and only 16% of the total Primary underground conductor costs are required to meet load requirements. In addition, Mr. Kleha's Primary underground conductor customer (no load) percentage is 84% while his Secondary underground conductor customer (no load) percentage is only 59%.

OCA St. 3 at 15.

OCA witness Watkins also explained that the Company's record keeping practices limits its ability to perform a true "minimum" system study. Mr. Watkins used PPL's record keeping treatment of overhead conductors as an example to illustrate this point, as follows:

Instead of maintaining asset records by detailed sizes, PPL's records reflect groups of various sized equipment. For example, Account 365, overhead conductors, Primary size records are kept for wire sizes: 1/0 and below; 2/0 to 4/0; 350-500 kcm; 750 kcm; and, 1,000 kcm. The vast majority of overhead conductor footage is in the category identified as 1/0 and below. Obviously, the "below" includes all wire sizes with lower load carrying capacity than 1/0. However, there is no way of determining the average cost per foot of the smaller size wires (conductors). Indeed the designation of aluminum "1/0 and below" serves as Mr. Kleha's basis for determining the "minimum" size cost per foot, even though this aggregate grouping includes small sized conductors.

OCA St. 3 at 15-16. In addition to these errors, OCA witness Watkins expressed serious concerns with the Company's measurement of wires for the minimum system study, the inclusion of fiber optic telecommunication wires in the minimum system study, and the over-use of multiplex cables in Mr. Kleha's analysis. OCA St. 3 at 16.

Additionally, the Company allocated 44% of substation equipment based on number of customers. OCA St. 3 at 18. As OCA witness Watkins explained, substations are used to reduce the bulk transmission high voltage current down to a lower voltage used within

the distribution system. Id. at 17. Mr. Watkins noted that these facilities are universally deemed 100% demand-related in the industry. Id. Despite this fact, the Company allocated a substantial amount, for the first time, on a customer count basis.

The OCA submits that the above examples demonstrate the technical flaws in Mr. Kleha's minimum system study which renders it unusable for determining a customer/demand split even if one were necessary. As such, PPL's minimum system study must be disregarded.

c. Conclusion.

As detailed above, the Company's cost of service study improperly classifies distribution plant based on customer counts. As demonstrated through OCA witness Watkins' customer density study, the facts on the ground do not justify PPL's decision to classify a large portion of the distribution system on a customer basis. In addition, to the extent a customer allocation is reasonable, the Company's minimum system study contains fundamental flaws that make it an unreliable measure for determining the customer-related portion of the distribution system. For these reasons, the OCA submits that the Company's study should not be accepted.

2. The Cost-Of-Service Study Presented By OCA Witness Watkins Better Reflects Cost Causation Of The Customer Classes And Should Be Used As The Primary Guide In Setting Rates.

OCA witness Mr. Watkins performed two cost of service studies that corrected certain errors in PPL's study, adjusted specific account allocators, and classified distribution plant other than "services and meters" on the basis of 100% demand. For his preferred study, Mr. Watkins allocated the Primary and Secondary distribution plant based on each class' non-

coincident peak (NCP) demand. For his second study, Mr. Watkins allocated distribution plant partially on peak usage and partially on average usage (a “peak and average” study).¹¹

Mr. Watkins performed a study that classified distribution plant on a 100% demand-related basis, with the demand-related costs based on class non-coincident peaks. This study also corrected for certain errors in PPL’s study and adjusted specific account allocators. As Mr. Watkins testified, his cost of service study using a 100% demand classification for distribution plant as opposed to a study that classifies these facilities as partially customer-related is consistent with how the distribution system is designed and operated. As discussed above, Mr. Watkins’ analysis of customer density and customer mix in PPL’s service territory fully supports the classification of these distribution facilities as demand-related. OCA St. 3 at 10-12. Additionally, Mr. Watkins further explained the reasonableness of his approach:

Beginning with Substations (Accounts 361 and 362), there is no question that these large facilities are designed entirely based on the peak load requirements of the transformers and switching gear that step-down voltage from very high transmission levels to primary distribution voltages. Moving downstream to the primary voltage distribution network (system), the installed plant and equipment includes poles, conductors (overhead and underground), and underground conduit. The backbone, or fundamental aspect of the primary system, is Conductors (Accounts 365 and 367). These conductors are also unquestionably designed to meet potential peak load requirements.

The number of customers connected to the primary system have no impact on the size of the facilities installed. So that it is clear,

¹¹ Mr. Watkins testified that there are two principal reasons for considering energy usage. First, Mr. Watkins noted that, while distribution equipment must be sized to meet maximum loads, it is also sized to accommodate additional loads in emergencies and outages and for future growth, among other factors. OCA St. 3 at 20. In other words, these facilities are not simply designed for the peak loads under normal operating conditions. Second, Mr. Watkins noted the weak to moderate linear correlation between the costs and maximum capacity of distribution equipment, *i.e.*, costs increase at a slower rate than rated maximum capacity of equipment. *Id.* Mr. Watkins explained that an approach recognizing only peak demand implicitly assumes that costs increase in a linear fashion to load, resulting in an over allocation of costs to low load factor classes and an under allocation of costs to higher load factor classes. While Mr. Watkins noted the usefulness of the peak and average method, he relied primarily on his 100% demand method. The 100% demand method is substantially similar to PPL’s 2004/2007 study.

reference to customers in this context refers to a generic customer with no information on size or type. In other words, simple knowledge of total connections on the primary system is meaningless to a design engineer. To put this in perspective, it makes virtually no difference in planning the size of distribution conductors whether there are 100 small customers with peak loads of 10 KW each or 10 larger customers with peak loads of 100 KW each. Poles (Account 364) are required to support overhead conductors and provide minimum overhead clearance for safety and traffic. Similarly, Underground Conduit (Account 366) is installed to protect underground conductors. As such, Poles and Conduit can be thought of as equipment required to support the required conductors. Up to this point in the distribution system, potential peak load is clearly the relevant design criteria and the number of customer connections are clearly meaningless.

OCA St. 3-S at 3-4. As can be seen, Mr. Watkins use of a 100% demand classification for distribution facilities other than “service and meters” in his cost of service study is fully supported by the record in this proceeding.

PPL also presented alternative methodologies at its proposed rates producing a system average return of 9.11%. Those studies included a 50-50 Demand-Customer Allocator split, a 50-50 Demand-Energy Allocator split, and a 1/3 Demand-Customer-Energy Allocator split. In those studies, the residential class produced returns at proposed rates of 8.0%, 12.56%, and 10.10%, respectively. PPL Exh. JMK-5. As the Company’s exhibit demonstrates, when using additional cost of service methodologies, residential customers produced above average returns under the Company’s proposed allocation.

After reviewing the results of each of the studies, OCA witness Watkins concluded as follows:

Q. MR. WATKINS, WHAT CCROSS FINDINGS DO YOU RECOMMEND THE COMMISSION GIVE MOST CONSIDERATION TO IN EVALUATING CLASS REVENUE RESPONSIBILITY AND CLASS REVENUE ALLOCATIONS?

A. As I indicated earlier, CCOSS results should only be used as a guide in establishing class revenue responsibility. However, on balance, it is my opinion that my CCOSS results utilizing a classification of distribution plant as 100% demand-related, an allocation of demand-related costs based on class NCPs, and my recommended specific account allocation adjustments presents a fair and unbiased estimate of relative contributions to PPL's profitability.

OCA St. 3 at 25. The results of Mr. Watkins recommended study at current rates are as follows:

OCA Witness Watkins Recommended Class Cost of Service Study Results	
Class	ROR At Current Rates
RS	6.13%
RTS	-4.74%
GS-1	12.89%
GS-3	7.01%
LP-4	2.09%
ISP	-0.02%
LP-5	-12.14%
LP-6	-11.00%
LPEP	16.60%
GH	3.61%
Lighting	11.09%
Total	6.33%

OCA St. 3 at 26.

As noted, Mr. Watkins study is more closely aligned with the PPL 2004/2007 Method study performed by the Company in this case. The following chart shows the returns provided by the OCA preferred study, the PPL 2004/2007 Method study, and the PPL 2010 Method study:

Rate Schedule	OCA Method	PPL 2004/2007 Method	PPL 2010 Method
RS	6.13	5.23	3.12
RTS	-4.74	-4.24	-3.1
GS-1	12.89	12.29	10.07
GS-3	7.01	10.63	25.48
LP-4	2.09	2.25	17.92
ISP	-0.02	0.14	12.65
LP-5	-12.14	-8.73	-8.68
LP-6	-11	-5.26	-6.14
LPEP	16.6	16.53	16.25
GH	3.61	6.21	15.25
SL/AL	11.09	8.72	9.36
Total	6.33	6.33	6.33

source: OCA St. 3-S at 7, JMK-2(Revised) at 8-9.

note: PPL re-ran their preferred study and their 2004/2007 study using their updated budget number in Exhibits JMK-2A and JMK-2B, respectively. The results of those studies present marginal differences based on an overall return of 6.29% (rather than 6.33%).

The OCA submits that the cost of service study proposed by Mr. Watkins using a peak demand allocation for the distribution facilities provides a reasonable guide for use in this proceeding. Mr. Watkins preferred study most closely aligns with the Company's allocation methodology from 2007 and 2010. As such, the OCA recommends that the Commission place primary reliance on the OCA's preferred study in this proceeding.

3. Conclusion.

PPL's 2010 cost study is flawed because it does not accurately reflect cost causation. In addition, the Company has proposed a major modification in its cost of service methodology that is not reasonable at this time. The Company's 2010 cost of service study, as a result, should not be used as a guide for setting rates in this proceeding. OCA witness Watkins' study properly allocates costs in a more accurate and reasonable manner that is reflective of cost causation on the PPL system. The OCA submits that Mr. Watkins' study, when viewed in conjunction with PPL 2004/2007 Method study and Mr. Watkins' and PPL's peak and average studies, provides a useful guide for setting rates in this proceeding. For these reasons, the OCA

proposes that the Commission reject the Company's study and rely primarily on OCA witness Watkins cost analysis.

C. Allocation.

Commission's Area Of Concern, No. 3: Whether PPL's proposed revenue allocation is just and reasonable.

1. Introduction.

Based on its flawed cost of service study that shows the residential class with an indexed rate of return of 3.38% at present rates (compared to a 6.33% system average rate of return), the Company proposed to place virtually the entire revenue increase on residential customers. PPL St. 8 at 10. PPL argues that its revenue allocation is designed to achieve the goals set forth in the prior settlement to move each class at or near cost of service by the end of this case. PPL St. 6 at 17-18. PPL also argues that its proposed allocation is in accord with the Commonwealth Court's decision in Lloyd. PPL St. 6 at 18. The OCA does not object to PPL's principles and goals for the revenue allocation, but PPL's reliance on its seriously flawed cost of service study as a guide to designing its revenue allocation renders the allocation unreasonable.

The OCA has recommended an alternative allocation that reflects the results of a properly conducted cost of service study that more closely aligns with the PPL 2004/2007 Method cost studies. In addition, the OCA submits that while cost of service should guide the Commission when setting rates in this proceeding, other ratemaking principles such as gradualism and avoidance of rate shock must not be abandoned. The Commonwealth Court in Lloyd did not require all other factors to be ignored, nor did it require a surgically precise allocation based on one particular cost of service study. The Commission must consider the reasonable cost of service evidence presented in this proceeding as a guide for achieving the goal

of the Settlement to move classes “at or near” cost of service while respecting principles of gradualism.

Three parties presented revenue allocations based on the Company’s full revenue request in direct testimony. A comparison of the allocations presented at the filed increase is provided below:

Comparison of Proposed Class Revenue Increases
(\$000)

Class	OCA Increase		PPL Increase		OSBA Increase	
	\$	Percent	\$	Percent	\$	Percent
Res	\$89,800	21.68%	\$114,638	27.67%	\$111,438	26.90%
GS-1	\$0	0.00%	\$0	0.00%	\$0	0.00%
GS-3	\$16,166	13.71%	\$0	0.00%	\$0	0.00%
LP-4/ISP	\$7,036	21.68%	\$2	0.00%	\$2,002	6.17%
LP-5/LP-6	\$290	25.71%	\$35	3.10%	\$1,235	109.29%
LPEP	\$0	0.00%	\$0	0.00%	\$0	0.00%
GH	\$1,382	21.68%	\$0	0.00%	\$0	0.00%
Lighting	\$0	0.00%	\$0	0.00%	\$0	0.00%
Total	\$114,675	17.14%	\$114,675	17.14%	\$114,675	17.14%

OCA St. 3 at 30; OSBA St. 1 at 27, Exh. IEC-3.

The major difference in revenue allocation between PPL, the OCA and OSBA are in the Residential rate classes, GS-3, LP-4/ISP, LP-5/LP-6, and GH.¹² As discussed above, for all four of these classes, the results of the OCA’s recommended cost of service methodology *is substantially closer to the PPL 2004/2007 method than is the PPL 2010 preferred method.* The OCA submits that the Commission should reject the Company’s revenue allocation and the OSBA’s revenue allocation in favor of the OCA’s recommended allocation approach.

¹² The OSBA’s proposed scale back differs substantially from the Company and the OCA, resulting in significant rate decreases for the GS-1 class at the revenue increase contained in the partial stipulation.

2. The Company's Revenue Allocation Is Based On An Unreasonable Cost Of Service Study And Violates Traditional Ratemaking Principles.

The OCA submits that PPL has inappropriately assigned virtually the entire rate increase in this case to the Residential class. The Company argues that its proposed allocation is consistent with past practice and precedent, balances the interests of the rate classes, and is not unduly discriminatory. PPL St. 6 at 18. PPL also argues that its proposed allocation will move the customer classes to at or near cost of service at the end of this rate case in accord with the plan set forth in the prior settlement. The OCA disagrees with the Company's assessment of its proposed revenue allocation.

In this case, PPL has proposed a revenue allocation that PPL witness Krall acknowledged on cross examination is based on a new cost of service study methodology. Tr. 428-429.¹³ As OCA witness Watkins demonstrated, the Company's new method improperly and disproportionately assigns costs to the Residential class which makes it appear as if the Residential class is providing a lower rate of return than under a properly conducted study. While PPL witness Krall argued that his revenue allocation principles were closely aligned with the principles that ultimately guided the 2004 and 2007 base rate proceeding revenue increases for each rate class, the starting point for his application of these principles was not aligned with the cost of service study methodology used by the Company itself to guide its proposed revenue allocations in 2004 and 2007.

The change in allocation of primary plant at this time represents a substantial "mid-course" change that is detrimental and unfair to residential ratepayers. In the 2004 and

¹³ In this proceeding, PPL witness Krall developed the guiding principles for PPL's allocation of the revenue increase. See, PPL St. 6 at 15-26.

2007 base rate proceedings, the Company allocated 100% of the Primary Distribution plant on a demand basis. In this case, the Company has classified a majority of its Primary Distribution plant on a customer-count basis. This change in classification shifted over \$1 Billion of primary distribution plant to a customer count basis for the first time, resulting in a major shift in costs to the residential class. OCA St. 3 at 8. The impact on the class rates of return, at current rates, between the PPL 2004/2007 Method and the PPL 2010 Method is as follows:

Class	ROR At Current Rates	
	PPL 2010 Method Study (Primary At 69% Customer)	PPL 2004/2007 Method Study (Primary At 0% Customer)
RS	3.12%	5.12%
RTS	-3.10%	-4.24%
GS-1	10.07%	12.29%
GS-3	25.48%	10.63%
LP-4	17.92%	2.25%
ISP	12.65%	0.14%
LP-5	-8.68%	-8.73%
LP-6	-6.14%	-5.26%
LPEP	16.25%	16.53%
GH	15.25%	6.21%
Lighting	9.36%	8.72%
Total	6.33%	6.33%

OCA St. 3 at 9.

In Rebuttal Testimony, Company witness Kleha recognized that it would be reasonable to use the 2004/2007 methodology in this case. Mr. Kleha testified as follows:

...PPL Electric recognizes that the parties to this proceeding and the presiding ALJ, as well as the Commission, may wish to consider the results of a cost allocation study using exactly the same cost allocation methodology as it used in its two prior base rate proceedings.

PPL St. 7-R at 9-10.

OCA witness Watkins explained that consistency with the prior base rate proceedings has merit in this case. As Mr. Watkins explained:

Q. ON PAGE 4 OF HIS REBUTTAL TESTIMONY, MR. KLEHA OPINES THAT CONSISTENCY IS AN IMPORTANT FACTOR IN THE PREPARATION OF A COST ALLOCATION STUDY. DO YOU AGREE WITH THIS OPINION?

A. If prior practices are based on reasonable approaches, there is certainly merit to the philosophy. That is, assuming a particular ratemaking method or approach is not clearly unreasonable or inappropriate, there is merit in maintaining consistency over time unless there is a compelling reason to change methodologies or approaches. In this regard, Mr. Kleha is referring to the Company's previous studies that classified primary distribution plant as 100% demand-related. As best as I can determine, no witness for PPL has provided a compelling reason for PPL's proposed change which now classifies and allocates 69% of its primary distribution plant based on customer counts.

OCA St. 3-S at 7.

The OCA submits that the Company has provided no compelling reason for the material change in its cost of service methodology. PPL has made it clear throughout its filing that this case represents the third, out of three, distribution cases planned for the post-restructuring period. PPL St. 6 at 16-19. The Commission should not give any consideration to the Company's unsupported change in methodology at this time because acceptance of the Company's revenue allocation would mean acceptance of the Company's change in methodology.¹⁴

¹⁴ It is worth noting that PPL witness Krall acknowledged that, if the Commission, "decides to place more weight on the Company's prior cost allocation methodology, then some increase to Rate Schedules LP-4 and IS-P could be appropriate..." PPL St. 6-R at 22. In other words, PPL's proposed revenue allocation should be rejected if the Commission relies more heavily on the PPL 2004/2007 cost of service methodology.

The material change in PPL's cost of service methodology makes its current study an unreliable and unreasonable indicator of the movement that the various classes have made toward the system average return and provides an unreliable indicator of appropriate revenue allocations. It is one thing to say that residential customers should be moved to "at or near" cost of service over three cases, and quite another to move the goal line in midstream and assign hundreds of millions of dollars of additional costs to those customers. The OCA submits that the resulting revenue allocation proposed by the Company is unreasonable and should be rejected. The OCA's proposed revenue allocation should be adopted.

3. The Commission Should Adopt The Allocation Methodology Proposed By OCA Witness Watkins.

OCA witness Watkins began his analysis of a reasonable revenue allocation by first explaining the use of the cost of service studies. Mr. Watkins testified:

Because embedded cost allocations are based on less than perfect data and involve as much art as science, they should not be treated as a surgically precise tool but should serve only as a guide in establishing class revenue responsibilities.

OCA St. 3 at 26. As Mr. Watkins explained, the cost of service study results provide guidance but it is important to review the range of results in this proceeding. The following charts provide the range of class cost of service study results at current rates:

Table 8(A)

ROR At Current Rates				
Class	PPL 67% Customer NCP	PPL Prior Method Primary At 100% Demand NCP	OCA 100% Demand Peak & Avg.	OCA 100% Demand NCP
Res	3.0%	4.9%	6.3%	5.7%
GS-1	10.1%	12.3%	13.8%	12.9%
GS-3	25.5%	10.6%	5.8%	7.1%
LP-4/ISP	17.7%	2.2%	0.7%	2.0%
LP-5/LP-6	-8.6%	-8.6%	-12.1%	-12.1%
LPEP	16.3%	16.5%	16.6%	16.6%
GH	15.3%	6.2%	5.2%	3.6%
Lighting	9.4%	8.7%	11.2%	11.1%
Total	6.3%	6.3%	6.3%	6.3%

Table 8(B)

Relative ROR At Current Rates				
Class	PPL 67% Customer NCP	PPL Prior Method Primary At 100% Demand NCP	OCA 100% Demand Peak & Avg.	OCA 100% Demand NCP
Res	47%	78%	99%	90%
GS-1	159%	194%	218%	204%
GS-3	403%	168%	92%	111%
LP-4/ISP	279%	34%	11%	31%
LP-5/LP-6	-136%	-136%	-191%	-191%
LPEP	257%	261%	262%	262%
GH	241%	98%	82%	57%
Lighting	148%	138%	177%	175%
Total	100%	100%	100%	100%

Source: OCA St. 3 at 27. What can be seen from these charts is that the Company's new cost of service study produces by far the lowest return for the residential class.

After reviewing this data, Mr. Watkins summarized his observations as follows:

An examination of the above tables provides insight for some classes regardless of the CCOSS procedures employed. Namely, we can see that some class' current profitability exceeds the rate of return requested by PPL (9.11%). These universally high ROR classes include GS-1, LPEP, and Lighting. As such, it is reasonable not to further increase prices or revenue responsibility for these customers. Conversely, we can observe that the LP-5/LP-6 class ROR is significantly deficient (actually negative) under all CCOSS scenarios. As such, it is prudent to increase these combined classes' prices (revenues) by more than the overall average percentage increase authorized in this case. Relying primarily, but not exclusively, on my CCOSS results, the remaining classes (Residential, GS-3, LP-4/LP-6, and GH) should receive some level of increase in this case.

OCA St. 3 at 27-28.

The OCA also submits that it is instructive to consider the alternate studies the Company performed for the major classes under the Company's proposed revenue allocation. The Company conducted these alternative cost of service studies to show the impact of its revenue allocation at proposed rates. The following chart compares these outcomes:

Class	PPL 2010 Methodology	50-50 Demand-Customer	50-50 Demand-Energy	1/3 Demand-customer-energy
RS	7.2%	8.0%	12.56%	10.10%
GS-1	10.53%	11.11%	15.19%	13.62%
GS-3	19.45%	14.60%	6.94%	11.35%
LP-4	17.85%	10.16%	0.19%	3.60%
LP-5	-8.00%	-8.16%	-7.81%	-4.55%
LPEP	16.14%	14.64%	0.84%	2.10%
GH	11.78%	8.83%	5.67%	9.06%
Lighting	9.35%	9.63%	14.79%	8.87%
Total	9.11%	9.11%	9.11%	9.11%

PPL Exh. JMK-5. Under two of the four cost allocation studies, PPL's original proposed revenue allocation would have moved Rate RS above the system average return.

Based on his analysis, Mr. Watkins developed a class revenue responsibility

which he described as follows:

Building upon the discussion above, I have developed a revenue allocation that relies on CCOSS results as a guide and is fair to all classes. Specifically, I recommend no increase to the GS-1, LPEP, or Lighting classes. Given the magnitude (in percentage terms) of PPL's proposed increase. Although these class' rates are clearly substantially deficient and warrant a larger increase than 150% of the system average, in the interest of avoiding rate shock, I have limited (or capped this increase). Although the GS-3 class has a relative ROR higher than the system average (111%), some increase in revenue responsibility is warranted given the absolute ROR of about 7.1%. As such, I recommend this class' revenue responsibility be increased at 80% of the system-wide percentage increase. I recommend the remaining three classes (Residential, LP-4/ISP, and GH) be increased at equal percentages to satisfy the remaining revenue increase requirement.

OCA St. 3 at 28.

OCA witness Watkins provided the following table of his allocation at the Company's full request:

Table 9
OCA Class Increases @ PPL Proposed \$114.7 Million
(\$000)

Class	Current Distribution Rate Rev. Revenue	Percent of System Average Increase	OCA Increase	
			\$	Percent
Residential	\$414,233	Residual	\$89,800	21.68%
GS-1	\$74,155	0%	\$0	0.00%
GS-3	\$117,909	80%	\$16,166	13.71%
LP-4/ISP	\$32,456	Residual	\$7,036	21.68%
LP-5/LP-6	\$1,130	150%	\$290	25.71%
LPEP	\$445	0%	\$0	0.00%
GH	\$6,377	Residual	\$1,382	21.68%
Lighting	\$22,407	0%	\$0	0.00%
Total	\$669,112		\$114,675	17.14%

OCA St. 3 at 29. Mr. Watkins further explained the results of his allocation methodology:

Under my recommended approach, the Residential, LP-4/ISP, and GH classes serves as the “residual” to achieve the required revenue increase. As indicated, these residual classes receive equal percentage increases of 21.68% which is 126% of the system-wide percentage increase of 17.14%.

OCA St. 3 at 29.

Mr. Watkins recommended that the same methodology be used to allocate the rate increase even if the amount of the increase was reduced. OCA St. 3 at 30. The mathematical effect of this recommendation is to proportionally scale back Mr. Watkins’ proposed revenue allocation at the Company’s full request.

The OCA submits that OCA witness Watkins allocation provides an appropriate allocation that moves classes closer to the system average return based on the results of reasonable cost of service studies and applies principles of gradualism and avoidance of rate shock in a reasonable way. Additionally, Mr. Watkins’ revenue allocation meets the standards set forth in Lloyd and in the prior settlement. Specifically, as required by Lloyd, the allocation proposed by Mr. Watkins is guided by the cost of service studies performed in this case that are more consistent with the 2004 cost of service study that gave rise to the original Lloyd appeal. Principles of gradualism and avoidance of rate shock also have been applied only to the extent necessary to alleviate major disruptions in customer service for those classes that are producing revenue substantially below the system average. In addition, Mr. Watkins’ revenue allocation still places the great majority of the increase on residential customers, while holding other rate classes at a zero increase which will produce movement toward the system average return.

Importantly, OCA witness Watkins reviewed the cost of service study performed by the Company using the 2004 and 2007 methodology and testified that the results of his

preferred study, and the 2004/2007 Method PPL Study, were reasonably close. Based on this review, Mr. Watkins testified that the results of PPL's 2004/2007 cost of service study methodology fully support his revenue allocation. OCA witness Watkins testified as follows:

Q. MR. WATKINS, BASED ON YOUR REVIEW OF THE COMPANY'S PRIOR ALLOCATION METHODOLOGY AND THE RESULTS PROVIDED BY THAT STUDY, WOULD THIS CHANGE YOUR CLASS REVENUE ALLOCATION RECOMMENDATION?

A. No. As discussed in my direct testimony, my class revenue allocation recommendation is not based exclusively on a single CCOSS. This being said, the results obtained using PPL's prior method (provided in OSBA 1-8) are very similar to my recommended method and were provided in my direct testimony.

OCA St. 3-S at 7. As a result, the only allocation in evidence in this proceeding that recognizes PPL's 2004 and 2007 cost of service study methodology is that proposed by OCA witness Watkins.

The OCA submits that Mr. Watkins' allocation respects cost of service principles, achieves the goals of the settlement, respects the traditional ratemaking principles of gradualism and is in accord with the Lloyd decision. Under Mr. Watkins' allocation of the revenue requirement, residential classes would continue to bear the great majority of the increase, while small commercial customers would pay no increase whatsoever, reflecting the results of the cost studies presented in this proceeding. The OCA's recommended allocation methodology is reasonable, is based on cost causation, and should be adopted in this proceeding.

4. The Commission Should Allocate The Agreed Upon \$77.5 Million Revenue Increase In Accordance With The Principles Proposed By OCA Witness.

In this case, the parties have agreed to a \$77.5 Million increase in revenue through the Partial Settlement. The OCA submits that this increase should be allocated in the same

manner that was recommended by OCA witness Watkins for the full increase. Mr. Watkins explained that the approach he proposed, as detailed above in this Brief, be used “regardless of the overall increase authorized.” OCA St. 3 at 30.

Mr. Watkins’ scale back approach is, in effect, a proportional scale back in that it utilizes the same framework regardless of the increase amount. The following chart summarizes the revenue responsibility for each class using Mr. Watkins’ methodology and the \$77.5 million agreed upon rate increase:

OCA PROPOSED ALLOCATION AT SETTLEMENT AMOUNT (\$77.5 Million)

Rate Class	Percent of System Average Increase	Dollar Increase	Percent Increase
Residential	Residual	\$60,689	14.65%
GS-1	0%	\$0	0.00%
GS-3	80%	\$10,925	9.27%
LP-4/ISP	Residual	\$4,755	14.65%
LP-5/LP-6	150%	\$196	17.37%
LPEP	0%	\$0	0.00%
GH	Residual	\$934	14.65%
Lighting	0%	\$0	0.00%
SYSTEM TOTAL		\$77,500	11.58%

Source: OCA St. 1 at 27-29.

As detailed in the above chart, residential customers would still pay 78% of the overall increase and small commercial customers would pay nothing. In addition, in order to avoid rate shock, LP-5/LP-6 would remain capped at 150% of the system average increase. Overall, the OCA submits that above allocation of the Settlement increase is reasonable.

5. The OSBA Scale Back Proposal Must Be Rejected.

The OSBA proposed to allocate the full request in a manner similar to the Company. The OSBA proposed to change that allocation methodology, however, for any

amount lower than that originally requested by the Company. The OSBA's proposed methodology for amounts less than that requested is termed "First Dollar Relief." Under the "First Dollar Relief" proposal, the OSBA would treat the difference between the Company's requested \$114 million increase, and the final revenue increase that is found by the Commission to be just and reasonable, as a source of funding to eliminate alleged rate class subsidies. OCA witness Watkins explained the details of the OSBA witness Knecht's proposal as follows:

Mr. Knecht's proposed class revenue allocation method consists of a three-step process depending on the overall increase authorized by the Commission. The steps are as follows: if the Commission authorizes the entire \$114.675 million increase requested by PPL, Mr. Knecht recommends that PPL's proposal to assign the entire increase to the Residential class be modified to reduce PPL's proposed Residential increase by \$3.2 million (to \$109.198 million), and increase the LP4/ISP and LP5/LPG classes by \$2.0 million and \$1.2 million respectively. This step is discussed on page 27 of Mr. Knecht's direct testimony. Mr. Knecht's second step is referred to as a First Dollar of Relief such that for the first \$18.135 million overall reduction below that requested by PPL, the GS-1 class would receive a \$6.0 million rate reduction to current rates, the GS-3 class would receive a \$12.0 million rate reduction, and the LPEP class, a \$0.135 million reduction in revenue responsibility. This second step is provided on page 29 of Mr. Knecht's direct testimony. Mr. Knecht's third step will apply to overall authorized increases below \$96.540 million (\$114.675 million - \$18.135 million). This third incremental step (to the first two steps) would reduce the required overall increase to classes in proportion to revenues after steps 1 and 2 (current revenues plus step 1 and step 2 revenue changes).

OCA St. 3R at 5.

OCA witness Watkins provided an example of the impact of the OSBA's recommended revenue allocation at half the initial request (\$57.338 Million). The results demonstrate the dramatic impact such an allocation would produce:

Class Revenue Allocations
@ \$57.338 Million Distribution Increase

Class	PPL	OCA	OSBA
Resid (RS+RTS)	\$57.301	\$44.900	\$84.523
GS-1	\$0.000	\$0.000	<\$9.490>
GS-3	\$0.000	\$8.083	<\$17.423>
LP-4/ISP	\$0.002	\$3.518	\$0.238
LP-5/LP-6	\$0.035	\$0.145	\$1.114
LPEP	\$0.000	\$0.000	<\$0.151>
GH	\$0.000	\$0.691	<\$0.327>
Lighting	\$0.000	\$0.000	<\$1.147>
Total	\$57.338	\$57.338	\$57.338

OCA St. 3R at 6. In other words, under OSBA's methodology, residential customers would pay \$84.5 Million out of a \$57.3 Million overall rate increase. Residential customers would pay not only the entire rate increase to PPL, but an additional \$27 Million per year to permit distribution rate cuts for other rate classes.

Not only would the OSBA allocation produce unreasonable results in absolute dollar terms, but the OSBA allocation would result in major classes moving away from the system average rate of return when viewed in light of an appropriate cost of service study. OCA witness Watkins demonstrated that, at half the original request, the OSBA's methodology moved the two largest classes in terms of distribution further away from the system average, as follows:

ROR Utilizing OCA CCOSS
At \$57.338 Million Distribution Increase

Class	Current Rates ¹⁵		OSBA Proposed Rates ¹⁶	
	ROR	Indexed ROR	ROR	Indexed ROR
RS	6.13%	97%	9.65%	125%
RTS	-4.74%	-75%	-2.76%	-36%
GS-1	12.89%	204%	10.01%	130%
GS-3	7.01%	111%	4.88%	63%
LP-4	2.09%	33%	2.06%	27%
ISP	-0.02%	0%	1.92%	25%
LP-5/LP-6	-12.10%	-191%	2.46%	32%
LPEP	16.60%	262%	8.66%	112%
GH	3.61%	57%	3.00%	39%
Lighting	1.09%	175%	10.16%	132%
Total	6.33%	100%	7.72%	100%

OCA St. 3R at 8. This chart clearly shows that the OSBA's methodology is not reasonable from a cost causation standpoint. The OCA submits that the OSBA's methodology is unreasonable and must be rejected.

6. Conclusion.

The OCA submits that the Company's proposed revenue allocation and the OSBA revenue allocation produce unreasonable results and must be rejected by the Commission. The OCA's proposed revenue allocation is guided by a reasonable cost of service study, achieves the goals of the prior settlement, respects the principle of gradualism, and is in accord with the Lloyd decision. As such, the OCA's proposed revenue allocation, scaled back to reflect the agreed upon increases of \$77.5 Million should be adopted.

¹⁵ Calculated per Watkins Direct Testimony, Table 7 (page 26).

¹⁶ For this purpose it is assumed that the overall reduction to PPL's proposed increase is totally attributable to a reduction in the allowed rate of return. Class net operating income was calculated by dividing the OSBA revenue increase by the revenue conversion factor of 1.83695 to determine the change in operating income.

E. Residential Rate Design Issues.

RESOLVED THROUGH PARTIAL STIPULATION

F. Conclusion.

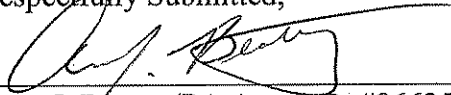
The OCA submits that its recommendations concerning cost of service and revenue allocation in this proceeding are reasonable. The OCA's recommendations have applied appropriate cost of service and ratemaking principles. The OCA's recommendations have also met the goals of the prior settlement resulting in rates that are just and reasonable. As such, the OCA submits that its recommendations set forth above should be adopted by the Commission.

IX. UNIVERSAL SERVICE PROGRAMS
RESOLVED THROUGH PARTIAL STIPULATION

X. CONCLUSION

For the reasons set forth above, the Office of Consumer Advocate respectfully submits that the revenue allocation contained in PPL Electric Utilities Corporation's proposed Tariff Supplement No. 83 to Tariff Electric – Pa. P.U.C. No. 201 (Supplement No. 54) should be rejected. The rates contained in this supplement are not just and reasonable or otherwise in accordance with the Public Utility Code and sound ratemaking principles. The OCA submits that the allocation of the revenue increase among the rate classes proposed by OCA witness Watkins and detailed in this Main Brief should be approved.

Respectfully Submitted,



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Dated: September 2, 2010
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CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2010-2161694
 :
 PPL Electric Utilities Corporation :
 Base Rate Proceeding :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Main Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 2nd day of September 2010.

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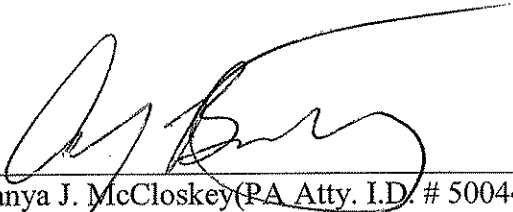
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