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September 2, 2010

**VIA HAND DELIVERY**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17120

**RE: Pennsylvania Public Utility Commission v. Petition of PPL Electric Utilities Corporation; Docket No. R-2010-2161694**

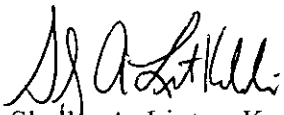
Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") are the original and nine (9) copies of the Main Brief of the PP&L Industrial Customer Alliance ("PPLICA") in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to the proceeding are being served with a copy of this document. Please date stamp the extra copy of this transmittal letter and Main Brief and kindly return them for our filing purposes.

Very truly yours,

McNEES WALLACE & NURICK LLC

By   
Shelby A. Linton-Keddie

Counsel to the PP&L Industrial Customer Alliance

SLK/km  
Enclosures

c: Administrative Law Judge Susan D. Colwell (via E-mail and Hand Delivery)  
Certificate of Service

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## I. INTRODUCTION

On March 31, 2010, PPL Electric Utilities Corporation ("PPL" or "Company") filed with the Pennsylvania Public Utility Commission ("PUC" or "Commission") Supplement No. 83 to Tariff-Electric-Pa. P.U.C. No. 201 ("Supplement No. 83"), to become effective on June 1, 2010. Supplement No. 83 proposed to increase PPL's distribution rates by approximately \$114.7 million, or 16.5% over the Company's present annual distribution revenues. The Company stated that the requested distribution rate increase was necessary in order to attract capital, expand investment for its distribution system and maintain strong reliability for its customers. If approved, the Company's distribution rate increase request would produce an overall rate increase of approximately 2.5%.

On May 13, 2010, the PP&L Industrial Customer Alliance ("PPLICA") filed a Complaint in this proceeding. PPLICA is an ad hoc association of energy-intensive commercial and industrial customers receiving electric service in PPL's service territory. PPLICA members purchase service from PPL primarily under Rate Schedules LP-4, LP-5, LP-6, IS-P and IS-T, as well as available riders.<sup>1</sup> These Rate Schedules make up the Large Commercial and Industrial ("Large C&I") Class for purposes of PPL's distribution base rate filing. PPLICA members collectively consume over 1.7 billion kWh of electricity annually in manufacturing and other operational processes, and electricity costs comprise a significant portion of their production costs. PPLICA was an active Party in PPL's Restructuring Proceeding pursuant to the Electricity Generation Customer Choice and Competition Act ("Competition Act"), during which the Company's initial unbundled distribution and transmission rates were established, as well as PPL's 2004 and 2007 Distribution Base Rate proceedings.

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<sup>1</sup> Some PPLICA members also have accounts on Rate Schedules GS-1 and GS-3.

In addition to PPLICA, the following parties filed Complaints in this proceeding: Office of Consumer Advocate ("OCA"); Office of Small Business Advocate ("OSBA"); Eric Epstein; and numerous individual PPL ratepayers. The Commission's Office of Trial Staff ("OTS") filed a Notice of Appearance. Parties that filed Petitions to Intervene included: Richards Energy Group, Inc. ("Richards"), the Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF"), Dominion Retail, Inc. ("Dominion"), the Commission on Economic Opportunity ("CEO"), Retail Energy Supply Association ("RESA"), Washington Gas Energy Services, Inc., Citizens of Pennsylvania's Future ("PennFuture") and International Brotherhood of Electric Workers, Local 1600 ("IBEW").

By Order entered May 20, 2010, the Commission suspended Supplement No. 83 for investigation and assigned the matter to the Office of Administrative Law Judge ("OALJ") for hearing. In the Order, the Commission also noted issues of concern and asked that the parties address those concerns. Shortly thereafter, this proceeding was assigned to Administrative Law Judge ("ALJ") Susan D. Colwell.

Pursuant to the procedural schedule established in ALJ Colwell's Second Prehearing Order, issued May 27, 2010, PPLICA forwarded the prepared Direct Testimony and Exhibits of Christopher A. Buck and Richard A. Baudino marked as PPLICA Statement Nos. 1 and 2, respectively, on June 29, 2010. On June 29, 2010, PPLICA received Direct Testimony from OCA, OTS, OSBA, Richards, CEO, SEF and RESA. In addition, PPL served limited supplemental Direct Testimony to address the issues in which the Commission expressed concern in its May 20, 2010, Order.

On July 27, 2010, PPLICA served the prepared Rebuttal Testimony and Exhibit of Richard A. Baudino ("PPLICA Statement No. 2-R")<sup>2</sup> and received Rebuttal Testimony from the Company, OTS, OCA and OSBA.

On August 5, 2010, PPLICA forwarded the prepared Surrebuttal Testimony and Exhibits of Mr. Buck and Mr. Baudino (PPLICA Statement Nos. 1-S and 2-S, respectively,) and received Surrebuttal Testimony from OTS, OCA, OSBA, SEF and RESA. Although not included as part of the procedural schedule, the Company served the other parties with Rejoinder Testimony and Exhibits on August 9, 2010.

An evidentiary hearing, in which PPLICA actively participated, was held on August 11, 2010. During that hearing, PPLICA entered its prepared testimony and exhibits into the record, as well as four cross-examination exhibits. In addition, on August 23, 2010, PPLICA provided copies of PPL's Responses to PPLICA's two on the Record Data Requests, preliminarily marked as PPLICA Cross-Examination Exhibits Nos. 5 and 6 and moved that PPLICA Cross-Examination Exhibits Nos. 5 and 6 be admitted into the record.

On August 26, 2010, the Company, along with OTS, OCA and Richards, submitted a Joint Petition for Partial Settlement of Rate Investigation ("Joint Petition").<sup>3</sup> Among other things, the Joint Petition, if approved, would resolve issues including revenue requirement and universal service, as well as limited rate design and tariff issues. The majority of issues,

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<sup>2</sup> In addition, upon review on previously distributed PPLICA Statement No. 1, PPLICA determined that original Page 8 contained a mathematical error on line 21. As a result, concurrent with serving PPLICA Statement No. 2-R, PPLICA also distributed a revised Page 8 of PPLICA Statement No. 1.

<sup>3</sup> As indicated in Footnote 1 of the Joint Petition, the other active parties in this proceeding (PPLICA, Dominion, CEO, OSBA, SEF, Eric Epstein and RESA) did not oppose the Joint Petition. Similarly, PennFuture, in its August 26, 2010, letter submitted to the Commission, also indicated its non-opposition to the Settlement.

however, including all those of import to PPLICA, are reserved for litigation. As a result, and pursuant to the procedural schedule in this proceeding, PPLICA hereby submits this Main Brief.<sup>4</sup>

## **II. SUMMARY OF ARGUMENT**

First, and as explained more fully herein, with modifications to RESA's original proposal regarding the expansion of the Company's current Purchase of Receivables ("POR") program such as removal of the non-bypassable uncollectible charge and an agreement that Electric Generation Suppliers ("EGSs") will bear the incremental costs of implementation and administration through application of a discount rate, PPLICA would not oppose the expansion of the POR program to the Large C&I class. In addition, PPLICA supports the removal of the generation portion of any uncollectible expenses from distribution rates. While distribution-related costs are appropriately part of distribution rates, generation-related costs should only be collected through PPL's generation rates paid by default service customers.

Second, the Commission should approve the Company's Customer Cost of Service Study ("CCOSS"), which, for the first time, properly allocates primary distribution facility costs in both a customer and demand component and is consistent with NARUC Manual Recommendations regarding the treatment of primary voltage conductors. As presented, PPL's CCOSS is a reasonable basis upon which to make a determination of the appropriate allocation among rate schedules.

Third, the Commission should also approve PPL's proposed revenue allocation methodology. The Company's proposal for allocation of the revenue requirement is the only proposal presented that would move all classes toward the system average rate of return, while

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<sup>4</sup> Notably, PPLICA's failure to address a specific proposal or recommendation by the Company or another party does not represent PPLICA's support for, or acquiescence to, such proposal.

not creating further inequity for Rate Schedule LP-4 customers. As such, the Company's revenue allocation is appropriate and should be accepted by the PUC.

Finally, the PUC has the duty to ensure that distribution rates are just, reasonable and non-discriminatory. See 66 Pa. C.S. §§ 2804(10), 1301. Additionally, pursuant to Section 2806(h) of the Public Utility Code, the Commission has the power to negotiate special rates designed to meet the specific needs for a utility customer when appropriate. See 66 Pa. C.S. § 2806(h). As the record demonstrates, since January 1, 2010, Donsco Incorporated's ("Donsco") Wrightsville facility has experienced distribution rate increases of approximately 1100%. This increase is due not only to the expiration of PPL's Time-of-Day option for Rate Schedule LP-4, but also is due to Donsco's inability to convert to Rate Schedule LP-5 in an economic and environmentally-friendly way because of the foundry's location across the Susquehanna River from the nearest PPL 69 kV substation.

Despite Donsco's numerous attempts to resolve this situation with the Company, Donsco is now subject to distribution rates that are neither just nor reasonable. As a result, Donsco has taken an active role in this proceeding and has produced clear evidence to illustrate why Donsco is a unique LP-4 customer and needs relief. To address this situation, PPLICA has proposed the creation of a Rate LP-4 SI that could mitigate Donsco's exorbitant increase in distribution rates and address Donsco's specific needs while minimally impacting other Rate Schedule LP-4 customers. The Commission should implement Rate Schedule LP-4 SI as the appropriate legal and policy resolution of this matter.

### **III. RATE BASE**

PPLICA will not be addressing Rate Base issues in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

#### IV. REVENUES

PPLICA will not be addressing issues regarding PPL's Revenues in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

#### V. EXPENSES

PPLICA will not be addressing issues regarding the Company's Expenses in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

#### VI. TAXES

PPLICA will not be addressing Tax issues in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

#### VII. RATE OF RETURN

PPLICA will not be addressing Rate of Return issues in its Main Brief; however, PPLICA reserves the right to address these issues in its Reply Brief as necessary and appropriate.

#### VIII. MISCELLANEOUS ISSUES

- A. With the Removal of the Non-Bypassable Uncollectible Charge and the Agreement that Electric Generation Suppliers Will Bear the Incremental Costs of Implementation and Administration Through Application of a Discount Rate, PPLICA Does Not Oppose RESA's Proposal for the Implementation of an Optional Purchase of Receivables Program for the Large C&I Rate Schedules.**

**(PUC May 20, 2010, Area of Concern No. 12)**

As part of this proceeding, RESA proposes certain changes to the Company's proposed Purchase of Receivables ("POR") program, and seeks to extend the POR program to include accounts on the Large C&I rate schedules. See RESA St. No. 1, Direct Testimony of Richard A. Hudson Jr., pp. 3, 18-19. In RESA's Surrebuttal Testimony, however, Mr. Hudson confirmed

that for the Large C&I class only, RESA is willing to accept implementation of a POR program that recovers uncollectible accounts expense in the same manner as currently employed by PPL for the Small C&I class. See RESA St. No. 1-SR, Surrebuttal Testimony of Richard J. Hudson Jr. pp. 21-22. This procedure is in lieu of RESA's initial proposal to recover uncollectible costs related to all PPL distribution customers (including the Large C&I class) through a non-bypassable uncollectible charge. See RESA St. No. 1 at 11. Further, RESA has clarified that the incremental costs of implementation and ongoing administration of the Large C&I POR program would be paid by Electric Generation Suppliers ("EGSs") that take advantage of the option through an appropriate adder to the discount rate not to exceed .05%, which is PPL's proposed adder for program costs for the Small C&I POR program.

With the removal of the non-bypassable uncollectible charge proposal and the agreement that EGSs will bear the incremental costs of implementation and administration through application of an appropriate discount rate, PPLICA does not oppose the implementation of an optional POR program for the EGSs serving the Large C&I class that is similar to the POR program offered to EGSs serving the Small C&I class; however, PPLICA's agreement to this concept is expressly contingent on Large C&I customers not being required to pay the implementation costs and ongoing administration costs of the POR program. As PPL's testimony notes, EGSs have been able to attract Large C&I customers in the territory as of January 1, 2010, without this type of POR program for the class. See PPL Electric Utilities Corporation Statement No. 6-R, Rebuttal Testimony of Douglas A. Krall at 20. If Large C&I customers, rather than EGSs, were expected to pay for the implementation of the revised POR program, PPLICA would respectfully question whether that additional cost for the Large C&I

customers is reasonable, necessary and appropriate given the large number of customers that are already purchasing supply from EGSs.

In addition, PPLICA supports the removal of the generation portion of any uncollectible expenses from distribution rates. See PPL St. No. 6-R at 10 ("PPL Electric has unbundled its generation-related uncollectible accounts expense from Distribution Base Rates."). Although the *distribution rates for Large C&I customers in this proceeding do not unbundle the generation-related uncollectible accounts expense*, PPL witness Mr. Kleha confirmed on the stand that an adjustment to distribution rates to remove the generation portion of the uncollectible expense would be appropriate if a POR program is implemented for the Large C&I class. See Tr. pp. 384-385. Because rates have been unbundled, it is appropriate to collect only distribution-related costs in distribution rates, while generation-related costs should be collected through PPL's generation rates paid by default service customers.

## **IX. RATE STRUCTURE**

### **A. Cost of Service**

#### **1. PPL's Class Cost of Service Study Should Be Accepted as Filed.**

**(PUC May 20, 2010, Area of Concern No. 9)**

In this proceeding, PPL provided a Class Cost of Service Study ("CCOSS") that presents the fully distributed costs of providing retail distribution service to the various rate classes at both present and proposed rates. The CCOSS generally follows the same principles used by PPL in previous base rate proceedings by utilizing "the class maximum non-coincident peak ("NCP") demand method, which is based on the highest demand imposed by each rate class on its distribution system, to allocate its demand-related distribution costs." PPL Electric Utilities Corporation Statement No. 7, Direct Testimony of Joseph M. Kleha at 21. When classifying distribution plant investment and expenses, PPL used the "minimum size system" methodology

and allocated these costs based partially on the number of customers and partially on the basis of peak demand. *Id.* pp. 23-24. On a collective basis, PPL allocated approximately two-thirds of distribution costs based on the number of customers and approximately one-third of its costs based on demand.

In this proceeding, the Company also has, for the first time, "classified primary voltage level distribution facilities into their demand-related and 'minimum or no load' customer-related cost components as a response to criticism regarding the load-carrying capability of the primary voltage level equipment used in the Company's minimum size system studies." PPL Electric Utilities Corporation Statement No. 7-R, Rebuttal Testimony of Joseph M. Kleha at 9. Previously, the allocation for primary voltage level distribution facilities was made solely on the basis of demand. According to PPL witness Mr. Kleha, in addition to responding to criticisms made in PPL's previous distribution base rate proceedings, this modification is consistent with NARUC Manual recommendations "that primary voltage level overhead and underground conductors be classified into their demand-related and customer-related cost components." *Id.*

Upon review, PPLICA does not object to the Company's filed CCOSS and believes that the CCOSS is a reasonable basis upon which to make a determination of the appropriate allocation of any PUC-authorized increase in distribution revenue requirements. The refinement regarding the allocation of primary voltage distribution facilities based on both a customer and demand proponent is appropriate, fully supported by the Company and is consistent with NARUC recommendations. Although cost allocation may be an art, not an exact science, PPL's CCOSS provides a reasonable basis for assessing distribution-related rates of return for each rate schedule.

**B. Revenue Allocation**

**1. PPL's Revenue Allocation Methodology Should Be Accepted as Filed.**

**(PUC May 20, 2010, Area of Concern No. 3)**

Regardless of the size of the distribution portion of a customer's monthly bill, the Commission has a duty pursuant to Sections 2804(10) and 1301 of the Public Utility Code to ensure that the unbundled distribution rates charged to customers are just, reasonable and non-discriminatory. See 66 Pa. C.S. §§ 2804(10), 1301. To accomplish this, the PUC has long-standing principles of cost allocation and rate making upon which to rely.

One of the primary principles of rate making is that customers' rates should reflect the cost of service. Specifically, the Commonwealth Court and the Commission have clearly held that a utility's cost of providing service must be the guiding principle – or "polestar" – in utility ratemaking. See Lloyd v. Pa. Pub. Util. Comm'n, 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006); see also, e.g., Pa. Pub. Util. Comm'n v. Philadelphia Gas Works, Docket Nos. R-2008-2073938, 2009 WL 884424 \*5 (Order entered Mar. 26, 2009) (upholding natural gas utility rates as consistent with Lloyd by reason of the rates being properly derived from a cost of service analysis and subject to cost of service review in future base rate case). The Commission has since applied the Court's directive in Lloyd by recognizing that, while other factors may be considered, cost of service should be the primary consideration for ratemaking purposes. See, e.g., Pa. Pub. Util. Comm'n v. PPL Elec. Utilities Corp., Docket No. 00049255, 2007 WL 2198189 \*7-10 (Order entered Jul. 25, 2007) (PUC order citing Lloyd in support of settlement of distribution rate increase based on cost of service principles). In circumstances where moving a particular customer class to cost of service would produce an extremely disproportionate increase for a particular class of customers, then the rate making principle of

"gradualism" can be recognized by moving rates to cost of service over a period of time. See Barash v. Pa. Pub. Util. Comm'n, 101 Pa. Commw. 76, 515 A.2d 651 (1986).

This proceeding is the third in a series of distribution cases which attempts to move PPL's distribution rates to "at or near" the full cost of providing service. See PPL Electric Utilities Corporation Statement No. 6, Direct Testimony of Douglas A. Krall at 17. As noted in both the Direct Testimony of Mr. Kasper and Mr. Krall, the distribution increase has been applied only to the residential class. See PPL Statement No. 6 at 19; see also PPL Electric Utilities Corporation Statement No. 8, Direct Testimony of Oliver G. Kasper at 10. As further indicated by Mr. Krall, "while this allocation does not perfectly match the results that would be achieved by strict adherence to the cost-of-service study, it does result in substantial movement of all rate classes towards the system average rate of return." PPL Statement No. 6 at 20 (emphasis added).

Notably, while allocating the entire increase to the residential class does little to alleviate the substantial current overcollection experienced by Rate Schedule LP-4, the Company's proposal is the only one presented that would not further burden Rate Schedule LP-4 customers. As indicated by the Company's CCOSS, LP-4 customers are already paying excessive rates. See PPLICA St. No. 2 at 4. As explained by PPLICA witness Richard A. Baudino:

According to the revised CCOSS filed by PPL witness Kleha in Exhibit JMK-2, Rate Schedule LP-4 is providing a return of 17.92% compared to the overall system return of 6.33%. This means that Rate Schedule LP-4's return relative to the system return is 2.83, or 283% of the overall PPL rate of return ("RoR"). Even under the Company's proposed rates, Rate Schedule LP-4's relative RoR would be 1.94, or 194% of the system average return of 9.11%.

PPLICA St. No. 2 at 4.

The Company has presented a revenue allocation methodology that, in line with its previous distribution cases, continues to move all classes "at or near" the full cost of providing

service while also moving all classes towards the system average rate of return. As a result, the allocation of the distribution increase only to residential customers is reasonable and should be accepted by the Commission.

**C. Tariff Structure**

**1. Rate Schedule LP-4 SI Is an Appropriate Contract-Based Tariff Under Section 2806(h) of the Public Utility Code That is Needed to Address Donsco Incorporated's Unique Situation and Needs.**

**(PUC May 20, 2010, Area of Concern No. 5)**

Throughout this proceeding, PPLICA has established that Donsco, Incorporated ("Donsco"), a LP-4 customer, has unique needs that justify the creation of a negotiated contract-based tariff schedule (Rate Schedule LP-4 SI) under Section 2806(h) of the Public Utility Code, 66 Pa. C.S. § 2806(h), as well as the negotiation of a rate for distribution service that is more commensurate with the rates charged to other foundries in the PPL territory that are served on Rate Schedules LP-5 or LP-6 and the distribution rates that Donsco had been paying under PPL's Time-of-Day option. Despite Donsco's repeated attempts to address this situation with the Company through the investigation of a series of alternatives, PPL refuses to entertain the idea of offering Donsco a negotiated rate by creating Rate LP-4 SI. PPL's position ignores the fact that Donsco's electricity usage is unlike the average LP-4 customer, Donsco has economic and environmental obstacles preventing its conversion to Rate Schedule LP-5, and with the expiration of PPL's Time-of-Day option for Rate Schedule LP-4, Donsco is currently paying distribution rates that are 700 to 1300% higher than it paid in 2009.

When compared to previous distribution charges of approximately \$2,500 a month prior to January 2010, **Donsco's monthly distribution charges of \$30,000 result in an increase in distribution rates of approximately 1100%**. See PPLICA St. No. 1, p. 7. The potential impact on Donsco at both its Wrightsville and Mount Joy facilities will be even greater if the PUC

accepts the proposals by some parties to change PPL's CCOSS and to allocate substantial increases to Rate Schedule LP-4. The increase in distribution charges at Donsco's Wrightsville facility has not only detrimentally impacted Donsco's operations but also has resulted in job losses. If PPL's proposed distribution rates go into effect without the creation of Rate Schedule LP-4 SI and the negotiation of distribution rates for the facility at levels closer to those paid by Donsco under the Time-of-Day billing option (and those paid by competitors of Donsco who are served on Rate Schedule LP-5 or LP-6), Donsco will need to assess whether the job cut-backs enacted earlier this year will be continued or whether it will implement other strategies such as moving production to on-peak hours where the shift premium does not apply to its employees. See PPLICA St. No. 1-S at 7. Ironically, Donsco's examination of a potential movement of its operations to on-peak hours will occur at the same time that it is paying a surcharge under Act 129 to compensate other customers to avoid usage during on-peak hours. See PPLICA St. No. 1-S, pp. 7-8. In order to maintain its viability in the competitive retail market, Donsco needs relief. As detailed herein, PPL should address this situation through the creation of Rate Schedule LP-4 SI and the negotiation of a rate for Donsco's Wrightsville facility.

**(a) Background**

Donsco, a family-owned business and integrated supplier of cast parts, has been operating in Wrightsville for over 100 years. See PPLICA St. No. 1, p. 3.<sup>5</sup> Originally, Donsco's Wrightsville facility used a cupola furnace with steam to melt iron. Id. at 4. In approximately 2000, at the urging of the Pennsylvania Department of Environmental Protection ("DEP") over concern about the cupola melting process,<sup>6</sup> Donsco removed the cupola and converted to electric

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<sup>5</sup> Donsco also has a foundry in Mount Joy and recently closed its foundry in Belleville. See PPLICA St. No. 1, pp. 2-3.

<sup>6</sup> As further explained in PPLICA Statement No. 1, "The cupola melting process uses coke fuel and limestone flux. This type of melting resulted in high melt rates and relatively low operating costs; however, there were emissions

melting operations. Id. During this conversion process, Donsco requested service from PPL on Rate Schedule LP-5; however, Donsco was told that, "due to its location across the Susquehanna River from Columbia, 69 kV service on Rate Schedule LP-5 was impractical because of environmental concerns and cost." PPLICA St. No. 1 at 9. In addition, the Company also voiced concern whether 69 kV service could be installed on a timeframe that satisfied DEP's requirements. Id.

Instead, PPL proposed the following alternative:

PPL proposed to run two 12,470 volt lines across the river from the North Columbia 69/12 kV substation to our [Wrightsville] facility. Those lines are dedicated to Donsco along with the transformation equipment in the substation. As part of our contract, Donsco guaranteed a total payment of \$914,000 for electric distribution service during the five year initial term of our new contract. This equated to an annual guarantee of \$182,800. In 2003, Donsco and PPL renegotiated the contract to remove the final two years of the annual guarantee, but in exchange we agreed that PPL could use one of the lines when necessary for reliability purposes.

PPLICA St. No. 1 at 9-10. The cost for PPL to provide the dedicated dual 12 kV service to Donsco was \$1,052,550.<sup>7</sup> See PPLICA Cross Examination Exhibit No. 5. Before renegotiating the contract in 2003, Donsco paid over \$548,000 to PPL towards the line guarantee. See PPLICA St. No. 1 at 10. Under the as-filed rates in this proceeding, if Donsco returns to full operations at Wrightsville at a 16 MW level, it will pay approximately \$410,000 **per year** in distribution charges. See PPLICA St. No. 1 pp. 8-9 (emphasis added).

Since converting to electric melting, Donsco has made a conscious effort to control its electricity usage and costs. For example, Donsco participated in PPL's Time-of-Day option for

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that resulted from the coke and limestone. DEP wanted [Donsco] to either install a new scrubber system to address the emissions or convert to electric melting." PPLICA St. No. 1 at 4.

<sup>7</sup> During testimony, PPL witness Kasper overstated the cost of the project. See Tr. at 416. As confirmed in the Company's response to PPLICA's on the record data request, the actual cost was "significantly less." PPLICA Cross Examination Exhibit No. 5.

Rate Schedule LP-4. To participate, Donsco rearranged its manufacturing schedule to move its production to off-peak times. This decision has had consequences beyond just the level of Donsco's electricity costs. As explained by PPLICA witness Christopher A. Buck, Plant Manager for Donsco's Wrightsville facility:

We rearranged the entire plant's production schedule to a third shift operation, which resulted in a dramatic lifestyle change for our employees. We also lost many employees who were unable to make the transition to the night shift.

PPLICA St. No. 1 at 6. Donsco's adherence to this rearranged schedule benefitted PPL by reducing PPL's costs and also created predictability for PPL since Donsco operated consistently on a day-to-day basis. Id. As shown in Exhibit CAB-1, prior to January 1, 2010, while Donsco's maximum KW Demand averaged approximately 16 MW per month, Donsco's billed KW demand averaged approximately 2.5 MW. See PPLICA St. No. 1, Exhibit CAB-1. This can be explained as follows:

Under the Time-of-Day option, Donsco was able to designate an "on-peak" usage period during which we could establish our billing demand. If Donsco's peak demand during other hours of the month exceeded the peak that we established during the designated "on-peak" period, then our peak during the on-peak period would be used as [Donsco's] billing demand.

PPLICA St. No. 1 at 5. As a result, Donsco waited until its designated off-peak period to fully ramp-up its production each day.

With the expiration of the Time-of-Day option as of January 1, 2010, Donsco's Wrightsville facility has experienced a significant increase to its distribution charges. Donsco's actual monthly distribution charges increased from approximately \$2,500 per month to \$35,000 per month, an increase of 1,300 percent. See PPLICA St. No. 1 at 7. When these charges are adjusted to remove the impact of the Remand Riders and EDI credits that applied prior to

January 1, 2010, Donsco's hypothetical distribution charges based on the tariff rates increased from \$5,000 to \$6,000 per month to \$35,000 per month, an increase of 483 percent. Id. Under either calculation, the increase clearly is very significant.

Donsco has attempted to mitigate this rate impact in a number of ways, including making cuts in production, exploring with PPL the possibility to convert the Wrightsville facility to Rate Schedule LP-5 and requesting from its customers the ability to institute an "energy surcharge," which was met with considerable resistance. See PPLICA St. No. 1 at 8. Donsco's decision to cut-back operations has been a short term solution to mitigate its increase in distribution rates.

As explained by Christopher Buck:

We reduced our production [at Donsco's Wrightsville facility] by 33%. Doing this, we were able to reduce our distribution costs by approximately \$15,000 per month by shutting down a 7 MW melting furnace. Unfortunately, this also resulted in the need to lay-off twelve employees. This is a short-term mitigation effort that will help until the PUC decides this case.

PPLICA St. No. 1 at 8.

**(b) Donsco's Possible Conversion from Rate Schedule LP-4 to Rate Schedule LP-5 Is Not a Viable Option.**

Rather than permanently cutting or reducing production, Donsco has, on repeated occasions, discussed with PPL the possibility of converting Donsco's Wrightsville facility from Rate Schedule LP-4 to Rate Schedule LP-5. If successful, converting from Rate Schedule LP-4 to Rate Schedule LP-5 would immediately mitigate Donsco's distribution rate increase. As

PPLICA witness Christopher Buck summarized:

[T]he annual costs from PPL to be served on Rate Schedule LP-5 are dramatically lower than our costs under current LP-4 rates even before the elimination of the Time-of-Day option. **Our annual PPL distribution costs under LP-5 would be \$8,466 while our projected annual distribution costs under LP-4 assuming a monthly 16 MW demand would be \$441,408 at current rates, or \$410,496 at proposed rates.**

PPLICA St. No. 1 pp. 8-9 (emphasis added). As previously noted, when Donsco converted its melting from cupola to electric in 1999-2000, it originally requested service at 69 kV, but was told by PPL that this option "was impractical because of environmental concerns and cost." PPLICA St. No. 1 at 9.

The problem lies in the absence of PPL transmission voltage facilities in proximity to Wrightsville, which is located on the west side of the Susquehanna River, but, in 1999, was served from PPL's North Columbia substation on the east side of the Susquehanna River. Although efforts have been undertaken by PPL to reinforce the 12 kV service that it provides to other customers in Wrightsville, to date those efforts have not resulted in the construction of transmission voltage facilities in close proximity to Donsco on the west side of the Susquehanna River. Thus, although Donsco's Wrightsville facility is within close proximity to the 69 kV facilities serving Columbia, the Susquehanna River acts as a geological impediment to Donsco converting to 69 kV service. PPLICA Exhibit CAB-3, Figures 1 and 2 provide maps illustrating the geography and PPL facilities in the area. See PPLICA St. No. 1, Exhibit CAB-3.

In 2010, when revisiting the idea of converting Donsco's Wrightsville facility to Rate Schedule LP-5, PPL provided four options: "(1) build a new 69 kV line over the Susquehanna River; (2) bore under the Susquehanna River to install a 69 kV line underground; (3) run 69 kV submersible cables across the Susquehanna River; or (4) construct a new 13-mile 69 kV line from the Otter Creek 230/69 kV substation ("Otter Creek") on the west side of the Susquehanna River." PPLICA St. No. 1 at 10. According to PPL, building a new 69 kV line over the Susquehanna River would be the least cost option; however, due to environmental and other practical concerns, this option is not viable. Id. at 10-11. As PPLICA witness Christopher Buck explained:

Because PennDOT will not allow us to run the line along the existing bridge, this new line would need to be a stand-alone project. As you can imagine, however, we would face substantial resistance to installing towers necessary to run the line across the river. In addition, this area of the Susquehanna River has experienced concerns recently with habitat issues for wildlife in the area, and also is part of the scenic panorama that is emphasized as a selling point for the area in the River Towns Heritage Development Strategy for Marietta, Columbia and Wrightsville. As a result, installing an overhead line across the Susquehanna River is not a viable option.

PPLICA St. No. 1, pp. 10-11.

The other three options suggested by PPL also contain significant flaws. Tunneling under the Susquehanna River was the second most likely route, but there was no assurance of success. *Id.* at 11. When combined with the fact that this option would take between 5-6 years to complete and a cost of more than \$10 million, the second option was rejected. *Id.* As for the viability of either submersing cables across the Susquehanna River or constructing a 69 kV line from Otter Creek, "[n]either option was practical from [an] engineering or an economic perspective. The PPL representatives that [Donsco] met with agreed with our assessment." PPLICA St. No. 1 at 11. Given PPL's estimate that it would cost \$11.93 million to add Donsco to the Red Front Project,<sup>8</sup> it appears that there is no cost-effective way to address Donsco's situation.<sup>9</sup> See PPLICA Cross Examination Exhibit No. 6. As a result, Donsco currently remains on Rate Schedule LP-4 and is receiving service at 12.47 kV, not the 69 kV it desires.

Faced with these obstacles, Donsco tried to "think outside of the box" and offered PPL other alternatives to convert its Wrightsville facility to Rate Schedule LP-5, but was met with resistance. Specifically, Donsco suggested the following alternatives:

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<sup>8</sup> As explained more fully in PPLICA Cross Examination Exhibit No. 6, "Red Front 115/12 kV substation is a proposed new distribution substation that will serve 12 kV customers in the East Prospect/Wrightsville area." PPLICA Cross Examination Exhibit No. 6.

<sup>9</sup> Note, however, that this estimate is for a 115 kV interconnection, not 69 kV. See PPLICA Cross Examination Exhibit No. 6.

We suggested that PPL could lease or sell the North Columbia 69 kV to 12 kV transformer to Donsco for a monthly fee, or allow us to rent space in the North Columbia substation to install a 69 kV to 12 kV transformer. PPL indicated that it would not lease or sell the equipment to us because it would limit future expansion and present possible reliability issues.

We also suggested that PPL could charge us at the Rate Schedule LP-5 rate plus a fee to recover the operations and maintenance expenses on the 12 kV lines from the North Columbia substation to our facility and the dedicated transformation equipment. PPL did not believe that it had the ability to do this under the tariff.

PPLICA St. No. 1 at 11-12. As a result of PPL's belief that its tariff did not provide flexibility to address Donsco's unique situation, Donsco is participating in this proceeding and is proposing to explicitly provide PPL with the ability in its tariff to address this situation.

**(c) Donsco is a Unique Rate Schedule LP-4 Customer with Special Needs That Can Be Addressed Through a Negotiated Contract Rate Under Section 2806(h).**

Section 2806(h) of the Public Utility Code authorizes the PUC to approve a negotiated contract-based tariff. Specifically, Section 2806(h) states:

In addition to the implicit authority of the commission under section 501 (relating to general powers), the commission has the authority to approve flexible pricing and flexible rates, including negotiated, contract-based tariffs designed to meet the specific needs of a utility customer and to address competitive alternatives.

66 Pa. C.S. § 2806(h). Donsco, and especially its Wrightsville facility, meets this standard.

According to PPL's current tariff, Rate Schedule LP-4 "is for large general service supplied from available lines of three phase 12,470 volts or single phase 7,200 volts when the customer furnishes and maintains all equipment necessary to transform the energy from line voltage." See Supplement No. 91, Tariff - Electric Pa. P.U.C. No. 201, Nineteenth Revised Page No. 27 Canceling Eighteenth Revised Page No. 27. For billing purposes, Rate Schedule LP-4's on-peak hours are:

7 a.m. to 3 p.m., 8 a.m. to 4 p.m., or 9 a.m. to 5 p.m. local time, at the option of the customer, Mondays to Fridays inclusive except, New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The Company's system on-peak period is 7 a.m. to 9 p.m. local time.

Supplement No. 59, Tariff-Electric Pa P.U.C. No. 201, Eleventh Revised Page No. 27A Canceling Ninth and Tenth Revised Page No. 27A. While the Minimum Billing Demand for this Rate Schedule is 25 kW, there is no maximum billing demand. See id. As a result, the variation in customers' monthly usage on this Rate Schedule ranges anywhere from less than 100 kW to more than 15,000 kW (or 15 MW).

Donsco's load is substantially larger than the average PPL Rate Schedule LP-4 customer. Upon review of PPL's data submitted in this proceeding, PPLICA witness Richard A. Baudino made the following observations:

Donsco's load is unique in comparison to other members of the class. Donsco is a large industrial user of electricity whose maximum demands are in the range of 15 MW to 16 MW monthly at Wrightsville and approximately 5 MW at Mount Joy. Donsco has one of the highest peak demands, with a very large percentage of that peak demand occurring in the off-peak hours. Rate Schedule LP-4 is a diverse class, with commercial and other small industrial users that take service at PPL's primary voltage level. Based on the allocation factor data from Exhibit JMK-2, the LP-4 class has 1,109 customers. Attachment IV-C, Page 12 of 27, of the Company's filing shows that the total distribution billing demand for LP-4 was 13,666 MW. Thus, the average customer on Rate Schedule LP-4 had yearly billing demands of 12.3 MW, which on a monthly basis is approximately 1 MW a month.

Based on the Company's data, Donsco's billing demands are 15 to 16 times greater than the average customer on LP-4 at Wrightsville, and five times greater at Mount Joy. In fact, Donsco's load profile for both accounts is closer to an average LP-5 customer. Rate Schedule LP-5 is offered to large general service customers taking service at 69 kilovolts ("kV") or higher. According to the billing data contained in Attachment IV-C, Page 14 of 27, the average monthly billing distribution billing demand per customer for the LP-5 class is 3.7 MW. Donsco's average

monthly billing demand of 15 MW to 16 MW at Wrightsville is still substantially greater than the average LP-5 customer monthly billing demand, while its Mount Joy facility is slightly larger than the average LP-5 customer's usage characteristics.

PPLICA St. No. 2 at pp. 5-6. Of the 1,100 customers on Rate Schedule LP-4, Mr. Kasper testified that only 20 have demands of 4 MW or higher. See Tr. at 415. As Mr. Kleha notes, the Company's primary voltage distribution system, which provides the 12,470 volt service to Rate Schedule LP-4, serves mainly residential and small commercial customers. See Tr. at 380. Specifically, when describing the Company's primary distribution system as 12 kV up to 66 kV, Mr. Kleha stated that "no large commercial/industrial would be assigned to a primary facility because they take service at a higher voltage, except for some schools and things of that nature." Id.

The large differences in demand for Rate Schedule LP-4 customers create intraclass rate design challenges. Larger customers such as Donsco would prefer for a greater portion of the class revenue requirement to be collected through a monthly customer charge. See, e.g., PPLICA St. No. 1 at 9. At this point, only \$2 million of the approximate \$32 million revenue requirement for this class is being collected through the customer charge. See Attachment IV-C, O.G. Kasper, Page 12 of 27. This results in the majority of the distribution costs being allocated through demand charges, which place a larger portion of the rate burden on higher demand customers, such as Donsco. Based on PPL's proposed rates, Donsco's two LP-4 accounts will pay approximately 2% of the LP-4 revenue requirement, even though they are 0.2% of the customers in the class. See PPLICA St. No. 1 at 13. Donsco's Wrightsville facility alone will pay 1.5% of the revenue requirement even though it is served by dedicated facilities that PPL agrees are not integrated with the remainder of the distribution system. See PPLICA St. No. 1 at

13; PPLICA St. No. 1-S at 5; see also PPL Statement No. 8-R, Rebuttal Testimony of Oliver G. Kasper at 3. This is neither just nor reasonable. See 66 Pa. C.S. § 1304.

**(d) Rate Schedule LP-4 SI is Proper and Necessary Under Section 2806(h).**

Section 2806(h) provides the Commission with an avenue to address and rectify the unreasonable rates that Donsco is currently enduring. As indicated above, Section 2806(h) of the Public Utility Code states:

In addition to the implicit authority of the commission under section 501 (relating to general powers), the commission has the authority to approve flexible pricing and flexible rates, including negotiated, contract-based tariffs designed to meet the specific needs to a utility customer and to address competitive alternatives.

66 Pa. C.S. § 2806(h). In the course of this proceeding, PPLICA has suggested a method that would meet the specific needs of Donsco's Wrightsville facility and have little effect on other LP-4 customers. Specifically, as set forth in the Direct Testimony of PPLICA witness Richard Baudino, PPLICA outlined the recommendation for and criteria of a special industrial tariff Rate LP-4 SI to be incorporated as part of Rate Schedule LP-4. Specifically, Mr. Baudino stated:

I recommend that the Commission approve the implementation of a new LP-4 Special Industrial tariff ("LP-4 SI"), which would be part of the existing LP-4 tariff. It would be open to large general service customers whose maximum billing demands are 4 MW or greater. The LP-4 SI tariff would only be open to large LP-4 customers who are specially situated on PPL's system and who could otherwise qualify for the LP-5 rate. These customers would have to apply to PPL for this special rate. Customers that qualify for this rate would have to be within a certain distance from PPL's 69 kV facilities and served by certain dedicated lines or identifiable facilities to convert the 69 kV power to 12.47 kV, or have other reasons to justify the rate.

PPLICA St. No. 2 at 6. Mr. Baudino suggested specific factors that would justify the negotiation of rate under this contract-based tariff:

- The customer's demand must be reasonably consistent with LP-5 (i.e., 4 MW or greater) compared to LP-4;
- Factors such as economic development, load retention and employment could be considered;
- The economic and/or environmental feasibility of converting the account to transmission voltage service in Rate Schedule LP-5 could be considered;
- The proximity to 69 kV (or higher) facilities and/or the ability to specifically identify the lines and equipment used to serve the facility could be considered; and
- If the customer paid a contribution in aid of construction or provided a guarantee for the line extension, they should be eligible for this negotiated rate option.

Id. at 7. If any of these criteria were met (and the customer's demand exceeds 4 MW) the option would be available. Id. Obviously, a customer would be able to qualify under multiple criteria.

Id.

Because this contract-based tariff is predicated on a particular customer being substantially equivalent to a customer on Rate Schedule LP-5, the negotiated rate would be based on Rate Schedule LP-5. As Mr. Baudino explained:

The rates for LP-4 SI would consist of Rate Schedule LP-5's \$696 minimum charge plus a facilities charge to cover operation and maintenance of the distribution lines used to directly serve the customer. Depending on the nature of the facilities, the second component may be a fixed charge per month or a kW demand charge.

PPLICA St. No. 2 at 7. As Mr. Baudino confirmed, this is consistent with how the OSBA's witness suggested that a negotiable rate such as this should be determined if the Commission accepts PPLICA's proposal. See PPLICA St. No. 2-S at 1.

Donsco's Wrightsville facility would qualify under Rate Schedule LP-4 SI because: (1) it has a demand that is greater than 4 MW; (2) it is in close proximity to a 69 kV facility; (3) it can document environmental, economic or other impediments to converting to 69 kV service; (4) the

reduced distribution costs will assist in the retention of jobs and possibly create new jobs in the future; and (5) Donsco's Wrightsville facility provided a guarantee for the construction of dedicated facilities to serve the account. See PPLICA St. No. 1 at 14.

PPL opposes the creation of Rate Schedule LP-4 SI, stating that "a special rate is not appropriate," positing that "Donsco has other options to address the Wrightsville facility." PPL Statement No. 8-R at 2. PPL also claims that it would be "unfair" to other LP-4 customers and to customers that have paid previously for conversions from LP-4 to LP-5. PPL is wrong on all counts.

The "other options" referenced by Mr. Kasper are the ones that rely on the installation of 69 KV facilities that Donsco outlined in its Direct Testimony. See PPLICA Cross Examination Exhibit No. 3. All of those options have substantial barriers to implementation. See PPLICA St. No. 1 at 11. As Mr. Baudino noted in his Surrebuttal Testimony, "Basically, all Mr. Kasper offered was the same approach that PPL has taken to Donsco for the last ten years." PPLICA St. No. 2-S at 2. This is not sufficient to address Donsco's situation.

Although PPL witness Kasper argues that "Donsco's two dedicated express feeders from the North Columbia Substation...offer little benefit to PPL Electric's entire distribution system," Mr. Kasper claims that "[to provide Donsco with its requested relief] the rates for other customers being served on Rate Schedule LP-4 would have to increase to offset a rate reduction for Donsco or other similarly situated customer[s]...They would be required to pay higher rates, but would not receive any additional benefits." PPL St. No. 8-R pp. 3, 6. Mr. Kasper's statements ignore the fact that it is unfair to Donsco to pay for such a large portion of the distribution facilities allocated to Rate Schedule LP-4 when those facilities do not serve its

Wrightsville facility (and Donsco has provided a line extension guarantee to support its own facilities). As explained by Mr. Baudino:

Although Mr. Kasper implies that it would be "unfair" to other customers to negotiate the distribution rate for Donsco's facility, his testimony actually underscores the uniqueness of Donsco and why it is unfair to charge them the standard LP-4 rates. As Mr. Kasper notes, the two lines serving the Wrightsville plant are dedicated to Donsco and 'offer little benefit to PPL Electric's entire distribution system.' This presumably is why Donsco was required to provide a revenue guarantee to support construction of the lines. After meeting that obligation, Donsco is now being required to pay a large portion of the costs that PPL incurs to serve all of the other Rate Schedule LP-4 customers, including customers who did not provide revenue guarantees. That is not fair to Donsco.

PPLICA St. No. 2-S at 3 (emphasis in original). Mr. Buck cites similar concerns, when noting that, as part of this proceeding, Donsco is "now being asked to pay 1.5% of the revenue requirement for the equipment that is in place to serve the other 1,000 customers in the [LP-4] class, which is equipment that we do not rely upon for our service. That is not fair to Donsco."

PPLICA St. No. 1-S at 5.

Moreover, as explained by Mr. Baudino in Surrebuttal Testimony, while PPLICA's proposal would have an effect on other LP-4 customers, the effect would be minimal. For illustration purposes only, PPLICA witness Mr. Baudino stated as follows:

If Donsco's negotiated rate was equivalent to the average monthly distribution rate that Donsco paid during 2009 (i.e., \$3,562) and if the entire rate increase is granted, and the allocation remains as PPL proposes, the demand charge for other LP-4 customers would increase from \$2.128 per kW to \$2.186 per kW...In the next rate case, PPL could file a new CCOSS with the LP-4 SI class separated from the LP-4 class in order to properly estimate the cost to serve the new class through the facilities dedicated to the eligible customers. This approach would avoid intra-class subsidies and address the concerns expressed by Mr. Kasper and Mr. Knecht.

PPLICA St. No. 1-S at 4. Mr. Kasper, in Rejoinder Testimony, purportedly presents the Company's calculations of Donsco's proposal, claiming that "when splitting the rate class to above and below the 4 MW load as suggested by Donsco, the cost per Billing kW for the large customer bills (>= to 4 MW billing demand) is actually \$0.01 cent per kw **more** than the cost for smaller LP-4 customers." PPL Electric Utilities Corporation Statement No. 8-RJ, Rejoinder Testimony of Oliver G. Kasper at 3 (emphasis in original). It should be noted, however, that the "analysis" presented by Mr. Kasper in Rejoinder Testimony of dividing the LP-4 Class into two subclasses was definitively shown on cross-examination to not accurately reflect Mr. Baudino's proposal for Rate Schedule LP-4 SI because it assumed that all customers above 4 MW were eligible and did not examine the specific dedicated facilities for only the eligible customers. See Tr. pp. 396-400.

Finally, Mr. Kasper's claim that other customers have made substantial investments to convert facilities from Rate LP-4 to Rate LP-5, and "in one case, [the investment] was over \$10 million," is false. First, only three customers have converted to Rate Schedule LP-5 since the enactment of the Competition Act in 1996. See 66 Pa. C.S. §§ 2801 et seq. The cost of those two projects was \$1.7 million or less. See PPLICA Cross Examination Exhibit No. 3. While the third project recently cost a total of \$12 million, the customer apparently did not pay the entire \$12 million. Id. Regardless, the practice of requiring customers to make actual upfront payments in any amount for a 69 kV service extension changed since the adoption of the Competition Act. As the response to PPLICA-PPL-3 in PPLICA Cross Examination Exhibit No. 3 explains:

Prior to the enactment of the Electricity Generation Customer Choice and Competition Act in 1996, it was PPL Electric's policy to require customers on Rate Schedules LP-4, LP-5, LP-6, IS-T and IS-P to enter into an agreement whereby the customer agreed to pay, through minimum revenue guarantees, the cost of the

extension of 69 kV lines to provide service in accordance with the Company's Tariff Rule 3 for extensions of service.

PPLICA Cross Examination Exhibit No. 3. As a result, the other 175 customers on Rate Schedules LP-5, LP-6 and IS-T did not have to pay the project costs that Donsco is being asked to absorb.<sup>10</sup> The Commission has the power to partially correct this disparity in treatment of distribution customers by approving Rate Schedule LP-4 SI.

Donsco has clearly established that a geographic and environmental barrier exists that makes a 69 kV conversion project for its Wrightsville facility non-viable – the need to cross the Susquehanna River. None of the other conversion projects presented by PPL have had the environmental challenge of connecting a customer's facility to a 69 kV substation across the Susquehanna River that exists here. See PPLICA Cross Examination Exhibit No. 3. As Mr. Buck explained:

Donsco, especially our Wrightsville facility, has been unintentionally and unreasonably impacted by trying to be a good corporate citizen and trying to be responsive to Pennsylvania's policy goals. First, we converted from a cupola to electric melting at the behest of the DEP to reduce our emissions. Second, we agreed to a more environmentally-friendly plan for service at Wrightsville in 2000 by originally agreeing to take service as 12,470 volts, rather than 69 KV. Third, we would like to continue supporting an environmentally and economically conscious approach to this situation by not pursuing the 69 KV line over (or under) the Susquehanna River. Finally, we spent the last ten years benefitting the electric grid and reliability by keeping the majority of our usage at Wrightsville off-peak. When the Time-of-Day option was eliminated, this resulted in approximately a 900% increase to our distribution costs. Mr. Baudino's proposal is a viable and necessary way to ensure that Donsco is treated fairly.

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<sup>10</sup> PPL claims that the PJM Open Access Transmission Tariff ("OATT") requires Donsco to pay the project costs for any 69 kV service extension. See PPL St. No. 8-R at 5; see also PPL St. No. 8-RJ pp. 4-5. Donsco is a retail distribution service customer and is not subject to the OATT. See PPLICA St. No. 1-S, pp. 3-4; see also PPLICA Cross Examination Exhibit No. 2, citing Rule 4 of PPL's Tariff ("...the definition does not affect the Company's obligation under the Federal Power Act and/or the Public Utility Code, as applicable"). That dispute, however, is not germane to the evaluation of the proposal to create Rate Schedule LP-4 SI because the creation of the new Rate Schedule would eliminate the need to install new 69 kV facilities. Notwithstanding, nothing in this Brief should be construed as waiving Donsco's rights with respect to this issue.

PPLICA St. No. 1, pp. 14-15. PPLICA's testimony and exhibits demonstrate that the negotiation of an appropriate rate for Donsco's Wrightsville facility and the creation of Rate Schedule LP-4 SI is the correct legal and policy solution to this situation to address the unjust and unreasonable distribution rates facing Donsco's Wrightsville facility.

**D. Summary and Alternatives**

PPLICA has produced clear evidence that prior to January 1, 2010, Donsco's monthly distribution rates were approximately \$2,500 for its Wrightsville facility and since January 1, 2010, upon the expiration of the Rate Schedule LP-4 Time-of-Day Rate Option, Donsco's monthly distribution rates have increased to approximately \$30,000 (even with a 33% cut in production that resulted in the dismissal of twelve employees). Despite Donsco's repeated attempts to work with PPL to convert its Wrightsville facility from Rate Schedule LP-4 to Rate Schedule LP-5 in an economic and environmentally friendly way, which would, based on current distribution rates, save Donsco over \$400,000 in annually, PPL has been either unwilling or unable to devise a workable solution that would satisfy Donsco's concerns and be viable from an economic, engineering and environmental perspective. To address this situation, PPLICA has proposed the creation of a Rate LP-4 SI that could mitigate the over 1100% increase in distribution rates that Donsco is experiencing and address Donsco's specific needs while minimally impacting other Rate Schedule LP-4 customers. Donsco is willing to pay increased charges in comparison to its 2009 rates (See PPLICA St. No. 1-S at 6), but not 1000% more than it did in 2009, especially when Donsco is served by dedicated facilities and could convert to 69 kV service on Rate Schedule LP-5 if its location next to the Susquehanna River did not render the project environmentally and economically unviable.

Secondly, and as explained in the Surrebuttal Testimony of PPLICA witness Christopher Buck, other than economic concerns, there are additional reasons why Donsco is seeking a negotiated rate proposal:

First, there would be a significant delay between agreeing to any of the 69 kV upgrade options and completion of the project. In fact, that was one of the factors that weighed heavily in Donsco's decision in 1999 to agree to be served by the two dedicated 12.47 kV lines that were installed to serve our Wrightsville facility. Current economic conditions make this a critical time for our business and we need relief sooner than we could get if any of the 69 kV proposals are pursued.

Second, Donsco has serious concerns about the feasibility of any "solution" that involves a 69 kV line traversing the Susquehanna River in the Wrightsville area. In addition to the environmental impact, the Wrightsville community promotes itself based on the beautiful view of the Susquehanna River. As a local company, Donsco fully supports the economic development efforts in the Wrightsville community.

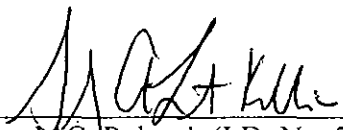
*PPLICA St. No. 1-S at 1-2.* What PPLICA is seeking on Donsco's behalf is a distribution increase that is just, reasonable, and fair based on the totality of the circumstances, including Donsco's environmental impediments to receiving 69 kV service and the fact that Donsco's Wrightsville facility is served by dedicated facilities that were constructed in 1999 under a line extension guarantee. The implementation of Rate Schedule LP-4 SI is the appropriate legal and policy resolution of this matter that will ensure that Donsco's Wrightsville facility pays just and reasonable distribution rates.

**X. CONCLUSION**

**WHEREFORE**, the PP&L Industrial Customer Alliance respectfully requests that the Pennsylvania Public Utility Commission accept the Company's Class Cost of Service Study and Revenue Allocation without Modification as well as adopt the PP&L Industrial Customer Alliance's Recommendation to implement Rate Schedule LP-4 SI.

Respectfully submitted,

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Dated: September 2, 2010

## CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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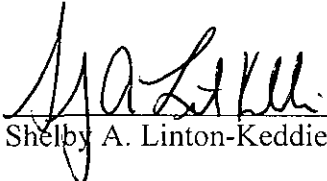
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