

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560 (in PA only)

IRWINA. POPOWSKY  
Consumer Advocate

FAX (717) 783-7152  
consumer@paoca.org

September 13, 2010

Rosemary Chiavetta  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17105-3265

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 Reply Brief, in the above-referenced proceeding.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Aron J. Beatty', with a long horizontal line extending to the right.

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 :

---

REPLY BRIEF OF THE  
OFFICE OF CONSUMER ADVOCATE

---

Aron J. Beatty (PA Atty. I.D. #86625)  
Assistant Consumer Advocate  
E-Mail: [ABeatty@paoca.org](mailto:ABeatty@paoca.org)  
Jennedy S. Johnson (PA Atty. I.D. #203098)  
Assistant Consumer Advocate  
E-Mail: [JJohnson@paoca.org](mailto:JJohnson@paoca.org)  
Darryl A. Lawrence (PA Atty. I.D. #93682)  
Assistant Consumer Advocate  
E-Mail: [DLawrence@paoca.org](mailto:DLawrence@paoca.org)  
Tanya J. McCloskey (PA Atty. I.D. # 50044)  
Senior Assistant Consumer Advocate  
E-Mail: [TMcCloskey@paoca.org](mailto:TMcCloskey@paoca.org)

Counsel for:  
Irwin A. Popowsky  
Consumer Advocate

Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152

Dated: September 13, 2010

## TABLE OF CONTENTS

<b>I. INTRODUCTION</b> .....	1
<b>II. SUMMARY OF REPLY ARGUMENT</b> .....	4
<b>III. RATE STRUCTURE</b> .....	5
A. Introduction .....	5
B. Cost of Service Study .....	6
1. PPL’s New Cost of Service Study Analysis Cannot Be Relied Upon.....	6
a. Introduction .....	6
b. The Company Has Not Shown That The Classification Of Distribution Plant Investment As Partially Customer-Related Is Appropriate .....	7
i. Classification Of Primary and Secondary Distribution Plant As Demand-Related Is Not Extreme Or Unprecedented As The Company Asserts .....	7
ii. OCA Witness Watkins’ Analysis Demonstrates That A Customer-Based Classification Of Distribution Plant (Other Than Service And Meters) Is Not Reasonable In PPL’s Service Territory .....	9
iii. Conclusion .....	12
c. The Company’s Minimum System Approach Is Flawed .....	13
d. The Company’s Criticism of the OCA’s “Peak And Average” Analysis Is Misplaced And Should Be Rejected.....	13
e. The OCA’s Proposed Allocators Accurately Reflect The Cost of Providing Service And Should Be Adopted.....	15

2.	The OSBA’s Cost of Service Study Is Also Flawed .....	16
C.	Revenue Allocation Issues.....	19
1.	The PPL Allocation Is Not Reasonable And Should Be Rejected.....	19
2.	The Company’s Criticisms Of The OCA Revenue Allocation Proposal Are Without Merit And Should Be Rejected.....	21
3.	A Proportional Scale Back Methodology From The OCA’s Revenue Allocation Is Reasonable For The Lower Revenue Increase .....	22
4.	The OSBA Revenue Allocation Is Unreasonable.....	23
5.	The OSBA’s “First Dollar Relief” Proposal Is Unreasonable And Should Be Rejected .....	24
6.	PPLICA’s Cost Of Service Analysis and Revenue Allocation Position Must Also Be Rejected .....	27
D.	Conclusion.....	29
<b>IV.</b>	<b>CONCLUSION.....</b>	<b>30</b>

## TABLE OF CITATIONS

### CASES

Lloyd v. Pa. PUC, 904 A.2d 1010 (Pa. Commw. 2006).....2, 4, 5, 29

### ADMINISTRATIVE DECISIONS

Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-00049255, 2004 Pa. PUC LEXIS 40  
(December 2, 2004) .....17

Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-00049255, 2004 Pa. PUC LEXIS 41  
(October 21, 2004).....17

Washington Utilities and Transportation Comm'n v. Puget Sound Power & Light Company,  
Docket No. UE-920499, 1993 Wash. UTC LEXIS 65 (August 16, 1993) .....8, 13

## I. INTRODUCTION

On September 2, 2010, the Office of Consumer Advocate (OCA) filed its Main Brief (M.B.) addressing rate structure issues raised in PPL Electric Utilities Corporation's (PPL or the Company) distribution base rate filing that were reserved for litigation. The OCA submits that its Main Brief provides the Administrative Law Judge (ALJ) and the Pennsylvania Public Utility Commission (PUC or Commission) with a comprehensive discussion of the cost of service and revenue allocation issues raised in this proceeding. The OCA provided a procedural history in its Main Brief, pages 1-3. Main Briefs were also filed by PPL, the Office of Trial Staff (OTS), the Office of Small Business Advocate (OSBA), the PPL Industrial Customer Alliance (PPLICA), the Commission on Economic Opportunity (CEO), Richards Energy Group (REG), the Sustainable Energy Fund (SEF), and the Retail Energy Supply Association (RESA) to address the various issues reserved for litigation.

The OCA's Main Brief fully addresses and responds to many of the arguments raised by the Company and the other parties in their Main Briefs on the cost of service and revenue allocation issues. It is not the purpose of this Reply Brief to replicate the OCA's arguments detailed in its Main Brief. The OCA will limit its reply to those issues requiring additional clarification and response. Thus, any failure of the OCA to address specific arguments contained in the Company's or other parties' Main Briefs does not mean that the OCA agrees with PPL's or the other parties' positions or that the OCA has revised its position.

In this proceeding, PPL proposed to allocate virtually the entire originally proposed rate increase to the residential customer class, with the residential class bearing \$114.638 million of a \$114.675 million rate increase request. 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 based its proposed allocation on its preferred cost of service study, which it acknowledged contained a material change in methodology from its prior cost of service studies. 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 proposed an unreasonable allocation of the revenue increase in this case.

OCA witness Glenn Watkins corrected the significant flaws in PPL's cost of service methodology to produce a more reliable indicator of the cost of serving each class. 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. There is, therefore, no reason to impose such a disproportionate increase on residential customers, let alone virtually the entire increase as proposed by PPL.

By 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 for certain classes, OCA witness Watkins provided an alternative revenue allocation proposal that meets the requirements of Lloyd v. Pa. PUC, 904 A.2d 1010 (Pa. Commw. 2006)(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 (Rate RS, RTS, LP-4/ISP and GH) would receive the residual amounts on an equal percentage basis. OCA St. 3 at 29-30. Under this proposal, residential customers would still bear a higher than average percentage increase, but, unlike the PPL proposal, residential customers would not be unfairly burdened with the entire rate increase. Mr. Watkins recommended that the same methodology be used to allocate the rate increase 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 the Company's revenue allocation proposal is premised on a flawed cost of service study and must be rejected. The OCA's recommended allocation is based on all of the evidence in this proceeding, including the results of a cost of service study conducted by the Company itself using the methodology that guided PPL's own proposals in the prior two cases, and provides a revenue allocation that moves all customer classes closer to cost of service. The OCA submits that the recommended revenue allocation methodology proposed by OCA witness Watkins should be accepted for use in this proceeding.

## II. SUMMARY OF REPLY ARGUMENT

As fully demonstrated in the OCA Main Brief and as further set forth in this Reply Brief, the OCA submits that the Company's proposed allocation of the entire rate increase to the residential customer class 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. Similarly, the proposed allocation of the Settlement rate increase proposed by the OSBA, including its proposal to further increase the residential rates in order to reduce the current rates of the commercial classes, is based on a flawed cost of service study methodology. Additionally, the OSBA's proposal is inequitable in light of the increase in rates here and it moves several classes in the wrong direction relative to the system average return.

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' 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 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 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. The Company based its allocation on the cost of service study originally filed in this proceeding, a study that contained a material change in methodology from past PPL practice. See, Tr. at 429; PPL St. 7-R at 10.

The OCA presented the testimony of Glenn A. Watkins contesting the Company's cost of service methodology and the proposed revenue allocation to the rate classes. 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 results of Mr. Watkins' cost of service study is closely aligned with the cost of service study methodology utilized by the Company in its 2004 and 2007 base rate proceedings. 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 that was used by PPL in its past base rate cases, as a guide to his revenue allocation decision. 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 principle 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 principle 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.

1. PPL's New Cost of Service Study Analysis Cannot Be Relied Upon.

a. Introduction.

In its Main Brief, PPL argues that its new Cost of Service study, as updated in its Exhibit JMK-2A, should be accepted for use in this proceeding to guide the revenue allocation. PPL MB at 14-21. PPL's new preferred cost of service study contains what the Company has acknowledged is a material change in methodology from its own prior cost studies presented in its 2004 and 2007 base rate cases. PPL St. 7-R at 9-10. As detailed in the OCA's Main Brief, the Company's new study improperly classifies the joint costs of its Primary and Secondary distribution plant as substantially customer-related and only partially demand-related. OCA MB at 21-30. The result of this mis-classification is to dramatically increase the costs assigned to the Residential class as compared to the Company's own prior methodology, thus reducing the return of this class as compared to the system average.

While arguing in support of its preferred cost of service study, the Company claims that the OCA has "predictably" made revisions to its analysis that would benefit residential customers. PPL MB at 16. The OCA strongly disagrees with this statement as the OCA has fully supported its cost of service analysis. This statement by the Company, however, begs the following question: Why, for the first time and without any detailed explanation in its original filing, is the Company proposing a material change in its cost of service study methodology that shifts hundreds of millions of dollars in costs to the Residential class? This question is particularly relevant in this case, where the parties agree that this case is the third in a

series of rate cases designed to move costs for each rate class “at or near” cost of service. Just as the Residential class was approaching the goal line, the Company materially changed its methodology and moved the goal line further back. The Company has provided no cogent reason or support for this material change at this time.

For the reasons set forth in its Main Brief, and for the reasons detailed in the responses below, the OCA submits that the Company’s new cost of service study must be rejected.

- b. The Company Has Not Shown That The Classification Of Distribution Plant Investment As Partially Customer-Related Is Appropriate.
  - i. Classification Of Primary and Secondary Distribution Plant As Demand-Related Is Not Extreme Or Unprecedented As The Company Asserts.

As noted, in this case PPL made a material change in its cost of service study so as to classify its primary and secondary distribution plant as partially customer-related and partially demand-related. In its Main Brief, PPL argues that the OCA’s criticism of this change in methodology should be rejected. PPL MB at 21-26. The Company begins its argument by arguing that OCA witness Watkins’ position that PPL’s distribution system should be classified as demand-related without a customer component is “extreme and unprecedented.” PPL MB at 21.<sup>1</sup> The Company’s argument is surprising to say the least, as in its prior two base rate cases, the Company itself used a demand classification for its primary distribution plant with no customer component. PPL St. 7-R at 9-10.

Moreover, OCA witness Watkins testified that the Pennsylvania Commission utilizes a “demand-only” methodology with no customer component for comparable facilities of

---

<sup>1</sup> The OCA does not dispute the Company’s position that “services and meters” be allocated on a customer basis. Here, the parties are disputing the classification of primary and secondary distribution plant.

gas distribution companies and that there is no theoretical reason to differentiate between these two types of utilities. OCA St. 3-S at 6. In addition, OCA witness Watkins testified that, while most state Commissions (including Pennsylvania) do not sanction a particular type of cost of service study, the state of Washington applies his demand-only cost of service methodology for electric distribution utilities. See, e.g., Washington Utilities and Transportation Comm'n v. Puget Sound Power & Light Company, Docket No. UE-920499, 1993 Wash. UTC LEXIS 65 (August 16, 1993) at \*15-\*17 (where the Washington Utilities and Transportation Commission selected a cost of service study for electric distribution service "which treats substations, poles, towers, conduit, and transformers as demand-related" and where the Washington Commission specifically rejected the Minimum System approach in that proceeding and going forward). Mr. Watkins testified:

**Q. VARIOUS REBUTTAL WITNESSES MENTION INDUSTRY PRACTICES. DO YOU HAVE ANY COMMENTS CONCERNING ACCEPTED INDUSTRY COST ALLOCATION PRACTICES?**

A. Yes. My 30-years experience as a cost allocation practitioner, which has included expert testimony on more than 100 occasions, and a nation-wide practice speaks for itself. The conceptual arguments for and against the classification of distribution plant as demand or customer-related are nearly identical between the natural gas distribution and electric distribution industries. This Commission has a long standing history and practices of not considering any portion of natural gas distribution Mains as customer-related. Indeed, this Commission has ruled time and again that natural gas distribution Mains should not be allocated even partially on number of customers and that average annual and peak demands should be reflected in the allocation of Mains costs.

Furthermore, most state Commissions do not sanction any one particular CCOSS method. However, in Washington State, the Utilities and Transportation Commission has a long standing practice of classifying all electric distribution plant

(up to the service line) for all electric utilities in the State as 100% demand-related; i.e., 0% customer-related.

OCA St. 3-S at 5-6. Thus, the Company's claim that Mr. Watkins' position is "extreme and unprecedented" is not supported.

The OCA would also note that the Company presented the results of a "no-customer component" cost of service study in its Exhibit JMK-5. Exhibit JMK-5 contains a "50-50 Demand-Energy Allocators" cost of service study that is best described as a "peak and average" study. In his Direct testimony, Company witness Krall discussed the results contained in Exhibit JMK-5, noting "cost-of-service is an art, not a science, and there is clearly no universally accepted method for conducting such studies." PPL St. 7 at 21. Upon examining the results contained in Exhibit JMK-5, including the "no-customer component" cost of service study, Mr. Krall testified that each study "begins with assumptions that, while different, *are not unreasonable.*" PPL St. 7 at 22. (emphasis added).

The Company's claims in its Main Brief on this issue must be rejected. Far from being "extreme and unprecedented," OCA witness Watkins' position is consistent with this Commission's practice for natural gas utilities, specifically endorsed in other jurisdictions for electric distribution companies, and utilized in PPL's own prior studies where Primary distribution plant was classified as 100% demand-related.

- ii. OCA Witness Watkins' Analysis Demonstrates That A Customer-Based Classification Of Distribution Plant (Other Than Service And Meters) Is Not Reasonable In PPL's Service Territory.

The Company next asserts that its classification of Primary and Secondary distribution system costs as partially customer-related is supported by the NARUC Manual, and past practice. The Company offers an extreme hypothetical to illustrate its point, arguing that it

would cost much more to design and build a distribution system for a million customers, than it would be to serve one customer with the same peak demand. PPL MB at 22. Even if the utility could find the customized parts to serve this one massive customer, there would be no dispute as to the allocation of costs as part of a cost of service study for this hypothetical “one customer” utility. All costs would be incurred to serve that one customer, and all revenue would be collected from that customer. It would not matter whether the costs were allocated based on demand or customer basis, but the costs would be lower to this hypothetical customer if the peak demand of this one customer was lower. The issue here, though, is how to allocate joint distribution plant costs *among* the various customer classes.

OCA witness Watkins addressed the issue of how to allocate the costs of a distribution system like PPL’s system that is sized primarily to meet peak load. Mr. Watkins testified as follows:

PPL’s distribution system from the termination of the transmission system up to line transformers is unquestionably designed to meet potential peak loads. Line transformers are installation specific. Finally, service lines and meters investments are primarily incurred based on the number of customer connections. With the above explanation, we see that customer counts have no bearing on the design or installation of distribution facilities.

OCA St. 3-S at 4.

As Mr. Watkins also explained, the only technical reason to classify distribution plant as partially customer-related would be if there were considerable differences in both customer densities and mix of customers throughout the utility’s service territory. OCA St. 3 at 6. Mr. Watkins performed an in-depth analysis of the mix of customers across PPL’s service territory. OCA St. 3 at 10-12, Exh. GAW-2. Mr. Watkins’ analysis showed that PPL’s customer classes are all well represented throughout most of the urban population centers and most rural

regions. This customer mix and density does not support a customer classification. See, OCA MB at 23-27.

As OCA witness Watkins further explained, a customer density and mix study reflects understood principles of economic regulation. Mr. Watkins testified as follows:

The considerations I used to properly allocate PPL's distribution costs, which are also endorsed by Mr. Knecht in his direct testimony, are also advanced by Professor Bonbright in his well known treatise entitled Principles of Public Utility Rates. In his book, Dr. Bonbright states that there:

is the very weak correlation between the area (or the mileage) of a distribution system and the number of customers served by this system. For it makes no allowance for the density factor (customers per linear mile or per square mile). Our casual empiricism is supported by a more systematic regression analysis in (Lessels, 1980) where no statistical association was found between distribution costs and number of customers. Thus, if the company's entire service area stays fixed, an increase in number of customers does not necessarily betoken any increase whatever in the costs of a minimum-sized distribution system.

OCA St. 3-S at 5. (footnotes omitted). Mr. Watkins' study directly tests the underlying rationale for allocating costs on a customer basis. The results of his analysis demonstrate that the customer-related classification of Primary and Secondary distribution plant in this case should be rejected.

The Company argues that OCA witness Watkins' study concerning the mix of PPL's customers across the service territory does not support rejection of PPL's classification of distribution costs as customer-related. PPL MB at 23-25. The crux of the Company's argument rests on its pre-determined conclusion that "PPL Electric's distribution costs are incurred and vary based on the number of customers connected to the system and the demand imposed by

those customers on the system.” PPL MB at 25. PPL again points to its flawed hypothetical, discussed above, arguing that “a utility distribution system with one customer will look quite different from one with one million customers.” PPL MB at 25. But as Mr. Watkins demonstrated, the PPL system is not a one customer system, rather it is one of a million customers or more with each customer class represented in a reasonably proportional manner in both urban and rural areas.

Lastly, the Company argues that Mr. Watkins’ customer mix and density study ignores that there are “so many more” residential customers that they need to bear a greater proportion of distribution plant cost. PPL MB at 25. The OCA submits that this conclusory statement does nothing to challenge the rationale behind allocating costs on a demand-related basis. As detailed above, the distribution costs at issue here are engineered and built to meet peak load. The Company’s distribution system is designed to meet the peak loads of all customers throughout its service territory, and as OCA witness Watkins’ study demonstrated, those customers represent all of the rate classes on a relatively uniform basis. See, OCA MB at 23-27. The OCA submits that the Company’s arguments on this issue should be rejected.

iii. Conclusion.

As detailed above and in the OCA’s Main Brief, the Company’s arguments in support of a customer component are without merit. The Commission should not accept the Company’s flawed study in this case. The OCA’s recommended study accurately reflects actual cost causation in PPL’s service territory and should be accepted for use as the primary guide for revenue allocation in this proceeding.

c. The Company's Minimum System Approach Is Flawed.

In its Main Brief, the Company argues that the OCA's criticisms of its minimum system study, used to determine the "no load" portion of its distribution system in order to classify costs as customer-related, are without merit. PPL MB at 27-30. The OCA disagrees with the Company's position. As detailed in the examples contained in the OCA's Main Brief (pp. 27-30), the technical flaws in Mr. Kleha's minimum system study render it unusable for determining a customer/demand split.

For example, the Company's record keeping practices limit its ability to develop a true "minimum" system study. Using overhead conductors as an example, the Company records its smallest wire sizes as "1/0 and below." This designation of wires serves as the basis for determining the minimum size cost per foot of conductor—despite the fact that this aggregate grouping includes the vast majority of overhead conductor footage. OCA St. 3 at 15-16. This example is one of several provided by OCA witness Watkins in his Direct testimony. See, OCA St. 3 at 14-17. As a result of these types of deficiencies, the OCA submits that PPL's minimum system study must be disregarded.<sup>2</sup>

d. The Company's Criticism of the OCA's "Peak And Average" Analysis Is Misplaced And Should Be Rejected.

In its Main Brief, the Company argues that the "peak and average" cost of service study presented by OCA witness Watkins as part of his cost of service analysis should be rejected. PPL MB at 30-31. The Company indicates that there was confusion as to which study was recommended by OCA witness Watkins. PPL MB at 30. The OCA submits that there is no confusion as Mr. Watkins has consistently stated throughout this proceeding that his preferred

---

<sup>2</sup> As noted earlier, the Washington Commission has specifically rejected the Minimum System approach. See, Washington Utilities and Transportation Comm'n v. Puget Sound Power & Light Company, Docket No. UE-920499, at \*17, 1993 Wash. UTC LEXIS 65 (August 16, 1993).

cost of service study to be used as a guide in this proceeding is the study that allocated Primary and Secondary distribution plant on a 100% non-coincident peak (NCP) demand basis. See, OCA St. 3 at 25-26; OCA St. 3-S at 1-2, 5, 7.

The OCA detailed Mr. Watkins' recommended cost of service study in its Main Brief (pp. 30-35). The OCA submits that Mr. Watkins has clearly stated that he reviewed the results of the peak and average analysis but did not use this study as his primary guide. In his Direct Testimony, Mr. Watkins described the study he was recommending for primary consideration, as follows:

**Q. MR. WATKINS, WHAT CCOSS 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. (emphasis added). While OCA witness Watkins analyzed the impact of allocating demands on both a peak usage and average usage basis, and testified that the rationale supporting its acceptance is the same as in the gas industry, he did not ultimately recommend primary consideration of that cost of service study. The OCA submits that Mr. Watkins recommended study allocates 100% of demand related costs on a non-coincident peak basis.<sup>3</sup> The Company's argument regarding reliance on the peak and average study is a red herring.

---

<sup>3</sup> The Company's argument that the Peak and Average study provides the only support for the OCA's allocation to rate schedule GS-3 is incorrect. PPL MB at 31. The OCA detailed its allocation proposal, along with

- e. The OCA's Proposed Allocators Accurately Reflect The Cost of Providing Service And Should Be Adopted.

In its Main Brief, the Company argues that OCA witness Watkins hand-picked certain allocators that PPL used in its study for certain administrative and general accounts in order to provide more favorable results for residential customers. PPL MB at 32-33. The OCA submits that, to the contrary, those allocators chosen by OCA witness Watkins properly reflect the cost of providing service and should be adopted as part of Mr. Watkins recommended cost of service study. See, OCA MB at 30-33.

It is important to note, however, that the practical effects of these additional adjustments are negligible. OCA witness Watkins explained the impact of these adjustments to the allocators as follows:

**Q. ON PAGES 25 THROUGH 27 OF HIS REBUTTAL TESTIMONY, MR. KLEHA DISCUSSES HIS DISAGREEMENT WITH YOUR SELECTION OF ALTERNATIVE ALLOCATORS FOR A FEW ADMINISTRATIVE AND GENERAL EXPENSES. DO YOU HAVE ANY COMMENTS CONCERNING HIS REBUTTAL?**

A. Yes. Mr. Kleha's comments should be put into perspective. On pages 22 and 23 of my direct testimony, I explained that I modified Mr. Kleha's selection of certain allocators for specific accounts to correct for inconsistencies for some accounts and to use what I consider more appropriate allocators for a few Administrative and General expense accounts. Apparently, Mr. Kleha has no disagreement with my changes to correct for inconsistencies. The remaining differences that Mr. Kleha takes issue with relate to the allocation of a few Administrative and General overhead accounts **and are so minor that they have no material impact on class rates of return regardless of the allocator selected.**

---

the underlying rationale, in its Main Brief. See OCA MB at 40-45. The OCA further addresses the revenue allocation of GS-3 in the Revenue Allocation section of this Reply Brief, below.

OCA St. 3-S at 6 (emphasis added). The OCA submits that, while the administrative and general allocators used by Mr. Watkins are reasonable, these adjustments do not significantly impact the results of the cost of service studies used to guide the revenue allocation in this proceeding.

2. The OSBA's Cost of Service Study Is Also Flawed.

In its Main Brief, the OSBA supports its own cost of service study, "IEc Update COSS", which generally reflects the methodology employed by the Company, with the exception being that substation plant should be classified as 100 percent demand-related. OSBA MB at 5. The OSBA also developed a second cost of service study, "PPL Prior Method COSS", using the same methodology from the Company's prior distribution base rate cases. OSBA MB at 5. The OSBA's "IEc Update COSS" is essentially the same methodology as contained in PPL Exhibit JMK-2A, the Company's new methodology. The OSBA's "PPL Prior Method COSS" is essentially the same methodology as contained in PPL Exhibit JMK-2B. The OCA submits that, for the same reasons the Company's cost of service study fails, the OSBA cost of service studies fail to accurately reflect cost causation and should be rejected.

In its Main Brief, the OSBA argues that OCA does not believe that any distribution costs should be allocated based on the number of customers. OSBA MB at 7. This is an overstatement of the OCA's position. OCA witness Watkins agrees with the Company and OSBA that service and meters are customer-related and should be classified as customer-related and allocated based on customer counts. OCA St. 3 at 18. The issue raised by the OCA concerns the Primary and Secondary distribution facilities.

The OSBA then argues that there are two uncontested "observations" concerning the allocation of common distribution plant: 1) the NARUC cost manual recommends that common distribution plant be classified as part demand-related and part customer-related, and 2)

the Pa PUC has not adopted a demand-only cost study in any previous PPL case. The assertion that these are uncontested “observations” is fundamentally flawed. Taking the OSBA’s second “uncontested observation” first, while it is true that the Commission has not adopted a demand-only cost study in any previous PPL case, it is also true that the Commission has not adopted the substantial customer-related/partially demand-related study now proposed by PPL and OSBA either.<sup>4</sup> The OSBA’s observation on this point should be afforded no weight.

With regard to OSBA’s observations about the NARUC cost manual, the manual provides allocation methodologies that are in use by regulatory commissions, but each commission must still apply a just and reasonable standard based on the facts of each case. Moreover, PPL’s own history demonstrates that the NARUC manual has not governed how it allocates costs. As discussed at great length above and in the OCA’s Main Brief, the Company has not followed the NARUC manual referenced by OSBA for the allocation of Primary distribution plant prior to this proceeding. It cannot be the case that the NARUC manual establishes some kind of binding precedent when the Company’s own practices have not utilized certain portions of that publication.

---

<sup>4</sup> The Commission did not sanction any particular cost of service study in PPL’s last fully litigated base rate proceeding in 2004. In the 2004 case, Administrative Law Judge Turner addressed the cost of service studies in that proceeding as follows:

The ALJ remains mindful that cost of service studies are not regarded as fully accurate studies, and that their primary function is to allow the Commission to use them as a guide. **The ALJ does not recommend that the Commission adopt either PPLEU’s or OCA’s COSS**, and rejects US DOD’s request that the Commission should define the kind of COSS it wants to receive in the future. However, in this case, the ALJ recommends that the Commission rely primarily on the Company’s study for guidance.

Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-00049255, 2004 Pa. PUC LEXIS 41 (October 21, 2004) at 144 (emphasis added).

The Commission, remaining silent on the issue in its Order and having adopted ALJ Turner’s Recommended Decision except where specifically modified, refused to endorse any particular study in that proceeding. Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-00049255, 2004 Pa. PUC LEXIS 40 (December 2, 2004) at \*117-\*119, \*144-\*145.

The OCA further submits that OSBA's reliance on the NARUC manual to support its cost of service study methodology, which is the substantially the same as the Company's methodology, is misplaced in this instance. The NARUC manual provides a generalized guide for generic use—it does not, nor could it, recognize the impact of its recommendations in every instance for every utility service territory. OCA witness Watkins explained that the methodological support for his position is found in the economic literature which he tested through a study specific to PPL's service territory. In particular, OCA witness Watkins noted the considerations advanced by Professor Bonbright in his treatise entitled Principles of Public Utility Rates. In his treatise, Professor Bonbright stated that there is a very weak correlation between the mileage or area of a distribution system and the number of customers served by the system, noting an analysis that showed no statistical association between distribution costs and number of customers. OCA St. 3-S at 5.

Indeed, OSBA witness Knecht's explanation of the underlying rationale for allocating costs on a customer-basis does not contradict Mr. Watkins' testimony on this issue. Mr. 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).

In light of this underlying rationale, the OCA's witness tested the hypothesis against the actual condition of PPL's distribution service territory. See, OCA M.B. at 23-27. As discussed above, OCA witness Watkins provided a detailed study of the Company's customer mix and density, and found that the PPL service territory contained a mix of all customer types in a relatively uniform spread throughout the service territory.<sup>5</sup> No witness seriously challenged the results of Mr. Watkins' customer density study. See, OCA St. 3-S at 2-3. Without the underlying rationale for classifying a portion of common costs on a customer-basis, Mr. Watkins classified distribution costs (except service and meters) on a demand basis and allocated those costs on a non-coincident peak basis—reflecting the actual engineering behind the construction of the system.

The OCA submits that the Commission should not rely on any cost of service study that classifies a large portion of common distribution costs on a customer-related basis as does the OSBA's cost of service study. OCA witness Watkins has demonstrated that such a classification is unreasonable.

C. Revenue Allocation Issues.

1. The PPL Allocation Is Not Reasonable And Should Be Rejected.

In its Main Brief, the Company explains the rationale upon which it allocated virtually the entire proposed revenue increase to the Residential customer class. PPL MB at 34-37. The OCA submits, however, that the Company has relied on a flawed cost of service study to guide its revenue allocation. The OCA detailed its position in its Main Brief and will not repeat all of those arguments here. See, OCA MB at 40-45.

---

<sup>5</sup> As discussed in Section III.B.1.ii of this Reply Brief, the Company's criticism of the implications resulting from Mr. Watkins customer density study are without merit.

Importantly, in its Main Brief, the Company has acknowledged that if the Commission decides to rely primarily on the cost of service study presented in its Exhibit JMK-2B (the 2004/2007 methodology), then the revenue allocation should be revised. PPL MB at 39. Under such a revision, the Company acknowledges that the Residential class should not be allocated the entire amount of the increase as PPL has proposed. PPL MB at 39.

The OCA submits that the Company's recognition that Exhibit JMK-2B does not support the Company's proposed allocation in this case is critically important. In this case, OCA witness Watkins considered the Company's cost of service study results under the 2004/2007 method, and concluded that his allocation was reasonable when reviewing the results of that study. Mr. Watkins testified:

**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. In its prior cases, the PPL study methodology contained in JMK-2B guided the Company's allocation recommendations. The OCA submits that the Company's revenue allocation now, guided by a materially changed cost of service study, must be rejected. The OCA's proposed allocation is reasonable under the Company's prior cost of service methodology and under the OCA's cost of service methodology. The OCA's revenue allocation should be accepted.

2. The Company's Criticisms Of The OCA Revenue Allocation Proposal Are Without Merit And Should Be Rejected.

In its Main Brief, the Company argues that the OCA's proposed revenue allocation should be rejected because it is influenced by improperly conducted cost of service studies. PPL MB at 40-41. As detailed above and in its Main Brief, the OCA submits that its allocation is guided by a reasonable cost of service study that reflects cost causation in PPL's service territory. See, OCA MB at 40-45. The OCA's revenue allocation is also fully supported by the Company's own 2004/2007 cost of service methodology studies. OCA St. 3-S at 7.

The Company further argues that the OCA relies heavily on the Peak and Average study in making its revenue allocation proposal for rate schedule GS-3. PPL MB at 41. The OCA submits that the Company's argument is misplaced. As previously discussed, while OCA witness Watkins considered all of the cost of service evidence, primary consideration was given to his non-coincident peak demand-related study. OCA St. 3 at 25-26.

Based on the results of his demand-based cost of service study, OCA witness Watkins recognized three basic categories of customer classes when determining an appropriate revenue allocation: customer classes that were well above system average and warranted no increase (*e.g.*, GS-1); customer classes that were well below system average that warranted an increase, but moderated to prevent rate shock (*e.g.*, LP-5); and customers that should bear most of the remainder of the increase (*e.g.*, RS). Recognizing that rate class GS-3 did not fit squarely into any category, but had a class return of 7.1% when the Company was requesting a return of 9.1%, OCA witness Watkins recognized that some increase, though moderated, was needed for

GS-3. OCA St. 3 at 28.<sup>6</sup> To achieve this, Mr. Watkins proposed an increase for GS-3 capped at 80% of the system-wide percentage increase, *i.e.* a less than system average increase.

Under Mr. Watkins' preferred cost of service study, Rate schedule GS-3 had a return of 7.1% at current rates (compared to the system return of 6.3%). OCA St. 3 at 27. The classes that Mr. Watkins proposed not be allocated a revenue increase, GS-1, LPEP, and Lighting, had returns of 12.9%, 16.6%, and 11.1%, respectively. *Id.* The Company was proposing a system-wide return of 9.1% at proposed rates. Clearly, Mr. Watkins' treatment of GS-3 was reasonable given the difference in returns among these classes in relation to the proposed system-wide return. The OCA's revenue allocation recommendation is not, as the Company asserts, premised on adoption of the peak and average study presented in Mr. Watkins' testimony nor is it unreasonable.

3. A Proportional Scale Back Methodology From The OCA's Revenue Allocation Is Reasonable For The Lower Revenue Increase.

In its Main Brief, the Company recognized that its original allocation should be adjusted to account for the revenue increase contained in the Partial Settlement. PPL MB at 42. The Company argues that the allocation should be proportionally scaled back, such that the residential customers continue to pay the entire increase, no more and no less. *Id.*

The OCA agrees that the Company's proposal for a proportional scale back is reasonable, but it must start from OCA's allocation of the full rate increase, not the Company's allocation of virtually the entire rate increase to the Residential customer class. The OCA agrees that those customer classes that were allocated an increase at the full revenue increase should pay

---

<sup>6</sup> In discussing his class revenue allocation on page 28, Mr. Watkins specifically references the GS-3 rate of return of 7.1% which is from his demand-based cost of service study results shown on page 27, Table 8(A), last column.

a proportionally lower portion of the increase to reflect the settlement revenue requirement. The results of a proportional scale back of the OCA's proposed allocation are as follows:<sup>7</sup>

**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%
<b>SYSTEM TOTAL</b>	<b>\$114,675</b>	<b>17.14%</b>	<b>\$77,500</b>	<b>11.58%</b>

Source: OCA St. 1 at 27-30.

As the above chart demonstrates, and as detailed in the OCA's Main Brief (pp. 8-10, 45-46), Residential customers would still pay well above the average percentage increase (14.65% vs. 11.58%) and would indeed still bear 78% of the entire increase. The OCA submits that a proportional scale back of the OCA's revenue allocation is reasonable and should be adopted in this case.

4. The OSBA Revenue Allocation Is Unreasonable.

The OSBA proposed an allocation of the originally filed increase that was largely similar to the PPL proposed revenue allocation as filed. Under the OSBA's allocation at \$114.7 Million, residential customers would have borne \$111.4 Million of the \$114.7 Million increase, or over 97% of the increase. The OCA addressed the Company's allocation above and those

<sup>7</sup> The mathematical effect of the OCA's revenue allocation methodology at the \$77.5 settlement increase results in a proportional scale back of OCA witness Watkins allocation of the Company's \$114.7 Million original request.

arguments are equally applicable to the OSBA's revenue allocation at the full requested amount. The OSBA then proposes a different methodology if the rate increase is less than the full amount. This OSBA methodology, called First Dollar Relief, is also unreasonable, as discussed next.

5. The OSBA's "First Dollar Relief" Proposal Is Unreasonable And Should Be Rejected.

The OSBA proposes a scale back method for the increase contained in the Partial Settlement referred to as "First Dollar Relief." Under First Dollar Relief ("FDR"), OSBA proposes to treat the difference between the requested revenue increase (\$114.7 Million) and the Commission-approved increase (\$77.5 Million if approved) as a source of funding to be used in part to *reduce* rates for some customer classes below current levels, in order to bring classes that are above the system average rate of return in the OSBA's preferred cost of service study down to the system average in an expedited manner. See, OSBA MB at 19. The result of the OSBA's proposal is that residential customers would pay *more than 100%* of the Company's total increase. The OCA submits that such a result is unreasonable and should not be accepted by the Commission.

The OSBA would assign the first \$18.1 Million of the \$37.2 Million FDR to decrease rates below current levels for Rate Schedules GS-1, GS-3 and LPEP. The OSBA proposes to apply the remaining \$19.1 million of the FDR fund to reduce the amount of the rate increases to all rate classes in proportion to class distribution revenues. OSBA MB at 20.

As can be seen on page 21 of the OSBA's Main Brief, at the \$77.5 Million overall revenue increase, the OSBA proposes that Residential customers pay a \$98.3 Million revenue increase. That is, residential customers will pay \$98.3 million of a \$77.5 million increase. The

OSBA would have the Residential customer classes pay for the full increase to PPL, plus an additional \$20.8 Million to fund rate reductions to other classes.

As the OCA explained in its Main Brief, the OSBA would treat the difference between the Company's requested \$114.7 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 what the OSBA terms rate class subsidies. See, OCA MB at 45-49. The OCA submits that the OSBA FDR proposal is unreasonable in several respects. First, a reduced amount of a rate increase does not provide a source of "funding" as OSBA assumes. The reduced revenue amount is what the Commission finds to be just and reasonable under Pennsylvania law.

Second, OSBA's position is based on a flawed cost of service analysis and would in fact result in the largest customer classes (in terms of distribution revenue) moving farther away from the cost of service. Mr. Watkins described the impact of the OSBA proposal under his recommended study, as follows:

Mr. Knecht's revenue allocation proposal is at odds with my class cost allocation findings for several of the largest classes. As an illustration, consider the allocated class rates of return at current rates and those generated under Mr. Knecht's proposed revenue allocation method utilizing an overall authorized increase of half that requested by PPL; i.e., \$57.338 million:

ROR Utilizing OCA CCOSS  
At \$57.338 Million Distribution Increase

Class	Current Rates		OSBA Proposed Rates	
	ROR	Indexed ROR	ROR	Indexed ROR
	RS	6.13%	97%	9.65%
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%

The largest two classes in terms of distribution revenue are the RS (\$410.3 million) and GS-3 (\$117.9 million) classes. As can be seen above, under Mr. Knecht's class revenue allocation proposal, the RS class moves from a relative (indexed) ROR of about unity (97%) at current rates to 125% under Mr. Knecht's mechanism. Similarly, as a result of Mr. Knecht's rate reduction to GS-3, this class moves from an indexed ROR of 111% to a deficient level of 63%. The GH class relative ROR also would move in the wrong direction under Mr. Knecht's proposal; i.e., from 57% to 39%.

OCA St. 3-R at 7-8. (footnotes omitted).

OCA witness Watkins also explained why the OSBA's proposed allocation is unreasonable from a public policy perspective, as follows:

While allocated cost of service should play an important role in the ratemaking process, it should not be the sole criterion for establishing class revenue responsibility. That is, on an individual case basis, class revenues should move closer to allocated cost of service. However, these movements should be tempered to recognize gradualism, continuity, and the potential for rate shock. In other words, while allocated cost of service should serve as a guiding light, or polestar, it should not be the sole criterion considered at the exclusion of other recognized ratemaking principles.

OCA St. 3-R at 8-9.

Mr. Watkins further testified as to why providing the significant rate reductions that result from the First Dollar Relief proposal is inequitable. Mr. Watkins testified:

While there may be differences of opinion as to magnitude, I believe it is fair to say that all parties agree that PPL's overall cost of providing distribution service to its customers has increased since its last general rate case. PPL's current rates were established in 2007 and were deemed fair and reasonable at that time. After approximately three years, PPL's costs have increased such that some increase in rates is required in order for PPL to recover its cost of providing service. As a matter of public policy, the collective public interest is not well served by substantially decreasing some rates at the expense of other customer classes when the overall cost of service is found to have increased.

OCA St. 3-R at 9-10.

As Mr. Watkins explained, the OSBA's proposal results in some classes paying more than the total approved rate increase to give rate decreases to other classes. The OSBA's proposal is not reasonable nor is it legally required.<sup>8</sup>

6. PPLICA's Cost Of Service Analysis and Revenue Allocation Position Must Also Be Rejected.

In its Main Brief, PPLICA argues that PPL's cost of service study should be used by the Commission in this proceeding for assessing distribution related rates of return for each rate schedule. PPLICA MB at 9. PPLICA recognizes that the Company has for the first time classified a portion of its primary distribution system as customer-related.

Using the new PPL 2010 cost of service study methodology as a starting point, PPLICA argues that the Company's allocation methodology should be accepted as filed. The PPLICA position relies entirely on acceptance of the Company's 2010 methodology for support.

---

<sup>8</sup> The OSBA proposal would tie the ultimate allocation of revenues directly to its preferred cost of service study. As noted earlier, the Commission has not, nor is it required to, select a single study to which it would mechanically tie its revenue allocation.

PPLICA supports this new methodology while recognizing that “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.” PPLICA MB at 11.

PPLICA points to the testimony of Company witness Krall as support for the Company’s proposed revenue allocation. Specifically, PPLICA points to Mr. Krall’s Direct Testimony, where he testified that while the 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 St. 6 at 20.

As detailed in the OCA’s Main Brief, PPL witness Krall confirmed during cross examination that the study referenced in his Direct Testimony is the new PPL 2010 Methodology cost of service study. In Rebuttal testimony, the Company explained that if the Company’s prior method, used primarily by the Commission and most parties in the prior two cases was the primary guide here, a different allocation would be justified. PPL witness Krall testified as follows:

If, however, 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...a reduction from the Company’s proposal should be made for Rate Schedule RS.

PPL St. 6-R at 22. As Mr. Krall’s testimony makes clear, and as the Company has now acknowledged in its Main Brief, the Company’s revenue allocation proposal that assigns virtually the entire rate increase to the Residential class should be modified if its 2004/2007 cost of service study methodology is used as a primary guide in this case. See, PPL MB at 39. Under the 2004/2007 cost of service method, the Company noted that residential customers should see a

lower increase in rates, while LP-4/IS-P, LP-5 and LP-6 would take on some of the increase.<sup>9</sup> Id. This movement is consistent with OCA witness Watkins' revenue allocation. OCA St. 3-S at 7.

The OCA submits that the PPLICA revenue allocation position is unreasonable because it relies on PPL's new methodology in what it recognizes as a "third in a series of distribution cases" in which PPL is moving rates to "at or near" the full cost of providing service. PPLICA MB at 11. To the extent the Commission was to accept the PPLICA position that it is reasonable to tie revenue allocation to a cost of service study, it should not accept the proposition inherent in PPLICA's position that the study to be relied upon is PPL's new study.<sup>10</sup>

D. Conclusion.

As detailed in its Main Brief, the OCA submits that its recommendations concerning cost of service and revenue allocation in this proceeding are reasonable. The OCA's recommendations apply appropriate cost of service and ratemaking principles. In addition, the OCA's recommendations meet the goals of the prior settlement resulting in rates that are just and reasonable and are guided primarily by cost causation, consistent with Lloyd. The OCA submits that nothing contained in the arguments advanced by the parties in opposition to the OCA's recommendations or in support of their own positions changes the fact that it is wholly unreasonable to assign 100% *or more* of the Company's revenue increase to residential customers. The OCA submits that the OCA's recommendations set forth above and in its Main Brief should be adopted by the Commission.

---

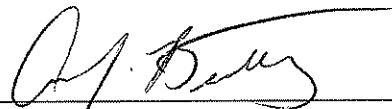
<sup>9</sup> Under PPL's 2004/2007 cost of service methodology, rate schedule LP-4 provides a return of 2.25% (compared to a system return of 6.33%). See, OCA St. 1 at 9.

<sup>10</sup> In the last fully litigated PPL distribution proceeding in 2004, PPLICA supported the Company's cost of service study (i.e., the 2004/2007 method), and based its allocation proposals on movement toward costs as defined by that cost of service study. See RD of ALJ Turner at 151, 2004 Order at 80

#### IV. Conclusion

For the reasons discussed above, and those set forth in the Main Brief of the OCA, the Commission should adopt the cost of service study and revenue allocations recommended by the OCA in this proceeding.

Respectfully Submitted,



Aron J. Beatty  
Assistant Consumer Advocate  
PA Attorney I.D. # 86625  
E-Mail: [ABeatty@paoca.org](mailto:ABeatty@paoca.org)  
Jennedy S. Johnson  
Assistant Consumer Advocate  
PA Attorney I.D. # 203098  
E-Mail: [JJohnson@paoca.org](mailto:JJohnson@paoca.org)  
Darryl Lawrence  
Assistant Consumer Advocate  
PA Attorney I.D. # 93682  
E-Mail: [DLawrence@paoca.org](mailto:DLawrence@paoca.org)  
Tanya J. McCloskey  
Senior Assistant Consumer Advocate  
PA Attorney I.D. # 50044  
E-Mail: [TMcCloskey@paoca.org](mailto:TMcCloskey@paoca.org)

Counsel for:  
Irwin A. Popowsky  
Consumer Advocate

Office of Consumer Advocate  
555 Walnut Street 5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152  
September 11, 2010

00133536.docx

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 Reply 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 13th day of September 2010.

SERVICE BY E-MAIL AND INTEROFFICE MAIL

Richard Kanaskie, Esquire  
Lawrence L. Barth, Esquire  
Office of Trial Staff  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17105-3265

SERVICE BY E-MAIL and FIRST CLASS MAIL

Paul E. Russell  
Associate General Counsel  
PPL Electric Utilities Corporation  
Two North Ninth Street  
Allentown, PA 18101-1179

John H. Isom, Esquire  
Michael W. Gang, Esquire  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601

Joseph L. Vullo, Esq.  
1460 Wyoming Avenue  
Forty Fort, PA 18704

Eric J. Epstein, Esq.  
4100 Hillsdale Road  
Harrisburg, PA 17112

Todd S. Stewart, Esq.  
Hawke McKeon & Sniscak LLP  
100 North Tenth Street  
Harrisburg, PA 17101

Kenneth L. Mickens, Esq.  
316 Yorkshire Dr.  
Harrisburg, PA 17111

David B. MacGregor, Esquire  
Post & Schell, P.C.  
Four Penn Center  
1600 John F. Kennedy Boulevard  
Philadelphia, PA 19103

Steven Gray, Esquire  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North Second Street  
Harrisburg, PA 17101

John Costlow  
Dir. of Technical Services  
Sustainable Energy Fund  
of Central Eastern PA  
1005 Brookside Rd., Suite 210  
Allentown, PA 18106

Pamela C. Polacek, Esq.  
Shelby Linton-Keddie, Esq.  
McNees Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166

John K. Baille  
Citizens for Pennsylvania's Future  
425 Sixth Ave., Suite 2770  
Pittsburgh, PA 15219

Scott J. Rubin, Esq.  
333 Oak Lane  
Bloomsburg, PA 17815

Daniel Clearfield, Esq.  
Deanne M. O'Dell, Esq.  
Eckert Seamans Cherin &  
Mellott, LLC  
213 Market St., 8<sup>th</sup> Fl.  
P.O. Box 1248  
Harrisburg, PA 17108-1248

Craig A. Doll, Esq.  
25 West Second Street  
P.O. Box 403  
Hummelstown, PA 17036-0403

Thomas T. Niesen, Esq.  
Thomas, Long, Niesen & Kennard  
212 Locust St., Suite 500  
P.O. Box 9500  
Harrisburg, PA 17108-9500

SERVICE BY FIRST CLASS MAIL

Donald L. Foreman  
305 Hillside Rd.  
Elizabethtown, PA 17022-1206

Elaine B. Santarelli  
521 Second Ave.  
Jessup, PA 18434

Ashley A. Buck  
156 Johnson Drive  
S. Williamsport, PA 17022

George R. Snyder  
110 Homestead Dr.  
Stevens, PA 17578

Gerard Martin  
26 Brentwood Rd.  
Camp Hill, PA 17011

Neal P. Goodman  
PA House of Representatives  
G-07 Irvis Office Bldg.  
P.O. Box 202123  
Harrisburg, PA 17120-2123

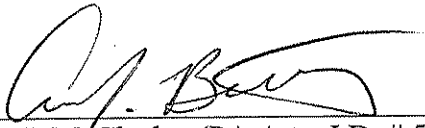
Shannon Stiffler  
2463 Mercer St.  
Harrisburg, PA 17104

Eugene R. Ruoff  
66 Stones Throw  
East Stroudsburg, PA 18301

Linda M. Johnson  
62 Stones Throw  
East Stroudsburg, PA 18301

Peter Greiger  
1810 Ridge Road  
Elizabethtown, PA 17022

Elaine & Clayton Andrews Jr.  
2014 Evergreen Dr.  
Tamaqua, PA 18252



---

Tanya J. McCloskey (PA Atty. I.D. # 50044)

Senior Assistant Consumer Advocate

E-Mail: [TMcCloskey@paoca.org](mailto:TMcCloskey@paoca.org)

Aron J. Beatty (PA Atty. I.D. #86625)

Assistant Consumer Advocate

E-Mail: [ABeatty@paoca.org](mailto:ABeatty@paoca.org)

Jennedy S. Johnson (PA Atty. I.D. #203098)

Assistant Consumer Advocate

E-Mail: [JJohnson@paoca.org](mailto:JJohnson@paoca.org)

Darryl A. Lawrence (PA Atty. I.D. #93682)

Assistant Consumer Advocate

E-Mail: [DLawrence@paoca.org](mailto:DLawrence@paoca.org)

Counsel for:

Irwin A. Popowsky

Consumer Advocate

Office of Consumer Advocate

555 Walnut Street

5th Floor, Forum Place

Harrisburg, PA 17101-1923

Phone: (717) 783-5048

Fax: (717) 783-7152

127742