

COMMONWEALTH OF PENNSYLVANIA



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September 13, 2010

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**HAND DELIVERED**

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

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

Dear Secretary Chiavetta:

Enclosed for filing are the original and nine (9) copies of the Reply Brief, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Steven C. Gray" with a stylized "WLL" below it.

Steven C. Gray  
Assistant Small Business Advocate  
Attorney ID #77538

Enclosures

cc: Parties of Record

Robert D. Knecht

SECRETARY'S BUREAU  
PA PUC

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :  
v. : DOCKET NO. R-2010-2161694  
PPL Electric Utilities Corporation :

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REPLY BRIEF  
ON BEHALF OF THE  
OFFICE OF SMALL BUSINESS ADVOCATE

Steven C. Gray  
Assistant Small Business Advocate  
Attorney ID # 77538

For: William R. Lloyd, Jr.  
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Dated: September 13, 2010

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APPENDIX A

REVENUE ALLOCATION ANALYSIS

**TABLE OF AUTHORITIES**

**Cases**

*Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010  
(Pa. Cmwlth. 2006), *appeals denied*, 916 A.2d 1104 (Pa. 2007) ..... 2

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## **I. Introduction**

On March 31, 2010, PPL Electric Utilities Corporation (“PPL” or the “Company”) filed with the Pennsylvania Public Utility Commission (“Commission”) a request for additional annual distribution revenues of \$114.675 million.

On May 20, 2010, the Commission suspended the proposed effective date of the increase and instituted an investigation into the justness and reasonableness of the issues raised in the PPL filing.

On April 29, 2010, the Office of Small Business Advocate (“OSBA”) filed a complaint against the PPL filing.

On May 26, 2010, a prehearing conference was held before Administrative Law Judge (“ALJ”) Susan D. Colwell.

On May 27, 2010, ALJ Colwell issued her Scheduling Order.

On June 29, 2010, the OSBA submitted the direct testimony of Robert D. Knecht. On July 27, 2010, the OSBA submitted the rebuttal testimony of Mr. Knecht. On August 5, 2010, the OSBA submitted the surrebuttal testimony of Mr. Knecht.

On August 26, 2010, the parties filed a partial settlement, which established \$77.5 million as the revenue requirement. The OSBA did not sign the partial settlement but also did not oppose it. Under the partial settlement, numerous issues, *e.g.*, cost of service and revenue allocation, were reserved for litigation.

Evidentiary hearings were held in Harrisburg on August 11, 2010.

The OSBA submitted a main brief on September 2, 2010.

The OSBA submits this reply brief pursuant to the procedural schedule set forth in ALJ Colwell’s May 27, 2010, Scheduling Order.

## II. Summary of Reply Argument

- The OCA cost of service study should not be adopted as the basis for the revenue allocation and rate design decisions in this proceeding.
- The OCA revenue allocation should be rejected because it is inconsistent with both of the Company's cost of service studies and with *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006), *appeals denied*, 916 A.2d 1104 (Pa. 2007).
- If the Commission rejects the OSBA's scaled back revenue allocation set forth in the OSBA's Main Brief, the Commission should nevertheless award first dollar relief to the GS-1 and LPEP customer classes because they are overpaying their cost of service under every cost of service study filed in this case.

### **III. Rate Structure**

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

##### **1. Moving the OCA's Goal Line**

The OSBA appealed the Commission's revenue allocation in PPL's 2004 base rate case at Docket No. R-00049255. In its appeal, the OSBA pointed specifically to the fact that the GS-1 customer class was subsidizing the residential customer class at present rates and would provide an even larger subsidy under the revenue allocation approved by the Commission. The Commonwealth Court reversed the Commission on the issue of revenue allocation and remanded for the development of a new allocation using cost of service as the "polestar." The Court acknowledged that gradualism may play a role in revenue allocation, but the Court indicated that there must be a plan for the elimination of subsidies. *Lloyd*, 904 A.2d at 1020.

In the remand proceeding before the Commission, PPL "committed to move all rate classes toward the system average rate of return and cost-based rates over three base rate cases." PPL Statement No. 7-R, at 5. In view of that commitment, this is the case in which rates should be set as nearly as possible to cost of service. OSBA Statement No. 3, at 7.

In its Main Brief, the OCA complained that, after making progress towards cost of service in the Company's last two base rate cases, PPL changed how that progress is to be measured. Specifically, the OCA expressed frustration that, after getting the residential rate class somewhat closer to cost of service in the two previous base rate cases, the Company's change in cost of service methodology in this proceeding eroded some of that progress. The OCA explained:

While PPL began this proceeding with the proper principles in developing its revenue allocation proposal, its implementation of these principles was seriously compromised by its reliance on a cost of service study that employed a new methodology for the

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

PPL's testimony on this material change in methodology was contained in a single sentence of the direct testimony of PPL's cost of service witness. Yet the impact of this change was remarkable.

\* \* \*

In essence, PPL's material change in methodology moved the goal line just as the residential customer class was reaching it.

OCA Main Brief, at 4-5 (citation omitted).

The implication of the OCA's argument is that the cost of service study ("COSS") that should act as the "polestar" for setting rates in this proceeding is the COSS used by PPL in its previous two base rates cases (the "PPL Classic" COSS) rather than the one proposed by the Company in this case (the "PPL New" COSS). However, the OCA did not advocate what its rhetoric implies. Instead, the OCA relied on a COSS prepared by its witness, Glenn A. Watkins. The COSS developed by Mr. Watkins included a series of "modifications" to PPL's COSS and resulted in what the OCA claims is a COSS that is "more closely aligned with the Cost of Service study utilized by the Company in its 2004 and 2007 base rate proceedings and provided by the Company in its rebuttal testimony [in this proceeding]." OCA Main Brief, at 16.

Essentially, the OCA has concluded that it is acceptable to move the goal line if moving the goal line benefits residential customers.

The OSBA agrees with the implication raised in the OCA's Main Brief: that the Commission should rely, at least in part, on the COSS methodology used by the Company in its two recent base rate cases. OSBA witness Mr. Knecht stated as much in his direct testimony. OSBA Statement No. 1, at 21. In fact, Mr. Knecht "recommended that the Commission consider both" the PPL Classic COSS and the PPL New COSS in this proceeding. OSBA Statement No. 2, at 2. Mr. Knecht explained, as follows:

As long as the methodologies used in those COSSs are reasonably consistent with cost causation and industry practice, I find that the range of results can be useful to the regulator. Moreover, in light of the well-established concern regarding the load carrying capability of the minimum system, averaging two generally reasonable COSS methodologies in this particular proceeding can provide the Commission with some reasonable assurance that the revenue allocation and rate design are not based on extreme results.

OSBA Statement No. 3, at 3.

In regard to the OCA's claim that Mr. Watkins' COSS and "the cost of service study performed by the Company using the 2004 and 2007 methodology" produced results that "were reasonably close," the OSBA could not disagree more. In fact, taking the OCA's assertion at face value, if the OCA feels it has been wronged by the Company's having moved the "goal line," then the OCA should be advocating that the Commission adopt the exact COSS used by PPL in the Company's 2004 and 2007 base rate cases. Although the OSBA finds merit in the PPL New COSS, the OSBA would support the adoption of the PPL Classic COSS in this proceeding. In fact, Mr. Knecht's revenue allocation recommendations were based on the

principle of not moving rates for small business customers below allocated cost under *either* PPL COSS.<sup>1</sup>

## 2. The OCA Cost of Service Study

In its Main Brief, the OCA stated as follows:

In the 2004 and 2007 base rate proceedings, the Company allocated 100% of the Primary Distribution plant on a demand basis. In this case, the Company has classified a majority of its Primary Distribution plant on a customer-count basis.

OCA Main Brief, at 38. The OCA is correct: this is the fundamental difference between the PPL Classic and PPL New COSSs. If the OCA wishes to use the PPL Classic COSS as the polestar for setting rates in this proceeding, that COSS is readily available in PPL Exhibit JMK-2B.

However, rather than simply advocate adoption of the PPL Classic COSS, the OCA represented as follows:

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

OCA Main Brief, at 44-45.

The OSBA does not know what the OCA means by "reasonably close" in this context. Moreover, even if it were true that *the results* of the OCA COSS and the PPL Classic COSS are reasonably close (which it is not), the OCA ignores the very different conceptual frameworks under which distribution costs are classified in the two COSSs. Simply put, there is a fundamental difference of opinion between the OCA COSS methodology and the PPL Classic

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<sup>1</sup> As explained in the OSBA's Main Brief, at 11-16, Mr. Knecht based his allocation of the full revenue requirement on an average of the PPL Classic COSS and the PPL New COSS. In addition, Mr. Knecht proposed a first dollar relief scaleback of his proposed revenue allocation in which the small business customer class rates of return remained about system average under either PPL COSS methodology. OSBA Statement No. 1, at 29.

COSS methodology: the OCA does not believe that *any* joint-use distribution plant costs should be allocated based upon the number of customers. OCA Statement No. 1, at 14; OSBA Statement No. 2, at 2.

The PPL Classic COSS methodology (used by the Company for many years and previously approved by the Commission) correctly recognizes that secondary voltage distribution plant is causally related to both peak demand and number of customers. Moreover, the methodological change proposed by PPL in this proceeding is conceptually consistent with its prior method. PPL proposes only to expand the classification split for secondary system plant to primary system plant. As several witnesses observed, this change is consistent with the NARUC Electric Utility Cost Allocation Manual. *See, e.g.*, OSBA Statement No. 1, at 21. In contrast, the OCA proposes to reject the fundamental principle upon which PPL has historically relied (and the Commission has previously approved), *i.e.*, that distribution plant costs should be classified into both demand and customer components.

By removing the number of customers as a factor in its COSS and focusing solely on demand, the OCA COSS will assign costs to the RS residential class (which has a large number of customers) and the GS-3 class (which has higher demand) much differently than will the PPL Classic COSS. The OCA's own table, which displays class rates of return, bears this out.

**TABLE 1**

<b>Rate Schedule</b>	<b>OCA Method</b>	<b>PPL Classic</b>
RS	6.13%	5.23%
RTS	-4.74%	-4.24%
GS-1	12.89%	12.29%
GS-3	7.01%	10.63%
LP-4	2.09%	2.25%
ISP	-0.02%	0.14%
LP-5	-12.14%	-8.73%
LP-6	-11%	-5.26%
LPEP	16.6%	16.53%
GH	3.61%	6.21%
SL/AL	11.09%	8.72%
<b>Total</b>	<b>6.33%</b>	<b>6.33%</b>

See OCA Main Brief, at 34.<sup>2</sup>

Despite the OCA’s claim that the results are “reasonably close,” the differences between the OCA COSS results and the PPL Classic COSS results are striking. A simple examination of the rates of return for the RS and GS-3 classes demonstrates those differences. At present rates, in the PPL Classic COSS, the RS class is materially underpaying its cost of service, by 110 basis points (6.33% - 5.23%). However, under the OCA COSS, the RS class is underpaying its cost of service by only 20 basis points (6.33% - 6.13%). Conversely, the GS-3 class goes from overpaying its cost of service by 430 basis points in the PPL Classic COSS (10.63% - 6.33%) to

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<sup>2</sup> For consistency with the nomenclature used in the OSBA’s Main Brief and Reply Brief, Table 1 labels “PPL 2004/2007 Method” in the OCA’s table as “PPL Classic.” Because it is not relevant to this part of the OSBA’s Reply Brief, Table 1 also omits the “PPL 2010 Method” column which the table in the OCA’s Main Brief includes. Note that the OCA did not report class rates of return for the PPL Classic COSS based on Exhibit JMK-2B. Rather, the OCA relied on an earlier version of that COSS. However, the only material differences between Exhibit JMK-2B and the OCA’s calculations included in Table 1 are that the class rates of return for LP-5 and LP-6 are far lower, *i.e.*, much more negative, in Exhibit JMK-2B.

overpaying its cost of service by a relatively modest 68 basis points (7.01% - 6.33%) in the OCA COSS.

It is also worth noting the dramatically different results for the GH class under the two COSSs, *i.e.*, a 3.61% rate of return under the OCA COSS compared to a 6.21% rate of return under the PPL Classic COSS.

Consequently, the OSBA respectfully rejects the assertion that the OCA's COSS is "reasonably close" to the PPL Classic COSS, either conceptually or numerically. The difference between the underlying methodologies (regarding whether to allocate any distribution plant costs based on customer counts) is simply so fundamental that it materially changes the assignment of costs to the residential and commercial classes. The result is two COSSs that would allocate the revenue increase very differently. The conclusion of the OCA and Mr. Watkins that PPL Classic would "fully support his revenue allocation" is simply wrong.

**B. Revenue Allocation**

**1. The OCA Revenue Allocation**

The OCA revenue allocation, at PPL's full revenue requirement, is set forth below:

**TABLE 2**

Class	\$
Residential	\$89,800
GS-1	\$0
GS-3	\$16,166
LP-4/ISP	\$7,036
LP-5/LP-6	\$290
LPEP	\$0
GH	\$1,382
Lighting	\$0
<b>Total</b>	<b>\$114,675</b>

See OCA Main Brief, at 36.<sup>3</sup>

The revenue assigned to the GS-3 customer class by the OCA's proposed allocation contradicts the OCA's assertion that the PPL Classic COSS fully supports this revenue allocation. See OCA Main Brief, at 44-45.

As set forth in Table 1 above, the PPL Classic COSS shows that the GS-3 customer class has a rate of return of 10.63% at present rates. In its original filing, the Company's revenue requirement was based on a system average rate of return of 9.11% at proposed rates. Because the GS-3 class is already paying in excess of 9.11% at present rates under the PPL Classic COSS, moving rates for this class into line with allocated cost would require a *rate reduction*, not a rate increase. Yet, the OCA proposed to assign the GS-3 customer class a \$16.166 million increase. This is another example of trying to make an overpaying class overpay even more. The Commonwealth Court rejected such a result in *Lloyd*.

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<sup>3</sup> Because the other columns of data are not relevant to this part of the OSBA's Reply Brief, Table 2 shows only one column of the data from the table in the OCA's Main Brief. Table 2 shows dollars in thousands.

Furthermore, as discussed above, the OCA expressed concern that the Company changed its COSS methodology and “move[d] the goal line in midstream.” OCA Main Brief, at 40. If the OCA’s concern about changing COSS methodology is deemed to be persuasive, the Commission should not remedy the problem by allowing the OCA to move the goal line in order to assign a significant rate increase to the GS-3 class. Instead, the Commission could rely on the PPL Classic COSS as set forth in the Company’s Exhibit JMK-2B for the purposes of revenue allocation in this proceeding. As acknowledged by the Company, “[o]ne means to achieve this result [*i.e.*, using the PPL Classic COSS for revenue allocation] would be to start with the OSBA proposed allocation at the full requested revenue increase.” PPL Main Brief, at 39, footnote 13. The OSBA’s proposal, at the Company’s full revenue request, is set forth below:<sup>4</sup>

**TABLE 3**

<b>OSBA Revenue Allocation Proposal Full PPL Electric Revenue Requirement</b>	
	<b><i>OSBA</i></b>
RS	\$109,162
RTS	2,240
GS-1	--
GS-3	--
LP-4	1,605
ISP	397
LP-5	1,241
LP-6	30
LPEP	--
GH	--
SL/AL	--
<b>Total</b>	<b>\$114,675</b>

<sup>4</sup> Table 3 reflects the analysis set forth in OSBA Statement No. 1, at 11, Table IEC-R1. Table 3 shows dollars in thousands.

There are three revenue allocation proposals at the full revenue requirement in the record of this proceeding. As recognized by the Company, only the OSBA's proposal gives weight to the PPL Classic COSS.<sup>5</sup> In contrast, PPL's own proposal is based on the PPL New COSS. Furthermore, the OCA's proposal is based on an OCA COSS methodology that departs significantly from the PPL Classic COSS methodology.

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<sup>5</sup> None of the revenue allocation proposals in the record of this proceeding relies exclusively on the PPL Classic COSS. However, the OSBA's proposal is the closest to doing so because the OSBA's proposal is based on an average of the PPL New and PPL Classic COSSs. If the Commission decides to allocate the revenue requirement exclusively on the basis of the PPL Classic COSS, the details of that allocation will have to be worked out in the compliance filing stage.

## 2. Allocating the Reduced Revenue Requirement

### a. The OSBA's Preferred Scaleback

By way of review, the Company originally requested a distribution revenue increase of \$114.675 million. A settlement was reached among the parties to allow PPL to increase its distribution revenue by \$77.5 million. The revenue allocations shown in Table 2 (for the OCA) and Table 3 (for the OSBA) are at the Company's full revenue request of \$114.675 million. Therefore, the question is how to scale back the full revenue requirement to the settlement revenue requirement of \$77.5 million.

As set forth in the OSBA's Main Brief, the OSBA recommends that first dollar relief ("FDR") be provided to the GS-1, GS-3, and LPEP rate classes. As explained by Mr. Knecht:

[T]he only rate classes that exhibit above system average [rates of return] under *both* COSS methodologies [PPL New and PPL Classic] are the GS-1, GS-3, and LPEP rate classes.

OSBA Statement No. 1, at 29. (emphasis in original) *See also Id.*, at 28, Table IEC-6.

As also set forth in the OSBA's Main Brief, this FDR proposal for the GS-1, GS-3, and LPEP classes is based upon the FDR approved by the Commission in *Pennsylvania Public Utility Commission v. PPL Gas Utilities Corporation*, Docket No. R-00061398 (Order entered February 9, 2007). In *PPL Gas Utilities*, FDR was provided for the only class with an above-system average rate of return at proposed rates. Applying that precedent in this proceeding, and relying on both the PPL New and PPL Classic COSSs, would mean FDR for the only three classes with above-system average rates of return at proposed rates in both COSSs. OSBA Statement No. 1, at 29.

Both the OCA and PPL urged the Commission to reject the OSBA's FDR proposal. *See* OCA Main Brief, at 48, and PPL Main Brief, at 39-40. According to the OCA, FDR would

move the classes farther away from cost as measured by an “appropriate” COSS. By “appropriate,” the OCA apparently means the OCA COSS, which would depart significantly from the approach used by PPL in past cases. As explained above, the OCA COSS is that party’s own version of “moving the goal line” and should not be used for revenue allocation in this proceeding. Furthermore, despite the OCA’s effort to sow confusion, there is no basis for concluding that the OSBA’s FDR proposal would move classes farther away from cost, as measured by an average of the PPL New and PPL Classic COSSs.<sup>6</sup>

In its Main Brief, PPL argued that because the residential class is assigned most or all of the proposed increase at the full revenue requirement, it would be “fair” for any reduction in that requirement to be assigned “primarily” to the residential class. PPL Main Brief, at 39. Unfortunately, PPL’s proposed scaleback of the \$114.675 million increase would give the reduction “exclusively” to the residential class. PPL Main Brief, at 42.

PPL has a curious view of what is “fair.” Under either PPL COSS methodology, the GS-1, GS-3, and LPEP classes are providing a return well in excess of system average. Moreover, the GS-1 and GS-3 rate classes have been paying rates in excess of allocated costs for many years. In PPL’s 2004 base rate proceeding, the Company agreed to move rates into line with allocated costs in three proceedings. PPL Main Brief, at 35. This case is the third of the three proceedings. However, PPL backed away from that commitment at the Company’s proposed full revenue requirement, because of the magnitude of the necessary rate increase for the residential class. PPL Main Brief, at 35-46. The OSBA accepted the Company’s proposal at the full revenue requirement. As a reward to the OSBA for being reasonable, however, PPL now

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<sup>6</sup> Mr. Knecht’s FDR proposals were structured so that the proposed rates for small business customer classes were not below allocated cost under either the PPL New or the PPL Classic COSS. See OSBA Statement No. 1, at 29. Neither the OCA nor any other party provided any rebuttal testimony questioning Mr. Knecht’s statement that the rates for the small business customer classes would not be below allocated cost under either PPL COSS.

argues that even the progress toward cost-based rates that was built into the Company's original revenue allocation proposal should be rolled back on the grounds of "fairness." PPL Main Brief, at 37-40. PPL apparently defines "fairness" as "no good deed goes unpunished."

Despite PPL's argument, the OSBA's FDR proposal does not conflict with the principle of gradualism, as gradualism has been defined by PPL. The Company proposed a \$114.638 million increase for the residential class. *See* PPL Main Brief, at 40. Therefore, the Company must have concluded that a rate increase of that magnitude would not overburden the residential class and would not conflict with the principle of gradualism. Under the OSBA's FDR proposal, the residential class would receive a rate increase of \$98.331 million. *See* OSBA Main Brief, at 17. That is \$6.307 million below the amount deemed "reasonable" and "gradual" in the Company's original filing.

The OSBA submits that the FDR mechanism proposed by Mr. Knecht is consistent with moving rates into line with allocated costs under both of PPL's COSSs, with Commission precedent in *PPL Gas Utilities*, with *Lloyd*, with the commitment in PPL's 2004 base rate proceeding, and with a common sense definition of "fairness."

#### **b. The OSBA's Alternative Scaleback**

Although the OSBA believes that its revenue allocation is reasonable, the OSBA recognizes that the Commission may be hesitant to adopt that proposal because of disagreement among the parties over the proper COSS methodology. The OSBA also recognizes that the Commission may be reluctant to award significant rate cuts to multiple classes rather than simply to assign no rate increase to those classes. Therefore, the OSBA urges the Commission to consider smaller, and more narrowly targeted, rate cuts if the Commission rejects the OSBA's preferred revenue allocation at the \$77.5 million settlement revenue requirement.

As explained above, there is debate among the parties as to how much of the revenue requirement should be allocated to the GS-3 customer class. The Company and the OSBA would allocate none of the full requirement increase to the GS-3 class, while the OCA would allocate \$16.166 million to GS-3. *See OSBA Main Brief, at 17.* This disagreement arises from the differences in COSS methodology.

However, there is no disagreement among the parties that the GS-1 customer class is overpaying its cost of service and should receive no rate increase. Specifically, the parties' disagreement over the appropriate COSS methodology does not affect the conclusion that GS-1 customers are providing a rate of return at present rates that materially exceeds PPL's proposed rate of return at the full revenue requirement. As shown in the OCA's Main Brief, the class rates of return for GS-1 (at present rates) under the four COSS methodologies in this proceeding (*i.e.*, the PPL New COSS, the PPL Classic COSS, and the two OCA COSS) are 10.1%, 12.3%, 13.8%, and 12.9% (compared to the 9.11% system rate of return at the full revenue requirement). *See OCA Main Brief, at 7.* Interestingly, the GS-1 class is actually providing a higher rate of return under the OCA's COSSs than under the PPL New or PPL Classic COSSs.

Similarly, the LPEP class provides a rate of return well in excess of proposed system average under all COSSs. *See OCA Main Brief, at 7.*

Because there is no debate that the GS-1 and LPEP rate classes are over-paying allocated costs, PPL's commitment to move classes to cost in this proceeding should be implemented to the extent possible. Consequently, if the Commission rejects the FDR proposal set forth in the OSBA Main Brief, at 21, the OSBA suggests the following alternative that would provide modest relief to the two classes that are overpaying under every COSS in this proceeding.

To implement its alternative, the OSBA recommends that the Commission begin with the full requirement revenue allocation proposed by the OSBA in its Main Brief, at 21. From that revenue allocation, targeted FDR would be provided to the GS-1 and LPEP classes as proposed in Mr. Knecht's direct testimony. *See* OSBA Statement No. 1, at 29. Specifically, the GS-1 customer class should be provided with a \$6.0 million rate cut and the LPEP class should be provided with a \$135,000 rate cut. Following this limited FDR, the remaining amount by which the settlement reduced the full revenue requirement should be allocated by a traditional proportional scaleback. In that way, only those rate classes assigned rate increases at the full revenue requirement would share in the remaining \$31.040 million reduction in the full revenue requirement.

The following table sets forth the OSBA's alternative proposal and compares that alternative to the OSBA's preferred scaleback. The calculation of the alternative is shown in more detail (with the record citations supporting that calculation) in Appendix A to this Reply Brief.<sup>7</sup>

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<sup>7</sup> The OSBA recognizes that the revenue allocation split between the RS and RTS classes as shown in Table 4 below would likely need to be adjusted to reflect the conditions in the partial settlement. In effect, the OSBA's revenue allocations for the residential class represent the sum of the revenue assigned to the RS and RTS rate classes.

TABLE 4

OSBA Revenue Allocation Proposal \$77.5 Million Settled Revenue Requirement (in thousands)		
	<i>OSBA Preferred</i>	<i>OSBA Alternative</i>
RS	\$96,245	\$79,614
RTS	2,086	1,634
GS-1	(7,695)	(6,000)
GS-3	(14,634)	0
LP-4	788	1,171
ISP	357	290
LP-5	1,183	905
LP-6	28	228
LPEP	(143)	(135)
GH	(159)	0
SL/AL	(557)	0
<b>Total</b>	<b>\$77,500</b>	<b>\$77,500</b>

The OSBA's alternative would move the GS-1 and LPEP classes closer to their cost of service but would impose a substantially smaller rate increase on the residential class (\$81.248 million v. \$98.331 million). The OCA proposed an \$89.800 increase for the residential class at the full revenue requirement. *See* OCA Main Brief, at 9. Because the OCA considered an \$89.800 million increase to be consistent with the principle of gradualism, the OSBA's proposal for a smaller, \$81.248 million increase must also be consistent with the OCA's interpretation of the principle of gradualism.

Furthermore, the other parties have had ample opportunity to analyze, and respond to, the proposal for \$6.135 million in FDR for the GS-1 and LPEP classes, in that the OSBA initially made that proposal in Mr. Knecht's direct testimony.

#### **IV. Conclusion**

In view of the arguments set forth in its Main Brief and in this Reply Brief, the OSBA requests that the Commission reject the OCA cost of service study as the basis for the revenue allocation and rate design decisions in this proceeding.

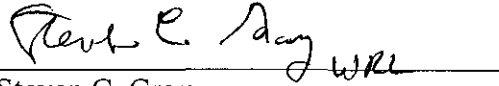
The OSBA further requests that the Commission allocate the \$77.5 million revenue requirement among the rate classes by:

- a. assigning each class a revenue requirement based on moving rates into line with an average of the two PPL cost of service studies at the full revenue requirement of \$114.675 million;
- b. scaling back the full revenue requirement via the OSBA's proposal for \$18.135 million in first dollar relief for the GS-1, GS-3, and LPEP rate classes; and
- c. allocating the remainder of the reduction in the full revenue requirement to all rate classes in proportion to proposed rates after FDR.

However, if the Commission is unwilling to adopt the foregoing revenue allocation, the OSBA requests that the Commission allocate the \$77.5 million revenue requirement among the rate classes by:

- a. assigning each class a revenue requirement based on moving rates into line with an average of the two PPL cost of service studies at the full revenue requirement of \$114.675 million;
- b. scaling back the full revenue requirement via the OSBA's alternative proposal for \$6.0 million in first dollar relief for the GS-1 rate class and \$135,000 for the LPEP class; and
- c. allocating the remainder of the reduction in the full revenue requirement to the RS, RTS, LP-4, ISP, LP-5, and LP-6 rate classes by using a proportional scaleback methodology.

Respectfully submitted,

A handwritten signature in black ink that reads "Steven C. Gray" followed by a horizontal line and the initials "WRL" written to the right of the line.

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Dated: September 13, 2010

## **APPENDIX A**

PPL Electric 2010 Base Rates Case: Docket No. R-2010-2161694										
Revenue Allocation Analysis (\$000): OSBA Scaleback Proposal to Settlement Increase; Reply Argument Alternative										
	Current Revenue	PPL Proposed Increase	OSBA Adjustments	OSBA Full Requirements Increase	OSBA First Dollar Relief	Revenues After FDR	Scaleback to Settlement Increase	Scaleback Pct of Revenues after FDR	OSBA Proposed Revenues	OSBA Proposed Increase
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
RS	410,279	112,398	(3,236)	109,162		519,441	(29,548)	-5.69%	489,893	79,614
RTS	3,955	2,240		2,240		6,195	(606)	-9.79%	5,589	1,634
GS-1	74,155	-		-	(6,000)	68,155	-	0.00%	68,155	(6,000)
GS-3	117,909	-		-		117,909	-	0.00%	117,909	-
LP-4	31,235	(245)	1,850	1,605		32,840	(434)	-1.32%	32,406	1,171
ISP	1,221	247	150	397		1,618	(107)	-6.64%	1,511	290
LP-5	1,079	46	1,195	1,241		2,320	(336)	-14.48%	1,984	905
LP-6	51	(11)	41	30		81	(8)	-9.98%	73	22
LPEP	445	-		-	(135)	310	-	0.00%	310	(135)
GH	6,377	-		-		6,377	-	0.00%	6,377	-
Lighting	22,407	-		-		22,407	-	0.00%	22,407	-
<b>Total</b>	<b>669,113</b>	<b>114,675</b>	<b>(0)</b>	<b>114,675</b>	<b>(6,135)</b>	<b>777,653</b>	<b>(31,040)</b>	<b>-3.99%</b>	<b>746,613</b>	<b>77,500</b>
<b>Sources:</b>										
(a)	Exhibit IEC-3, page 2, "Total Sale of Electricity" (Also Table IEC-4)									
(b)	Exhibit IEC-3, page 1, "Full Req. Rate Increase" (Also Table IEC-4)									
(c)	OSBA Statement No. 1, page 27									
(d)	(b) + (c)									
(e)	OSBA Statement No. 1, page 29									
(f)	(a) + (d) + (e)									
(g)	Total = (a) + \$77,500 - (g)									
	Class: Allocated in proportion to column (d).									
(h)	(g)/(f)									
(i)	(f) + (g)									
(j)	(h) - (a)									

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Pennsylvania Public Utility Commission** :  
v. : **DOCKET NO. R-2010-2161694**  
**PPL Electric Utilities Corporation** :

**CERTIFICATE OF SERVICE**

I certify that I am serving two copies of the Reply Brief, on behalf of the Office of Small Business Advocate, by e-mail and first-class mail (unless otherwise noted) upon the persons addressed below:

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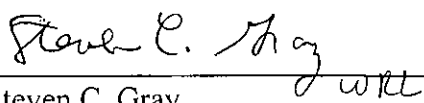
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