POST & SCHELL PC
ATTORNEYS AT LAW

17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Fax
www.postschell.com

Christopher T. Wright

cwright@postschell.com
717-612-6013 Direct
717-731-1985 Fax
File #: 2507/143889

September 13, 2010

BY E-FILE

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
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 please find the original Reply Brief of PPL Electric Utilities Corporation in the above-referenced proceeding.

Copies have been provided to the persons in the manner indicated by the certificate of service.

Respectfully Submitted,

Christopher T. Wright

CTW/jl
Enclosures
cc: Honorable Susan D. Colwell
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the **Reply Brief of PPL Electric Utilities Corporation** has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA E-MAIL & FIRST CLASS MAIL

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

Richard A. Kanaskie
Lawrence Barth
Office of Trial Staff
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

Aron J. Beatty
Tanya J. McCloskey
Jennedy S. Johnson
Darryl Lawrence
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Joseph L. Vullo
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704
Commission on Economic Opportunity

Kenneth L. Mickens
The Sustainable Energy Fund of Central Eastern Pennsylvania
316 Yorkshire Drive
Harrisburg, PA 17111
Sustainable Energy Fund of Central Eastern Pennsylvania

Todd S. Stewart
Hawke, McKeon & Sniscak LLP
100 N. 10th Street
PO Box 1778
Harrisburg, PA 17101
Dominion Retail, Inc.

Eric Joseph Epstein
4100 Hillsdale Road
Harrisburg, PA 17112

Gary A. Jeffries
Assistant General Counsel
Dominion Retail, Inc.
501 Martindale Street, Suite 400
Pittsburgh, PA 15212-5817
Dominion Retail, Inc.

Scott J. Rubin
Public Utility Consulting
333 Oak Lane
Bloomsburg, PA 17815
International Brotherhood of Electrical Workers, Local 1600

Pamela C. Polacek
Shelby A. Linton-Keddie
McNees, Wallace & Nurick
100 Pine Street
PO Box 1166
Harrisburg, PA 17108-1166
PPLICA

Craig A. Doll
25 West Second Street
PO Box 403
Hummelstown, PA 17036
Richards Energy Group, Inc.

Frank Richards
Richards Energy Group, Inc.
781 S. Chiques Road
Manheim, PA 17545
Richards Energy Group, Inc.

John K. Baillie
Citizens for Pennsylvania's Future
425 Sixth Avenue, Suite 2770
Pittsburgh, PA 15219
PennFuture

Daniel Clearfield
Deanne M. O'Dell
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
PO Box 1248
Harriburg, PA 17108-1248
RESA

Thomas T. Niesen
Thomas, Long, Niesen & Kennard
212 Locust Street, Suite 500
PO Box 9500
Harrisburg, PA 17108-9500
Township of Whitehall

VIA E-MAIL

Thomas S. Catlin
Lafayette Morgan
Exeter Associates Inc.
5565 Sterrett Place, Suite 310
Columbia, MD 21044
Consultants for OCA

Stephen G. Hill
Hill Associates
PO Box 587
4000 Benedict Road
Hurricane, WV 25526
Consultant for OCA

Roger Colton
Fisher Sheehan and Colton
34 Warwick Road
Belmont, MA 02478
Consultant for OCA

Glenn A. Watkins
Technical Associates Inc.
1051 East Cary Street
Suite 602
Richmond, VA 23219
Consultant for OCA

John Costlow
1005 Brookside
Allentown, PA 18106
Consultant for Sustainable Energy Fund of Central Eastern Pennsylvania

VIA FIRST CLASS MAIL

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

Ashley A. Buck
156 Johnson Drive
S. Williamsport, PA 17702

Neal P. Goodman, Chair
Northeast Democratic Delegation
PA House of Representatives
G-07 Irvis Office Building
PO Box 202123
Harrisburg, PA 17120-2123

Elaine B. Santarelli
521 Second Avenue
Jessup, PA 18434

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

Peter Grieger
1810 Ridge Road
Elizabethtown, PA 17022

Gerard Martin
26 Brentwood Road
Camp Hill, PA 17011

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

Stephen F. Goldstein
RD 7 Box 7693
East Stroudsburg, PA 18301

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

Shannon Stiffler
2463 Mercer Street
Harrisburg, PA 17104

Date: September 13, 2010

Christopher T. Wright

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2010-2161694, *et al.*
	:	
PPL Electric Utilities Corporation	:	
	:	

REPLY BRIEF
OF
PPL ELECTRIC UTILITIES CORPORATION

Paul E. Russell (ID #21643)
Associate General Counsel
PPL Services Corporation
Office of General Counsel
Two North Ninth Street
Allentown, PA 18106
Phone: 610-774-4254
Fax: 610-774-6726
E-mail: perussell@pplweb.com

David B. MacGregor (ID # 28804)
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Phone: 215-587-1197
Fax: 215-320-4879
E-mail: dmacgregor@postschell.com

Michael W. Gang (ID # 25670)
John H. Isom (ID # 16569)
Christopher T. Wright (ID # 203412)
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: mgang@postschell.com
E-mail: jisom@postschell.com
E-mail: cwright@postschell.com

Of Counsel:

Post & Schell, P.C.

Date: September 13, 2010

Attorneys for PPL Electric Utilities Corporation

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I. INTRODUCTION

On September 2, 2010, in accordance with the litigation schedule set forth in Administrative Law Judge ("ALJ") Susan D. Colwell's Second Prehearing Order dated May 27, 2010, the following parties filed briefs in support of their various positions in this proceeding: PPL Electric Utilities Corporation ("PPL Electric" or the "Company"), the Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), PP&L Industrial Customer Alliance ("PPLICA"), the Commission on Economic Opportunity ("CEO"), the Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF"), Richards Energy Group, Inc. ("REG") and the Retail Energy Supply Association ("RESA").

On August 26, 2010, several parties filed with the Pennsylvania Public Utility Commission ("Commission") a "Joint Petition for Partial Settlement of Rate Investigation" ("Partial Settlement"), which resolved some, but not all, of the issues in this proceeding. Those active parties who did not join in the Partial Settlement submitted letters indicating that they do not oppose the Partial Settlement.

PPL Electric's Initial Brief, in explaining its positions on the issues remaining following the Partial Settlement, anticipated and responded to many of the arguments that have been raised by other parties. In some instances, PPL Electric's position is fully set forth in its Initial Brief, and further response is not necessary. Certain arguments of other parties, however, require further response, which is set forth below. In responding to other parties, PPL Electric will minimize repetition of arguments set forth its Initial Brief.

II. SUMMARY OF ARGUMENT

As explained in PPL Electric's Initial Brief, five categories of issues remain for resolution after the Partial Settlement: (1) selection of the appropriate cost allocation study; (2) allocation of the revenue requirement to customer classes; (3) Donsco's request for a special rate; (4) purchase of receivables program; and (5) tariff and miscellaneous rate design issues. As fully explained in PPL Electric's Initial Brief and as supplemented in this brief, PPL Electric's position on these remaining issues is reasonable and should be approved.

Regarding cost allocation, the company's preferred study, as contained in Exhibit JMK-2A, is reasonable and should be approved. The OCA's principal support for its preferred cost allocation study is based a fundamental factual error and misstatement of how PPL Electric prepared its cost allocation studies in this and prior rate proceedings. Regarding revenue allocation, the Company's proposal to allocate the increase solely to the residential class is consistent with the Lloyd decision and reflects a reasonable middle ground among the competing positions advanced in this proceeding. The OCA's revenue allocation position is derived from its erroneous cost allocation study and should be rejected. The OSBA's first dollar rate relief proposal for rate decreases is, to the best of the Company's knowledge, unprecedented in Pennsylvania. Regarding a special for rate for Donsco, Donsco has completely failed to meet its burden of proof and indeed has failed to provide any specific rate upon which the Commission can act in this proceeding. Regarding the purchase of receivables program, the Company's proposal to extend its very recently Commission-approved program is reasonable and should be approved. RESA's various arguments do not support any changes to the Company's program at this time and are often internally inconsistent and inconsistent with positions taken by RESA in

prior proceedings before this Commission. Finally, SEF and REG rate design and tariff proposals are not necessary and/or would be expensive to implement and should not be adopted.

III. ARGUMENT

A. BURDEN OF PROOF

OCA misstates PPL Electric's burden of proof. OCA argues that, in order to meet its burden of proof, PPL Electric must produce evidence "precluding all reasonable inferences to the contrary." *Burleson v. Pa. P.U.C.*, 501 Pa. 433, 461 A.2d 1234 (1983) ("*Burleson*"). OCA Main Brief, p. 11.[1] The OCA's reliance on *Burleson* is misplaced. First, *Burleson* involved a customer complaint that an electric company had overcharged for electric service. The burden of proof in a rate case and a customer complaint are not the same. Unlike in a rate case where the utility bears the burden of proof, in a "a complaint for overbilling by a customer of a public utility, the legislature has placed the burden of proof upon the complainant." *Id.* at 435, 461 A.2d at 1235.

Second, the passage that was selectively quoted by OCA addresses the difference between establishing a *prima facie* case and meeting the required burden of proof.[2] Therein,

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[1] SEF also describes *Burleson* incorrectly in its Brief. *See* SEF Main Brief, p. 8.

[2] The passage, in its entirety, provides as follows:

> [Complaints] claim the evidence presented by [the company] was insufficient to meet [the company's] burden of going forward to rebut the [complainants] prima facie case under Waldron and that, as a consequence, they should have prevailed. The crucial flaw in this argument is its failure to distinguish between the processes of establishing a prima facie case and meeting the required burden of proof.
>
> Whereas a litigant establishes a prima facie case by producing enough evidence to support a cause of action, the burden of proof is met when the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary.

Burleson, at 437, 461 A.2d at1236 (citations omitted).

Court explained that even if a litigant establishes a prima facie case, it still has the ultimate burden of persuasion, which must be proven by the substantial evidence of record. *Id.* at 437, 461 A.2d at 1236. It is well established that any finding of fact necessary to support an adjudication of the Commission must be based upon substantial evidence. *Met-Ed Indus. Users Group v. Pa.P.U.C.*, 960 A.2d 189, 193 n.2 (Pa. Cmwlth. 2008) (citing 2 Pa.C.S. § 704). However, OCA's selective quotation mischaracterizes the substantial evidence standard.

Substantial evidence is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. *Borough of E. McKeesport v. Special/Temporary Civil Service Commission*, 942 A.2d 274, 281 (Pa. Cmwlth. 2008). Although substantial evidence must be "more than a scintilla and must do more than create a suspicion of the existence of the fact to be established," *Kyu Son Yi v. State Board of Veterinary Medicine*, 960 A.2d 864, 874 (Pa. Cmwlth. 2008) (citation omitted), the "presence of conflicting evidence in the record does not mean that substantial evidence is lacking." *Allied Mechanical and Elec., Inc. v. Pennsylvania Prevailing Wage Appeals Board*, 923 A.2d 1220, 1228 (Pa. Cmwlth. 2007) (citation omitted).

Section 332(a) of the Public Utility Code ("Code"), 66 Pa.C.S. § 332(a), provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding. A discussion of the appropriate burdens of proof are set forth in PPL Electric's Initial Brief. *See* PPL Electric Initial Brief, Section I.B. Importantly, it is well established that "[a] litigant's burden of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of evidence which is substantial and legally credible." *Samuel J. Lansberry, Inc. v. Pa.P.U.C.*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990). The preponderance of evidence standard requires proof by a greater weight of the evidence. *Commonwealth v. Williams*, 557 Pa. 207, 732 A.2d 1167 (1999). This standard is satisfied by

presenting evidence more convincing, by even the smallest amount, than that presented by another party. *Brown v. Commonwealth*, 940 A.2d 610, 614 n.14 (Pa. Cmwlth. 2008).

B. COST OF SERVICE STUDY

1. OCA's Principal Arguments Regarding Cost of Service Studies Are Based Upon a Fundamental Misstatement of Fact.

In numerous places throughout its Main Brief, OCA asserts that the cost of service studies submitted by PPL Electric in its 2004 and 2007 base rate cases classify all joint plant costs of its primary and secondary distribution systems, other than service and meters, as demand-related. More specifically, OCA states at page 21 of its Main Brief:

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

OCA Main Brief, p. 21 (emphasis added). *See also* OCA Main Brief, pp. 19-20, 22, 31, 35, and 38, fn. 11. OCA then contends that it is important for there to be continuity in cost of service study methodologies from one rate case to another. Based on its premise that PPL Electric's cost of service studies in the 2004 and 2007 rate cases classified all joint use distribution plant as demand–related, OCA contends that its non-coincident peak study, referred to as its "100% Demand NCP" only study, is most closely aligned with PPL Electric's cost of service studies from its 2004 and 2007 base rate cases. *See, e.g.*, OCA Main Brief, pp. 35, 38, 39, and 44-45.

OCA's argument has a serious flaw – the fundamental factual premise underlying its argument, i.e., that PPL Electric's cost of service studies in the 2004 and 2007 base rate cases classified all joint use distribution plant as demand-related, is simply incorrect. As explained below, for many years, cost of service studies submitted by PPL Electric in its base rate cases have classified a substantial portion of its joint use secondary distribution plant as customer-related and used the minimum size system method to quantify the portion of such plant that is customer-related. For these reasons and the additional reasons set forth below, and in PPL Electric's Initial Brief, the ALJ and the Commission should not rely upon the OCA's non-coincident peak cost of service study to allocate revenue requirement among the rate classes in this proceeding. To the extent that continuity in cost of service study methodologies is important, and it is, it is OCA's 100% Demand NCP only study that represents a substantial and unprecedented departure from studies in prior cases.

The evidence of record clearly demonstrates that the cost of service studies that PPL Electric submitted in its 2004 and 2007 base rate cases allocated the joint plant portions of the secondary distribution system on a demand/customer basis, using the minimum size system method for quantifying the customer component of secondary plant. As PPL Electric stated in its initial filing:

> Consistent with the approach used in its *most recent retail base rate case and prior cases*, PPL Electric believes that it is appropriate to continue to use the 'minimum size system' methodology to identify the applicable customer and demand-related cost components to determine the current cost of the 'minimum size' distribution system necessary to provide reliable distribution service to customers.

PPL Electric St. 7, p. 22 (emphasis added).

In the 2004 base rate proceeding, the ALJ specifically observed in her Recommended Decision that PPL Electric used the "minimum size" method. *Pa. P.U.C. v. PPL Electric*

Utilities Corporation, Docket No. R-00049255, 2004 Pa. PUC LEXIS 41 (Oct. 21, 2004) (Recommended Decision at p. 142). The ALJ then quoted testimony submitted by PPL Electric in that proceeding as follows:

> Primary distribution system costs are classified as demand related. Secondary distribution system plant was separated into demand and customer components using a "minimum size system study" which determined the current cost of the "minimum size" distribution system necessary to provide reliable distribution service to customer.... The cost of the minimum system is classified as customer-related, and the remainder of the secondary distribution costs is classified as demand-related.

Recommended Decision, pp. 142-43.[3]

In PPL Electric's 1995 base rate case, the Commission described PPL Electric's cost of service study as follows:

> With respect to its distribution plant cost allocations, the Company classified its distribution plant investment and operating expenses by means of a minimum size system method calculation. See Ex. JMK-3. Under the Company's proposal, a "minimum size" system capable of providing reliable electrical service to customers is used to identify the applicable customer and demand related cost components. PP&L Stmt. 7, p. 11.... The Company maintained that its approach is supported by the minimum system guidelines of the National Association of Regulatory Utility Commissioners ("NARUC") manual and devised to determine the current cost of its minimum system. PP&L St. 7-R, p. 20).

Pa. P.U.C. v. Pennsylvania Power & Light Company, 85 Pa. PUC 306, 1995 Pa. PUC LEXIS 189, 267-68 (Sept. 27, 1995).

[3] Because all issues in the 2007 base rate case were settled, neither the ALJ in her Recommended Decision nor the Commission, in its Order described the cost of service studies submitted by PPL Electric in that proceeding. See Recommended Decision at *Pa. P.U.C. v. PPL Electric Utilities Corporation*, 2007 Pa. P.U.C. LEXIS 58 (Oct. 19, 2007) and the Commission Order at *Pa. P.U.C. v. PPL Electric Utilities Corporation*, 2007 Pa. P.U.C. LEXIS 57 (Dec. 6, 2007). PPL Electric explained in this current proceeding, however, that it used the "minimum size system" methodology to identify the applicable customer component of the joint use secondary distribution plant in the 2007 base rate case at Docket No. R-00072155. PPL Electric St. 7, p. 22.

PPL Electric's evidence and the Recommended Decisions and Commission Orders regarding its cost of service methodology in prior rate proceedings have been clear. No other party to this proceeding has made the same erroneous contentions as has OCA. No party other than OCA has contended that PPL Electric in this proceeding for the first time used the minimum size system method to determine the customer component of secondary joint use distribution plant.

It also is important to note that OCA's objections to the use of the minimum size system methodology for the purpose of identifying the customer component of the distribution system have been rejected by the Commission in prior electric rate proceedings. *See Pa. P.U.C. v. Philadelphia Electric Company*, Docket Nos. R-891364, *et al.*, 1990 Pa. PUC LEXIS 155 at *22-27 (May 16, 1990) (denying exceptions to PECO's use of its minimum system cost of service methodology to classify distribution costs) and *Pa. P.U.C. v. Pennsylvania Power & Light Co.*, Docket Nos. R-00943271, *et al.*, 85 Pa. PUC 306, 1995 Pa. PUC LEXIS 189 at *284 (Sept. 27, 1995) (adopting the ALJ's acceptance of the Company's minimum system cost of service study). OCA does not distinguish or otherwise address these prior holdings of the Commission in its Main Brief.

Because OCA is factually incorrect regarding the methods used by PPL Electric in its cost of service studies submitted in prior proceedings, its conclusion, that its recommended cost of service study follows most closely the methods used by PPL Electric in prior cases, is similarly factually incorrect. To the contrary, if the ALJ and the Commission wish to use cost of service studies that rely entirely on PPL Electric's methodologies employed in cost of service studies submitted in prior base rate cases, the Commission should rely on PPL Electric Ex. JMK-2B or the study referred to by OSBA as "PPL Prior Method," the results of which are provided in

OSBA St. 1, p. 20 and OSBA Ex. IEc-4. These two cost of service studies are essentially the same, and both reproduce faithfully the methods used by PPL Electric for many years in cost of service studies in base rate proceedings. As explained above, in all of these cost of service studies, PPL Electric classified a portion of joint use secondary plant as customer-related and quantified the portion of such plant that is customer-related and the portion that is demand-related using the "minimum size system" method. OCA's contention that its recommended 100% Demand NCP only cost of service study, which classifies all joint use secondary plant as demand-related and allocates such plant based upon the non-coincident peak method, is substantially the same as the method used by PPL Electric in Exhibit JMK-2B in this proceeding and in prior proceedings is incorrect.

In this proceeding, PPL Electric produced five cost of service studies. Two, PPL Electric Exhibits JMK-1 and JMK-2, were submitted as part of the original filing and were for the historic and future test years, respectively. These studies classified the joint distribution plant in both the primary and secondary distribution systems as part customer-related and part demand-related. PPL Electric used the minimum size system method to quantify the portion of both systems that is customer-related and the portion that is demand-related. These studies are based on the same approaches that PPL Electric has used in prior proceedings, but included two refinements/improvements to address criticisms of PPL Electric's cost of service studies in prior proceedings.

First, PPL Electric addressed criticisms that the entire cost of the smallest size transformers should not be characterized as customer-related because they have significant load-carrying capacity. In order to address this criticism, PPL Electric undertook a rigorous

engineering analysis to identify the "no load" portion of its transformers. This portion was characterized as customer-related. The remainder was characterized as demand-related.

Second, PPL Electric addressed criticisms that the minimum size system analysis should be applied to the primary voltage system. In its traditional methodology, PPL Electric treated the entire investment in the primary voltage system as demand-related. In order to address these criticisms, PPL Electric applied the minimum size system methodology to identify the portion of the primary distribution system that is customer-related. PPL Electric St. 7, pp. 23-24. PPL Electric St. 7, p. 23; PPL Electric St. 7-R, p. 9. It is important to note that, in prior proceedings, PPL Electric has acknowledged that it would be appropriate to classify primary voltage level facilities into demand-related and customer-related cost components, but PPL Electric had not previously completed the necessary analyses. PPL Electric St. 8-R, p. 9. Therefore, PPL Electric's approach in the cost of service studies that were part of its initial filing were completely consistent with the studies produced in prior proceedings, except that they are more precise and more refined because they included additional efforts to more fully and precisely identify the customer component of the primary and secondary voltage systems.

During discovery, however, PPL Electric determined that PPL Electric Ex. JMK-2 contained certain errors. Therefore, this exhibit was not moved into evidence. PPL Electric Ex. JMK-2 was replaced by PPL Electric Ex. JMK-2 (Revised) which eliminated the errors in JMK-2 and which was admitted into evidence, as was PPL Electric Ex. JMK-1. Tr. 386.[4]

With its rebuttal evidence, PPL Electric presented two additional cost of service studies in PPL Electric Ex. JMK-2A and JMK-2B. PPL Electric Ex. JMK-2A is the same as PPL Electric Ex. JMK-2 (Revised) with two exceptions. First, in order to address criticisms by

[4] PPL Electric did not revise PPL Electric Ex. JMK-1.

OSBA and OCA regarding PPL Electric Ex. JMK-2 (Revised), PPL Electric in PPL Electric Ex. JMK-2A classified substations as entirely demand-related. In PPL Electric Ex. JMK-2(Revised), PPL Electric had used the minimum size system method to identify the customer component of the entire primary distribution system, including substation transformers and equipment. Second, PPL Electric Ex. JMK-2A has been updated to reflect PPL Electric's final accounting exhibit, PPL Electric Ex. Future 1 (Revised). PPL Electric St. 7-R, p. 7.[5] As explained previously, PPL Electric Ex. JMK-2A is very similar to OSBA cost of service study referred to as IEc Update. OSBA St. 1, p. 17.[6] PPL Electric Ex. 2A is the Company's preferred cost of service study in this proceeding because it best balances the concern that there be continuity in cost of service methodology from one rate case to another with the concern that cost of service studies be as accurate as possible. PPL Electric Initial Brief, p. 20.

PPL Electric also presented PPL Electric Ex. JMK-2B, which follows precisely the methodologies used by PPL Electric in rate cases for many years. PPL Electric St. 7-R, pp. 9-10. This cost of service study, although consistent with studies submitted by PPL Electric in prior base rate cases, is less precise than PPL Electric Ex. JMK-2 (Revised) and JMK-2A because, in PPL Electric Ex. JMK-2B, all primary distribution system investment is presumed, incorrectly, to be entirely demand-related. Nevertheless, PPL Electric produced PPL Electric Ex. JMK-2B

[5] For criticisms of the classification of substations as partly customer-related, see OSBA St. 1, p. 19; OCA St. 3, pp. 17-18. PPL Electric disagrees with these criticisms because transformation from transmission voltages to distribution voltages is necessary to connect distribution customers to the system. Therefore, substation transformers have a customer component. Further, PPL Electric has treated distribution system transformers as being at least in part customer-related for many years. Although they perform functions very similar to substation transformers, no party in prior proceedings has contended that distribution system transformers do not have a customer component. PPL Electric does not believe that there is any basis from treating substation and distribution transformers differently for cost of service purposes.

[6] Because OSBA cost of service study IEc Update was submitted prior to PPL Electric final accounting exhibit, PPL Electric Future 1 (Revised), it does not reflect PPL Electric's final revenue requirement litigation position. Such changes, however, do not materially affect the results of OSBA cost of service study IEc Update.

so that the ALJ and Commission would have available to them a cost of service study that is completely consistent with cost of service studies submitted by PPL Electric in prior cases.[7]

Contrary to OCA's contentions, all cost of service studies presented by PPL Electric in base rate proceedings for many years, including this proceeding, have classified portions of the distribution system investment as customer-related. In both this proceeding and in prior proceedings, PPL Electric has used the minimum size system methodology to identify the portion of the distribution system that is customer-related and the portion that is demand-related. Contrary to OCA's contentions, the cost of service studies that were presented by PPL Electric in this proceeding are consistent with the cost of service studies presented in prior proceedings. The ALJ and the Commission have the option to rely on a cost of service study, PPL Electric Ex. JMK-2A, which uses but refines the prior analyses or a cost of service study, or PPL Electric Ex. JMK-2B, which follows precisely the methodologies used by PPL Electric in prior rate cases.

The OCA's preferred cost of service study, in contrast, is substantially dissimilar from the cost of service studies produced by PPL Electric in prior base rate cases because no portion of the joint use distribution system in OCA's cost of service study is classified as customer-related, and OCA did not use the minimum size system methodology at all. OCA's contentions that its preferred cost of service study, which classifies all joint use distribution plant as demand related, should be relied upon because it is most similar to cost of service studies presented by PPL Electric is prior base rate cases is simply incorrect. Instead, OCA's cost of service study should receive little, if any, weight in allocating the revenue requirement among the rate classes in this proceeding, because it represents a substantial departure from methodologies used by PPL

[7] PPL Electric Ex. JMK-2B is similar to the cost of service study presented by OSBA which is referred to as PPL Prior Method. OSBA St. 1, p. 20.

Electric in prior proceedings and, therefore, provides no useful basis for determining whether the allocation of revenue requirement among the rate classes complies with the Commonwealth Court decision in *Lloyd v. Pa. P.U.C.*, 904 A.2d 101, Pa. Cmwlth. 206, *appeal denied*, 591 Pa. 676, 916 A.2d 1104 (2007).

Further, OCA's cost of service study which classifies all joint use plant as demand-related should not be utilized by the ALJ or the Commission because it does not comport with the reality of how an electric distribution system is constructed. Contrary to OCA's arguments, the number of customers connected to the distribution system clearly affects the cost of the system. The logical conclusion of OCA's contention that the joint use portions of electric distribution systems are entirely demand-related is that an electric distribution system with a specific level of peak demand that serves one million customers would cost the same as an electric distribution system that serves one customer. This simply makes no sense. For these reasons, the National Association of Regulatory Utility Commissioners' Electric Cost Allocation Manual ("NARUC Manual") provides that a portion of a utility's investment is distribution plant is properly classified as customer-related:

> Distribution plant Accounts364 through 370 involved demand and customer costs. The customer component of distribution facilities is that portion of costs which varies with the number of customers. Thus, the number of poles, conductors, transformers, services, and meters are directly related to the number of customers on the utility's system. As shown in Table 6-1, each primary plant account can be separately classified into a demand and customer component. Two methods are used to determine the demand and customer components of distribution facilities. They are, the minimum-size-of-facilities method, and the minimum-intercept cost (zero-intercept or positive-intercept cost, as applicable) of facilities.

See NARUC Manual, p. 90, which is set forth in the Exhibit to PPLICA St. 2-R.

For the reasons explained above and in PPL Electric's Initial Brief, pp. 21-25, OCA's 100% Demand NCP only cost of service study provides no valid basis for allocating revenue requirement among PPL Electric's rate classes.

2. OCA's Zip Code Analysis Should Be Rejected.

OCA contends that its "zip code analysis," that is described at pages 24-27 of its Main Brief, demonstrates that there is no customer component of PPL Electric's distribution system. Conspicuous by its absence in OCA's Main Brief is any citation to any decision of any state or federal regulatory commission supporting such an analysis. Surely, if such analyses were as meaningful as OCA contends, such analyses would have been presented to this or other commissions in response to cost of service studies classifying a portion of the distribution system investment as customer-related. The fact that OCA has not, and cannot, cite to any authority in support of its zip code analysis further demonstrates that OCA's zip code analysis has no merit.

For this reason, and for the several reasons explained in PPL Electric's Initial Brief, pp. 23-25, the OCA's zip code analysis should be rejected.

C. REVENUE ALLOCATION

1. OSBA's Proposed Application of its First Dollar Relief Methodology Would Be Unprecedented and Should be Rejected.

OSBA has proposed that the Commission apply a First Dollar Relief method of scaling back PPL Electric's original rate increase proposal to the level agreed to under the Partial Settlement. OSBA contends that the first $18.1 million of any reduction to PPL Electric's originally-proposed rate increase should be assigned to three rate classes. Specifically, OSBA contends that the revenue requirement allocated to Rate Schedule GS-1 should be reduced by $6 million from present levels, that the revenue requirement allocated to Rate Schedule G-3 should be reduced by $12 million from present levels and that the revenue requirement assigned to Rate

Schedule LPEP should be reduced by $135,000 from present levels. Significantly, under OSBA's proposed allocation of the originally-proposed rate increase, customers under Rate Schedules GS-1, GS-3 and LPEP receive no increase. OSBA St. 1, p. 27; PPL Electric Initial Brief, p. 38. Therefore, OSBA's First Dollar Relief proposal, in this proceeding, would result in rate decreases for customers under Rate Schedules GS-1, GS-3 and LPEP from present rate levels.

OSBA's proposal, if adopted, would be unprecedented. In two prior cases, the Commission has adopted First Dollar Relief proposals. One, as stated by OSBA, was in *Pa. P.U.C. v. PPL Gas Utilities Corporation*, Docket No. R-00061398, 255 PUR 4th 209, 2007 Pa. PUC LEXIS 2 (Feb. 9, 2007). There, the Commission accepted a First Dollar Relief proposal by OSBA. The second case was *Pa. P.U.C. v. Philadelphia Gas Works*, Docket No. R-00061931, 2007 Pa. PUC LEXIS 45 (Sept. 28, 2007). There, the Commission accepted a First Dollar Relief proposal by the OTS. In both proceedings, however, the First Dollar Relief proposal resulted in lesser *increases* to certain customers, not rate *reductions*. In *Pa. P.U.C. v. PPL Gas Utilities Corporation*, in applying OSBA's First Dollar Relief proposal, the Commission was careful to point out that no rate decrease was involved:

> It is important to note that application of the FDR [First Dollar Relief] does not mean that GS-Small will avoid a rate increase entirely. GS-Small will still experience an increase; however, it will concurrently move closer to its cost of service. It is also important to note that the FDR method cannot cause rates for any customer class to be higher than those proposed by the utility.... We find that the FDR proposal by the OSBA is supported by the record evidence and is a reasonable method of progressing toward cost-based rates. Accordingly, the OCA's exception on this issue is denied.

PPL Gas, p. 135. Similarly, in *Pa. P.U.C. v. Philadelphia Gas Works*, the Commission approved a proposed application by OTS of the First Dollar Relief method. The Commission described the OTS proposal as follows:

> Under the OTS' approach, to the extent that an increase smaller than requested is granted, those classes that have provided cross subsidies to other classes would receive a lesser increase or no increase at all until the threshold level of increase has been reached.... In this instance, the OTS recommended that no increase be allocated to the commercial, industrial and housing GS classes unless an increase in excess of $74,231,000 is approved.

Philadelphia Gas Works, 2007 Pa. PUC LEXIS 45 at * 33. In approving the OTS proposal, the Commission stated:

> We agree with the ALJs, the OSBA and the OTS that the most equitable methodology in this case is to apply the benefit of the $25 million recommendation to the commercial, Industrial and Housing GS classes as proposed primarily by OSBA with the First Dollar Relief proposal by the OTS.

Philadelphia Gas Works, 2007 Pa. PUC LEXIS 45 at * 35.

PPL Electric is not aware of any proceeding in which the Commission approved the application of the First Dollar Relief scaleback method to produce a rate decrease for a rate class. OSBA has provided no example of any such Commission decision in its Main Brief.

Instead of adopting OSBA's scaleback proposal which applies the First Dollar Relief methodology to produce rate reductions, the ALJ and the Commission should use one of two scaleback methods depending on which cost of service study is used as the principal guide for revenue requirement allocation. If the ALJ and the Commission rely primarily on PPL Electric Ex. JMK-2A, PPL Electric's preferred cost of service study, which classifies primary plant (except substations) as partly customer-related, then the ALJ and the Commission should simply reduce the rate increase allocated to residential customers from $114.675 million under originally proposed rates to $77.5 million. As PPL Electric has explained, it is only fair that, if

all of the increase is allocated to residential customers, as PPL Electric proposed, then residential customers should receive the entire benefit of the scale back. PPL Electric Initial Brief, p. 42. As shown on PPL Electric Ex. JMK-2A, pp. 8-11, under PPL Electric's proposed allocation of the originally-proposed rate increase all rate classes will move substantially toward the system average rate of return. As explained by Mr. Kasper, the same result will occur under the scaleback of the proposed rate increase. PPL Electric, St. 8-RJ, pp. 9-10.

If, on the other hand, the ALJ and the Commission decide to rely on PPL Electric Ex. JMK-2B, which follows exactly the less accurate cost of service methodology used by PPL Electric in prior rate cases, then a somewhat different allocation would be reasonable. The starting point of an appropriate scaleback based on PPL Electric Ex. JMK-2B would begin with the OSBA's proposed allocation of the initial rate increase. This allocation is shown in the table on page 38 of PPL Electric's Initial Brief. *See also* OSBA St. 1, p. 27. Then, the ALJ and the Commission should simply scale back OSBA's proposed allocation by multiplying each amount by the scaleback fraction ($77.5 million ÷ $114.675 million). The allocation to the RS and RTS rate classes would then have to be adjusted to reflect the Partial Settlement under which the increase to the RTS rate class is limited to 150% of the increase to the residential rate class with any shortfall reallocated to Rate Schedule RS.

Additionally, it should be noted that OSBA's initial allocation of revenue requirement to LP-5 and LP-6 rate classes was $1.2 million. The scaled back amount would be $811,000. Even this amount, however, would produce a substantial percentage increase to Rate Schedule LP-5 and LP-6 customers, because their combined distribution revenues at present rates is only $1.57 million. PPL Electric Ex. JMK-2B, p.8, line 8. Therefore, an increase of $811,000 would mean a 51.66 percent increase. The increase to the LP-5 and LP-6 rate classes should be moderated to

approximately the percentage increase allocated to residential customers. The resulting shortfall could be recovered instead from customers served under Rate Schedules LP-4 and ISP, because their combined distribution revenues at present rates are much greater, $36.251 million. PPL Electric Ex. JMK-2B, p. 8, line 8. This adjustment would not substantially increase the percentage increase to customers served under Rate Schedules LP-4 and ISP. This alternative is shown on the table below.

RATE CLASS	OSBA AT ORIGINAL INCREASE (000)[8]	SCALE BACK OF OSBA ($000)[9]	PPL ELECTRIC MODIFIED SCALE BACK OF OSBA ($000)
RS	$109,235 24.58[10]	$73.823 16.62%	$74,140 16.69%
RTS	$2,240 46.64%	$1,514 31.52%	$1,197[11] 24.92%
GS-1			
GS-3			
LP-4/ISP	$2,000 5.52%	$1,352 3.73%	$1,901 5.24%[12]
LP-5/LP-6	$1,200 76.43%	$811 51.66%	$262 16.69%[13]
LPEP			
GH			
SL/AL			
TOTAL	$114,675 15.83%	$77,500 10.70%	$77,500 10.70%

[8] OSBA St. 1, p. 27.

[9] All entries in this column equal entry in column 1 x ($77.5 million : $114.675 million or 0.675823).

[10] All percentages calculated based on total operating revenues at present rates as shown in PPL Electric Exhibit JMK-2B, pp. 8-9, line 8.

[11] Increase to RS and RTS rate classes adjusted based on settlement. The present customer charge for Rate Schedule RTS will remain in effect, and the revenue increase to Rate Schedule RTS will be limited to 150 percent of the percentage increase to the entire residential class. Any revenue shortfall resulting from application of this provision will be recovered from customers served under Rate Schedule RS.

[12] Calculated as the residual increase to produce the settlement increase in annual distribution operating revenues.

[13] Calculated at the percentage increase to Rate Schedule RS.

D. TARIFF STRUCTURE

1. Donsco Should Not Receive Any Special Rate.

Donsco Incorporated's ("Donsco") request for a special rate should be denied for numerous reasons. First, Donsco has not challenged any of the PPL Electric's proposed rates in this proceeding. Instead, it complains exclusively about PPL Electric's existing rates and tariff structure. More specifically, Donsco complains about the expiration of certain generation-related discounts in distribution rates that expired simultaneously with the ending of PPL Electric's generation rate caps on December 31, 2009. As a party contesting existing, Commission-made rates, and the proponent of an order, under well-established precedent, Donsco bears the burden of proof that it is entitled to a special rate. *See* PPL Electric Initial Brief, Section I.B. As explained below and in Section III.C.1 of PPL Electric's Initial Brief, Donsco has not met its burden of proof.

Second, Donsco relies heavily on a provision in the Competition Act which permits the Commission to approve special rates for individual customers. This provision, however, does not require PPL Electric to offer such a special rate, and PPL Electric, for many reasons, is not willing to do so. Those reasons include the fact that such a special rate would harm other customers and would create an unfair competitive advantage for Donsco to the detriment of other similarly situated PPL Electric customers.

Third, Donsco goes to great lengths to argue that it is "unique" as compared to other Rate Schedule LP-4 customers and LP-5 customers who have opted to take service at 69 kV and paid for the cost of conversion. Donsco's argument is erroneous. To the contrary, Donsco has proposed numerous and lax conditions for qualifying for a special rate under its proposal, which are summarized at page 23 of PPLICA's Main Brief. Further, under Donsco's proposal only one

of these conditions would have to be met to qualify for a special rate. Almost all customers under Rate Schedule LP-4 could qualify for this special rate.

Fourth, Donsco repeatedly emphasizes the large percentage increase in distribution rates it experienced on January 1, 2010, as a result of the Commission-approved expiration of certain legacy promotional and business development generation-related rates developed many years ago. However, the expiration of these rates coincided with the end of generation rate caps and the beginning of large scale shopping for competitive generation supply. Donsco is now able to obtain, and in fact has obtained, its electricity from the competitive market, and generation represents about 80 percent of Donsco's electric bill under present rates. Donsco, in essence, wants to have it both ways: It wants all of the benefits of the competitive market but wants to retain all of the benefits of legacy generation-related rates developed under cost of service rate regulation of generation. Donsco's proposal is unfair to other Rate Schedule LP-4 customers, is unfair to Donsco's competitors and would be extremely poor public policy. Donsco's request for a special rate should be denied.

Fifth, Donsco has not addressed the fact that the Commission, for good reason, has consistently rejected claims for special rates for individual customers, and these decisions have been uniformly affirmed by the appellate courts. *See, e.g., Southeastern Pennsylvania Transportation Authority v. Pa. P.U.C.*, 470 A.2d 1092 (Pa. Cmwlth. 1984); *United States Steel Corp. v. Pa. P.U.C.*, 390 A.2d 849 (Pa. Cmwlth. 1978); *Park Towne v. Pa. P.U.C.*, 433 A.2d 610 (Pa. Cmwlth 1981).

Sixth, as is made clear from PPLICA's Main Brief, Donsco does not have a proposed rate at all. There is no rate; there is no known revenue effect; there is no known rate design. Instead, Donsco apparently seeks an order requiring PPL Electric to negotiate with Donsco for a special

rate. *See, e.g.*, PPLICA Main Brief, pp. 12, 13, 28. Donsco's proposal in this proceeding is little more than a vague concept.

Seventh, Donsco has not explained the effect of its proposal on other customers, as is required to establish a claim of unreasonable rate discrimination. *See, e.g., Building Owners and Managers Assoc. v. Pa. P.U.C.*, 470 A.2d 1092 (Pa. Cmwlth. 1979); *Philadelphia Suburban Transportation Co. v. Pa. P.U.C.*, 281 A.2d 179 (Pa Cmwlth 1971). Of course, quantifying the effect of Donsco's proposal on other customers was made impossible by Donsco's failure to make any specific rate proposal in this proceeding.

Donsco's request for a special rate in this proceeding should be denied.

2. Rate Schedule GS-3.

In its Initial Brief, REG raises concern with PPL Electric's proposed rate design for Rate Schedule GS-3. REG contends that the Company's proposed rate design will produce small rate increases for most customers and will produce rate decreases for only the largest customer in the class. *See* REG Initial Brief, pp. 8-9. To address this concern, REG recommends that PPL Electric adopt the proposal of OSBA to mitigate the effect on smaller Rate Schedule GS-3 customers. *See* REG Initial Brief, p. 9.

As a result of REG's concerns, OSBA made an alternative proposal with respect to Rate Schedule GS-3. Specifically, OSBA proposed to reduce the Rate Schedule GS-3 customer charge from $50 to $30 per month. OSBA also proposed to increase the Rate Schedule GS-3 billing demand charge from the $4.266 per kW originally proposed by PPL Electric to $4.5106 per kW. As explained by OSBA, although the smaller Rate Schedule GS-3 customers will experience a rate increase, OSBA's proposal will mitigate the impact upon those customers. *See* OSBA Initial Brief, pp. 24-25.

REG recommends that PPL Electric adopt the proposal of OSBA to mitigate the effect on smaller Rate Schedule GS-3 customers. *See* REG Initial Brief, p. 9. PPL Electric does not oppose OSBA's alternative proposal with respect to Rate Schedule GS-3. Acceptance of OSBA's proposal for Rate Schedule GS-3 ameliorates REG's concerns with the proposed rate design for this customer class.

3. Net Metering.

As explained in PPL Electric Initial Brief, the Company is proposing several changes to its Net Metering Renewable Customer-Generator Rider ("Net Metering Rider") to make the Rider consistent with the Alternative Energy Portfolio Standards Act, Act of November 30, 2004, P.L. 1672, *as amended*, 73 P.S. §§ 1648.1-1648.8, and the Commission's regulations implementing the Act, 52 Pa. Code §§ 75.61-75.70. *See* PPL Electric Initial Brief, Section III.C.4. One of these changes is to provide for annual payments for excess generation at PPL Electric's Price to Compare. In its Initial Brief, SEF recommends further modifications to the Net Metering Rider billing provision. For the reasons explained below, as well as those more fully explained in the Company's Initial Brief, SEF's recommendations are unnecessary and confusing and, therefore, should be rejected.

Importantly, SEF does not object to or otherwise assert that PPL Electric's proposed revision to the Net Metering Rider to provide for annual payments for excess generation at the Company's Price to Compare is unjust or unreasonable. Rather, SEF contends that the proposed language used in the billing provision of the Net Metering Rider is inconsistent with the Commission's Final Omitted Rulemaking Order in *Implementation of Act 35 of 2007; Net Metering and Interconnection*, Docket No. L-00050174 (July 2, 2008) ("*Net Metering Regulations Order*"), and is confusing to customers. *See* SEF Initial Brief, pp. 11-12. SEF

therefore recommends that the billing provision be modified. SEF's recommendations should be rejected.

First, SEF contends that the term "PJM planning period" is confusing and, therefore, recommends that PPL Electric insert the actual dates for the planning period, *i.e.*, June 1-May 31. However, SEF disregards that the Commission specifically adopted the term "PJM planning period" to eliminate confusion regarding annual requirements. *See Net Metering Regulations Order*, Slip Op. at pp. 11-12. Further, as explained in PPL Electric's Initial Brief, the term PJM Planning Period is included in the Commission's Net Metering regulations and, moreover, is specifically defined as "ending May 31 of each year" in the billing provision proposed by PPL Electric. *See* PPL Electric Initial Brief, p. 66. SEF's proposal to replace the term "PJM planning period" with the term "within 15 days of May each year, the Company will compensate the customer-generator" is unnecessary and should be rejected.

SEF next recommends that the method for calculating compensation for excess generation should be modified to provide as follows:

> Compensation shall be calculated by using the weighted average generation and transmission rates, with the weighting based on the rates in effect when the monthly excess generation actually was delivered by the customer-generator to PPL Electric. If the customer-generator participates in the Time of Use default service option, the weighted average rates should reflect the rates in effect during the time that the customer-generator delivered its generation to the EDC.

See SEF Initial Brief, p. 12. SEF contends that its recommended language is consistent with the *Net Metering Regulations Order* and eliminates confusion regarding customer-generator compensation for generation in excess of annual usage.

PPL Electric agrees that the language recommended by SEF tracks some of the language in the *Net Metering Regulations Order*; however, a review of the relevant passage in its entirety

clearly reveals that the Commission concluded that compensation for excess generation would be calculated at the Price to Compare.[14] Although the Commission went on to explain how the Price to Compare is to be calculated, it did not direct that the calculation behind the Price to Compare be included in EDCs' tariffs. Further, as noted by the Commission, the term "Price to Compare" is defined in the Commission's regulations, *see* 52 Pa. Code § 54.182, and is a term that is familiar to customers because it is used by customers when choosing whether or not to shop. *Net Metering Regulations Order*, Slip Op. at 20. Notwithstanding, SEF would replace a term that is familiar to customers with confusing language involving calculating weighted averages and different monthly rates. The language suggested by SEF is not less confusing, it is more confusing.

SEF also recommends that the Net Metering Rider billing provision be revised to include a provision on the Time of Use default service option. SEF asserts that PPL Electric has not explained its failure to include Net Metering language for the Time of Use service option. *See* SEF Initial Brief, p. 14. On the contrary, PPL Electric specifically explained that the necessary language is included in the Time of Use Rate Option Tariff page 19Z.3E, which specifically address excess generation from a Time of Use customer generator. PPL Electric St. 8-R, p. 17.

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[14] The relevant portion of the Commission's Order provides as follows:

> To summarize, the Commission is amending 52 Pa. Code § 75.13(d) such that, for any unused kilowatt-hours accumulated at the end of the annualized period, compensation to the customer-generator shall equal the price-to-compare rate, as defined in 52 Pa. Code § 54.182, which includes the retail generation and transmission components of the retail rate, and which consumers also utilize when choosing whether or not to obtain supply services from an EGS. Since the EDC retail generation and transmission rates may fluctuate during a year, such compensation shall be calculated by using the weighted average generation and transmission rates, with the weighting based on the rates in effect when the monthly excess generation actually was delivered by the customer-generator to the EDC.

Net Metering Regulations Order, Slip Op. at p. 20.

PPL Electric's Time of Use Rate Option Tariff is consistent with the Commission regulations at 52 Pa. Code § 75.13(d). Therefore, SEF's recommendations should be rejected.

In summary, the proposed billing provision in the Net Meter Rider is consistent with the Commission regulations. The recommended language suggested by SEF is unnecessary and confusing. Accordingly, SEF's recommendation should be rejected.

E. REG'S PROPOSAL REGARDING THE AVAILABILITY OF CERTAIN DATA TO CUSTOMERS SHOULD BE REJECTED

In its initial brief, REG contends that PPL Electric should be required to make certain data available to commercial and industrial customers. First, REG takes issue with the fact that PPL Electric calculates demand in 15-minute increments for distribution purposes, but only provides hourly distribution data to customers. *See* REG Initial Brief, pp. 3-4. Second, REG recommends that PPL Electric be required to make annual Peak Load Contributions and annual Transmission Obligations available to customers online. *See* REG Initial Brief, pp. 4-5. For the reasons explained below, as well as those more fully explained in the Company's Initial Brief, REG's recommendations are impractical and should be rejected.

REG first argues that the mismatch between the 15-minute increment used to calculate demand and the hourly data provided to customers upon request leads to customer confusion. REG therefore suggests that PPL Electric should shift to calculating the billing demand on an hourly basis rather than 15-minute increments. REG asserts that a switch to hourly demand would conform to pricing signals and other components of certain bills. *See* REG Initial Brief, p.4.

PPL Electric currently bills customers on 15-minute increment demands. PPL Electric St. 8-R, p. 30. As explained in the Company's Initial Brief, PPL Electric does not have the technical capabilities to implement demand charges based on the hour of highest use instead of

the 15 minutes of highest use during a billing month for all customers and, further, such a switch would require substantial reprogramming and expensive new metering for all customers who pay demand charges. *See* PPL Electric Initial Brief, pp. 62-63. Indeed, REG concedes that implementing demand charges based on the hour of highest use instead of the 15 minutes of highest use during a billing month would be a vast undertaking. *See* REG Initial Brief, p. 4.

To the extent that REG is suggesting in its Initial Brief that PPL Electric should provide 15-minute increment data to customers, PPL Electric notes that no such a proposal was raised or addressed in REG's testimony. Use of a brief to introduce proposals that were not presented during the evidentiary stages of the proceeding is inappropriate and those proposals should be disregarded. *See Enron Capital & Trade Resources Corporation v. The Peoples Natural Gas Company, et al.*, Doc. No. R-00973928C0001, 1998 Pa. PUC LEXIS 199 (August 24, 1998) (holding that a proposal presented for the first time in a main brief and not introduced during the evidentiary stages of the proceeding was procedurally inappropriate and contrary to due process requirements). Further, it should be noted that, as acknowledged by REG, PJM aggregates 15-minute data into hourly values to develop peak demands. REG St. 1, p. 5. Because energy is priced on an hourly basis, 15-minute data is largely irrelevant to the price a customer is offered for energy.

REG next recommends that PPL Electric be required to make annual Peak Load Contributions and annual Transmission Obligations available to customers online. *See* REG Initial Brief, pp. 4-5. PPL Electric provides customer billing history to customers through the customer web interface as a service to its distribution customers. However, other than the Eligible Customer List available online to suppliers and aggregators, PPL Electric is not required to present any customer billing history on the web. PPL Electric St. 8-R, pp. 33-34.

Further, as explained in response to the Commission's request for comments, the annual Peak Load Contribution and Transmission Obligation are values used to provide an accurate depiction of the size of the customer, which allows suppliers to better design their approach to market to and serve customers. *PPL Electric Utilities Corporation Retail Markets*, Docket No. M-2009-2104271, 2009 Pa. PUC LEXIS 267 at *21 (August 11, 2009). These values ensure that there are adequate resources and capacity, and allow suppliers to price the cost of capacity for a customer. *Id.*

PPL Electric only uses the annual Peak Load Contribution and Transmission values to bill Transmission Obligation and Capacity Obligation if a large c&i customer is taking default service from the Company at real-time rates. The Peak Load Contribution and Transmission Obligation values are available to suppliers and aggregators in the Eligible Customer List. PPL Electric St. 8-R, p. 34. The Peak Load Contribution and Transmission Obligation values are not stored in the customer records in the PPL Electric customer information system and, therefore, would not be available to customers through the customer web interface. PPL Electric St. 8-R, p. 34.

F. CEO'S PROPOSAL TO INCREASE FUNDING OF THE WRAP AND HELP PROGRAMS SHOULD BE REJECTED

The CEO has proposed that PPL Electric be required to increase annual funding for the WRAP program from $8.0 million to $9.5 million and increase the funding of the Operation HELP program from $1.3 million to $1.6 million. For the reasons fully explained in the Company's Initial Brief, CEO's recommendations should be rejected. *See* PPL Electric Initial Brief, Section IV.C.

G. PURCHASE OF RECEIVABLES

As explained in PPL Electric's Initial Brief, in this proceeding the Company is proposing to voluntarily extend its current, Commission-approved purchase of receivables ("POR") program beyond its expiration date of December 31, 2010. *See* PPL Electric Initial Brief, Section IV.B. In its Initial Brief, RESA opposes PPL Electric's proposal to extend the current POR program. RESA contends that the record evidence fails to support the discount percentage factor proposed for the POR program, and that the proposed increase in the discount percentage factor impedes the development of a competitive market because it creates uncertainty.

In addition, RESA recommends that the Company should eliminate the "all-in/all-out" requirement for residential customers. RESA also recommends that the Company should eliminate the current tracking mechanism to monitor individual electric generation suppliers' ("EGSs") uncollectible accounts expenses for small c&i customers. RESA further recommends that the Company should eliminate the uncollectible accounts expense percentage factor from the discount rate and recover costs associated with all generation-related uncollectible accounts expense though the application of a non-bypassable Merchant Function Charge ("MFC") to both shopping and non-shopping customers. Finally, RESA recommends that the Company should expand the POR program to apply to large c&i customers.

In its Initial Brief, PPL Electric explained its positions on the POR issues pending before the ALJ and the Commission in this proceeding. In so doing, PPL Electric anticipated and, as a practical matter, responded to many of the arguments raised by RESA in its Initial Brief. Nevertheless, it is appropriate for PPL Electric to respond to certain contentions advanced by RESA in its Initial Brief.

Preliminarily, as explained in its Initial Brief, PPL Electric notes that it is not required to offer a POR program. *See Petition of PPL Electric Utilities Corporation Requesting Approval of*

a Voluntary Purchase of Accounts Receivables Program and Merchant Function Charge, Docket No. P-2009-2129502, 279 PUR4th 539, 2009 Pa. PUC LEXIS 266 at *12 (November 19, 2009) ("*PPL Electric POR Petition*"). Because the current POR program expires on December 31, 2010, the Company was faced with three options: (1) allow the current program to expire and not offer a POR program; (2) voluntarily offer an entirely new redesigned POR program; or (3) voluntarily offer to extend the current, Commission-approved POR program. Importantly, the current POR program has only been in effect since January 1, 2010, *i.e.*, three months prior to the initiation of this proceeding. Further, PPL Electric's current POR program was the result of a partial settlement and litigation, in which RESA was an active participant. For these reasons, and consistent with the Commission's policy that POR programs may promote competition,[15] PPL Electric elected to voluntarily extend its current POR program. For these reasons alone, RESA's proposed recommendations should be rejected. Notwithstanding the foregoing, for the reasons explained below, as well as those more fully explained in the Company's Initial Brief, RESA's recommendations should be rejected and PPL Electric's proposal to extend its current POR program beyond December 31, 2010, should be approved.

1. The Record Evidence Supports the Proposed Discount Percentage Factor.

RESA contends that the proposed discount percentage factors for the residential and small c&i customers are not supported by the record. RESA argues that the proposed discount percentage factors do not reflect the actual uncollectible costs for shopping customers and fails to properly credit customers for revenue received that reduces the Company's net uncollectible

[15] *See PPL Electric Utilities Corporation Retail Markets*, Docket No. M-2009-2104271 (August 11, 2009); *Investigation into the Natural Gas Supply Market: Report on Stakeholders' Working Group (SEARCH); Action Plan for Increasing Effective Competition in Pennsylvania's Retail Natural Gas Supply Services Market*, Docket No. I-00040103F0002 (September 11, 2008).

accounts expense. *See* RESA Initial Brief, pp. 9-13. As explained below, despite RESA's assertions to the contrary, the evidence of record supports PPL Electric's proposed discount percentage factors for its residential and small c&i POR program.

In this proceeding, the proposed discount rate for the residential customers is 1.855%, which reflects an uncollectible accounts expense percentage factor of 1.805% and an administrative cost factor of 0.05%. The proposed discount rate for the small c&i customers is 0.06%, which reflects an uncollectible accounts expense percentage factor of 0.01% and an administrative cost factor of 0.05%. PPL Electric St. 7, p. 32. The Company has explained that the uncollectible accounts expense is a forward looking number based upon historical information. The Company looks at the historical write-offs to determine what the uncollectible accounts expense should be relative to the historical write-offs. Tr. 372. The Company then determines if there is an expected material change that would impact the uncollectible accounts expense for the future test year that was not present in the historic period and, if so, adjusts the uncollectible accounts expense to account for such material change. *Id.*

The Company explained in this proceeding that its budgeted uncollectible accounts expense is based on an average of the actual bad debt write-offs for the most recent five calendar years. PPL Electric St. 7, p. 33; PPL Electric Ex. JMK-7. The Company's use of this historic data to develop the budgeted uncollectible accounts expense is reasonable and appropriate because the POR program only became effective January 1, 2010, and prior to the expiration of the generation rate caps almost all of the current shopping customers were customers of PPL Electric.

The Company also explained that it projected a material change in the uncollectible accounts expense due to the increase in the generation supply charges, to both shopping and non-

shopping customers alike, as a result of the expiration of generation rate caps on January 1, 2010. Tr. 372-374. For these reasons, PPL Electric's proposed increase in the discount factors to reflect an adjustment in the uncollectible accounts expense based on the expected increase in the generation supply charges is reasonable and appropriate on a going-forward basis, because of the substantial, one time, increase in generation prices at the end of 2009. Tr. 374; PPL Electric St. 7-R, p. 31.

Notwithstanding, RESA contends that a system-wide uncollectible accounts expense should not be applied to both shopping and non-shopping customers. *See* RESA Initial Brief, pp. 10-11. In essence, RESA is advocating for discount factors that reflect the actual uncollectible accounts expense experienced for shopping customers. RESA even goes so far as to suggest that shopping customers are better paying customers than non-shopping customers, which RESA contends would justify a lower discount rate. *See* RESA Initial Brief, p. 10. RESA's arguments are without merit.

First, other than Mr. Hudson's unsupported speculation, there is no record evidence to support the conclusion that shopping customers are better paying customers than non-shopping customers. Rather, the evidence of record demonstrates that generation supply charges will be higher for both shopping and non-shopping customers as a result of the expiration of the generation rate caps. Tr. 374; PPL Electric St. 7-R, p. 31. Second, RESA ignores that EGSs participating in the residential POR program must agree not to reject a customer on credit-related issues, and that any customer who wishes to be served by an EGS participating in the residential POR program must be accepted by that EGS. *See PPL Electric POR Petition*, 2009 Pa. PUC LEXIS 266 at *5. Third, RESA disregards that the POR program was only recently approved and there is insufficient data to determine separate uncollectible accounts expense for shopping

and non-shopping customers. Fourth, the use of the historic uncollectible accounts expense data, as adjusted to account for the increase in revenue resulting from the expiration of the generation rate caps, is reasonable because almost all of the shopping customers were just recently customers of PPL Electric. Finally, RESA's request for an actual expense for shopping customers appears to be directly contrary to its proposal to eliminate the tracking mechanism for the small c&i POR program, which is designed to do just that -- track the actual uncollectible accounts expense associated with small c&i customers enrolled in the POR program.

RESA next argues that PPL Electric's proposed uncollectible accounts expense percentage factors for residential and small c&i shopping customers fail to properly credit the revenue that the Company receives from forfeiture discounts or late payments that allegedly reduces the net uncollectible accounts expense. *See* RESA Initial Brief, pp. 11-13. However, RESA completely ignores the fact that late payments and forfeited discounts have no relationship to uncollectible accounts expense. Indeed, in an interrogatory response attached to RESA's testimony, PPL Electric explained the write-off components included in the uncollectible accounts expense recovered in the POR discount rate as follows:

> A.4 (a) Net write-offs (gross write-offs less written-off account balances transferred to active accounts and recoveries on previously written off accounts).
>
> (b)(1) Late payment charges are not included in the calculation of the proposed uncollectible accounts expense portion of the discount factor. Forfeited discounts are not applicable.
>
> (2) Late payment charges, which are charged to customers who carry an overdue balance, are imposed to offset the carrying costs of overdue accounts receivable. Late payment charges are not related to uncollectible accounts expense.
>
> ***

(c)(1) Forgone customer deposits are included in the calculation of the proposed uncollectible accounts expense portion of the discount factor.

(2) Forgone customer deposits are used to reduce unpaid accounts receivable balances prior to the write-off process. As a result uncollectible accounts expense is net of forgone customer deposits.

RESA Ex. RJH-3. The uncollectible accounts expense reflects the net write-offs for customers who are terminated from the system and not providing revenue to the Company. The Company does not receive revenue from forfeited discounts that would offset uncollectible accounts. Further, if late payment charges are actually received from customers, they are not included in uncollectible accounts expense, but rather, like every other revenue, is used to reduce PPL Electric's distribution revenue requirement. Accordingly, unlike foregone customer deposits that reduce unpaid accounts receivable prior to the write-off process, late payment charges or forfeited discounts are not applicable to PPL Electric's uncollectible accounts expense.

Based on the foregoing, the evidence of record demonstrates that PPL Electric's proposal to use discount percentage factors based on the historic uncollectible accounts expense data, as adjusted to account for the increase in revenue resulting from the expiration of the generation rate caps, is just and reasonable and, therefore, should be approved.

2. The Minor Increase in the Discount Percentage Factor will not Impede a Competitive Market.

RESA contends that PPL Electric's proposal to increase the discount rate impedes the development of a competitive market because it creates uncertainty as to the price an EGS will receive for its accounts receivable. In support, RESA provides the example that EGSs' pricing offers in the fall of 2009 could not have anticipated a change in the discount percentage factor effective January 2011. RESA argues that uncertainty about the price an EGS will receive for its accounts receivable will make it less likely that an EGS will offer long-term products, such as

two-year or fixed-priced products, because at some point the discount percentage factor may change. *See* RESA Initial Brief, pp. 14-15. For the reasons that follow, RESA's argument is without merit.

First, RESA argument that the proposed increase in the discount percentage factor creates uncertainty conflicts with the modifications to the current POR program proposed by RESA. PPL Electric acknowledges that the slight increase in the discount percentage factor is a minor change from the current POR program. Beyond this minor increase there will be no other material changes to the structure of the POR program under PPL Electric's proposal to extend the current program. However, unlike the minor modification proposed by PPL Electric, the recommendations proposed by RESA will substantially change the structure of the POR program. RESA cannot credibly argue that the minor increase in the discount percentage factor creates uncertainty, while at the same time proposing significant changes to the fundamental structure of the POR program.

Second, EGSs could not have reasonably expected the POR program, and the discount percentage factor applied thereunder, to continue without change because the current POR program expires December 31, 2010. Simply stated, there was nothing in the settlement or the litigation that obligated PPL Electric to even offer a POR program, let alone continue its current POR program without any modification. *See, generally, PPL Electric POR Petition.* To the extent that an EGS entered into a long-term agreement with a customer on the assumption that a POR program with an expiration date would continue indefinitely without any change or modification, such assumption was a business decision of the EGS to bear the risk that the POR program would not expire and/or be modified. This risk, which was willingly undertaken by EGSs despite the voluntary nature and the expiration date of the POR program, cannot not now

be used to credibly argue that the minor increase in the discount percentage factor creates uncertainty.

Third, the discount percentage factor is not a variable rate. Contrary to RESA's contention, the discount percentage factor is not uncertain. As explained above, the record evidence clearly supports the discount percentage factors requested for both residential and small c&i customers. If approved by the Commission, the discount percentage factors will be fixed percentages that will continue until such time and data indicate that it is appropriate to modify the discount percentage factors in a subsequent proceeding before the Commission. RESA and any EGSs with an interest would have the opportunity to fully participate in such a proceeding and to present their positions as to the appropriate rate for the discount percentage factora.

Finally, RESA's position with respect to long-term and/or fixed products based on a permanent discount factor is contrary to the voluntary nature of the POR program. As explained above and in PPL Electric's Initial Brief, PPL Electric is not required to offer a POR program and, consequently, PPL Electric could in the future discontinue its POR program in its entirety if necessary and appropriate. RESA's concerns with the so-called uncertainty of the discount percentage factors are without merit and are nothing more than another attempt to shift the risk of doing business as an EGS to PPL Electric and its customers.

3. RESA's Proposal to Eliminate the "All-in/All-out" Requirement for Residential Customers Should be Rejected.

RESA recommends that the Company should eliminate the "all-in/all-out" requirement for residential customers. RESA argues that this requirement eliminates the ability of EGSs to offer complex programs to residential customers through its own dual billing and forces the EGS to choose either to participate in the POR program or not participate in the POR program and offer such complex programs to residential customers. *See* RESA Initial Brief, pp. 15-16. For

the reasons that follow, as well as those more fully explained in PPL Electric's Initial Brief, RESA's recommendation should be rejected.

Under the "all-in/all-out" requirement for residential customers, EGSs may voluntarily elect to either participate or not participate in the POR program. PPL Electric St. 7. p. 30. The POR program that is voluntarily offered by PPL Electric provides EGSs with another option on how to manage risks and compete in the retail market. Stated otherwise, under the POR program, EGSs are given the option to either participate in the program and have PPL Electric bear the responsibilities and risks for billing and collection activities, or to not participate in the program and have the option of providing complex products to residential customers, while maintaining the responsibility and risks for billing and collection activities. Thus, it is a business decision of the EGS to determine whether it can more effectively compete in the retail supply market by offering complex products to residential customers or by participating in the POR program; a choice that would not otherwise be available to the EGS in the absence of a POR program.

Further, as explained in PPL Electric's Initial Brief, the "all-in/all-out" requirement was a protection under the Company's current POR program as a mechanism to address the potential for EGSs "cherry-picking" a placing high risk, poor-paying residential customers in the POR program. *See* PPL Electric Initial Brief, pp. 92-93. RESA contends that it does not agree that EGSs would behave in such a manner. However, the fact that there is no evidence of cherry-picking while the agreed-upon protection is in place does not support a finding that such behavior would not occur without the "all-in/all-out" requirement. Rather, if anything, it demonstrates the deterrent effect of the "all-in/all-out" requirement.

RESA concedes that there is a risk that PPL Electric could under recover its generation uncollectible accounts expense if EGSs were permitted to selectively enroll poor-paying customers. RESA St. 1, p. 10. As explained in PPL Electric's Initial Brief, this risk is even greater for residential customers as compare to other customer classes. *See* PPL Electric Initial Brief, pp. 92-93. Further, the large number of residential shopping customers who are shopping within PPL Electric's service territory does not suggest that the "all-in/all-out" requirement has been an impediment to the development of a competitive market. PPL Electric St. 6-R, pp. 5-6, 13. For these reasons, RESA's proposal to eliminate the "all-in/all-out" requirement should be rejected.

4. RESA's Proposal to Eliminate the Current Tracking Mechanism for the Small C&I Customer POR Program Should Be Rejected.

RESA recommends that the Company should eliminate the current tracking mechanism to monitor individual electric EGSs' uncollectible accounts expenses for small c&i customers. RESA argues that the current tracking mechanism creates a risk of uncertainty for EGSs in that they may receive a lesser amount for their accounts receivable as a result of the tracking mechanism. *See* RESA Initial Brief, pp. 17-18. PPL Electric has fully addressed RESA's proposal in its Initial Brief. *See* PPL Electric Initial Brief, Section IV.B.2.c. However, it also should be noted that if EGSs do not selectively enroll or "cherry-pick" small c&i customers, then EGS have little if anything to worry about. Further, PPL Electric notes that RESA's proposal to eliminate the tracking of the actual uncollectible accounts expense for small c&i customers is directly contrary to RESA's argument that the proposed discount percentage factors do not reflect the actual uncollectible accounts expense. *See* RESA Initial Brief, pp. 10. Finally, RESA's concerns with uncertainty conflict with the dramatic departure from the current POR program that would result if RESA's recommendations were adopted. For these reasons, as well

as those more fully explained in PPL Electric's Initial Brief, RESA's recommendation should be rejected.

5. RESA's Proposal to Eliminate the Uncollectible Accounts Expense Percentage Factor Should Be Rejected.

RESA recommends that the Company should eliminate the uncollectible accounts expense percentage factor from the discount rate and recover costs associated with all generation-related uncollectible accounts expense though the application of a non-bypassable charge to both shopping and non-shopping customers. RESA contends that its proposal will encourage more competitors to enter the market, and that its proposal is consistent with the structure of other POR programs. *See* RESA Initial Brief, pp. 18-22. In its Initial Brief, PPL Electric anticipated and, as a practical matter, responded to RESA's proposal to eliminate the uncollectible accounts expense from the discount percentage factor. Nevertheless, it is appropriate for PPL Electric to respond to certain contentions advanced by RESA in its Initial Brief. For the reasons explained below, as well as those more fully explained in the Company's Initial Brief, RESA's recommendation should be rejected.

As explained in PPL Electric's Initial Brief, the purpose of a discount percentage factor is to reflect the risks associated with the collection of amounts owed by the shopping customer to the EGS. *See* PPL Electric Initial Brief, p. 77. RESA seeks to shift this risk to PPL Electric and its customers by rebundling the shopping and non-shopping uncollectible accounts expenses and recovering it through a non-bypassable charge assessed to all distribution customers regardless of whether they shop. Stated otherwise, RESA believes that EGSs should bear none of the risk that *their* customers will fail to pay the amounts owed to the EGSs. RESA contends that such a result will promote competition.

The purpose of the Electricity Generation Customer Choice and Competition Act, 66 Pa.C.S. §§ 2801-2812 ("Competition Act") is not to promote competition by eliminating the risks of doing business as an EGSs. Rather, the purpose of the Competition Act is to benefit customers by having the costs for generation supply determined through a competitive generation market. The Commission has explained the purpose of the Competition Act as follows:

> A primary innovation mandated by the Competition Act is to provide customers with direct access to a competitive generation market. 66 Pa.C.S. § 2802(3). The reason for this change is the legislative finding that "competitive market forces are more effective than economic regulation in controlling the costs of generating electricity." 66 Pa.C.S. § 2802(5); *see, Green Mountain Energy Company, et at v. Pa. PUC*, 812 A.2d 740, 742 (Pa. Cmwlth. 2002). Accordingly, a fundamental policy underlying the Competition Act is that competition is more effective than economic regulation in controlling the costs of generating electricity. 66 Pa. C.S. § 2802(5). Another fundamental policy of the Competition Act is that electric service is an essential service and should be available to all customers "on reasonable terms and conditions." 66 Pa.C.S. § 2802(9).

Petition of Pike County Light & Power Company For Expedited Approval of its Default Service Implementation Plan, Docket No. P-00072245, 2007 Pa. PUC LEXIS 39 at *12 (August 16, 2007).

An EGS has a collection risk when it sells electricity to a wholesaler, retailer, or the end-user. OTS St. 2-R, pp. 9-10. EGSs incorporate the risk of incurring uncollectible accounts receivable into their pricing margins, and those margins are passed on to shopping customers through the EGSs' competitive supply offers. OSBA St. 2, pp. 22-23. The elimination of the uncollectible accounts expense from the discount percentage factor would undoubtedly be a benefit to EGSs because they could offer lower supply prices that do not reflect the costs associated with uncollectible accounts receivable. However, this would produce artificially

lower prices that would not accurately reflect the actual costs associated with the competitive generation supply. In turn, EGSs that do not participate in the POR program would be at a competitive disadvantage because their competitive supply prices would be higher to reflect their costs associated with uncollectible accounts. *Id.* Such a disparity could be confusing to customers in selecting an EGS. In order for the costs of generation supply to be accurately determined through a competitive market, the EGSs' competitive supply offers should all reflect their uncollectible accounts expenses, whether determined through the actual uncollectible accounts experienced by the EGS or through a discount percentage factor applied to the purchase of the accounts receivable. The purpose of the Competition Act is not to benefit EGSs but, rather, to benefit customers through access to a competitive market. RESA's proposal is contrary to the spirit and purpose of the Act.

In support of its proposal, RESA argues that recovery of uncollectible accounts expense as a socialized cost paid by all customers is consistent with the way uncollectible accounts expense historically has been handled from a ratemaking perspective. *See* REAS Initial Brief, p. 21. RESA's reliance on historic ratemaking perspectives is misplaced. RESA disregards that competition in the retail generation supply was all but non-existent in PPL Electric's service territory until the expiration of the generation rate caps. Further, RESA ignores that, unlike other EDCs, PPL Electric has in fact unbundled its generation-related and distribution-related uncollectible accounts expense. PPL Electric St. 6-R, p. 2. RESA also ignores the fact that its rebundling proposal is directly contrary to the position it maintained in PPL Electric's' most recent Default Service Plan proceeding,[16] as well as is directly contrary to its position regarding large c&i customers -- that PPL Electric's failure to unbundle generation-related uncollectible

[16] *See* PPL Electric St. 6-RJ, p. 9 (quoting RESA St. 1, p. 33 from Docket No. P-2008-2060309)

accounts expense from distribution rates for the large c&i customer class puts EGSs at a competitive disadvantage. *See* RESA Initial Brief, p. 23. RESA cannot credibly argue on one hand that rebundling will promote competition, and on the other hand argue that unbundling will promote competition.

RESA next contends that its rebundling proposal treats all customers the same because PPL Electric would recover billing and collection expenses from every customer regardless of the customer's energy supplier. *See* REAS Initial Brief, p. 21. The POR program only became effective January 1, 2010, and, as conceded by RESA, the retail market in PPL Electric's service territory is still in an early stage of development. *See* RESA Initial Brief, p. 23. Thus, it simply is too early to determine if the shopping and non-shopping customer uncollectible accounts expense will be the same. Indeed, it may turn out that the EGS uncollectible accounts expense is greater or less than the uncollectible accounts expense associated with default service. Accordingly, the uncollectible accounts expenses should continue to be unbundled and recovered separately to allow for the development of reasonably accurate data regarding the uncollectible accounts expense and for future adjustments as necessary.

RESA further contends that its rebundling proposal recognizes and addresses the fact that, unlike an EGS, an EDC has the ability to disconnect service for non-payment. *See* RESA Initial Brief, p. 21. In essence, RESA argues that the uncollectible accounts expense for shopping customers should not be unbundled because EGSs are unable to enforce their contracts by the threat of disconnection from electrical service for failure to pay EGS charges. This argument is meaningless. Under PPL Electric's POR program, the Company has the authority to terminate service to a shopping customer and pursue collection activities for non-payment of EGS charges, subject to the limitations under Chapter 56. *See* PPL Electric Initial Brief, p. 92.

Further, other than the EGS's own contract with the shopping customer, there is nothing of record to suggest any limitation on an EGS's ability to return the customer to the EDC as a default service customer. PPL Electric St. 6, p. 8. Moreover, an EGS' ability to disconnect service is irrelevant because, under the POR program, the EGS gets paid in full regardless of whether the customer timely remits full payment for the generation services received from the EGS. PPL Electric St. 6, p. 11. For these reasons, an EGS's inability to physically disconnect a shopping customer will have little if any impact on the uncollectible accounts expense for shopping customers.

RESA next contends that its rebundling proposal recognizes and addresses the fact that, unlike an EGS, an EDC has the support of a call center and collections staff that has been paid for through regulated distribution rates. *See* RESA Initial Brief, p. 21. This argument confuses the issue. The incremental costs for administering the POR program are recovered through the POR administration percentage factor, not the discount percentage factor. PPL Electric St. 6, p. 8. The fact that PPL Electric has a call center and collections staff is a benefit to the EGSs participating in the POR program because they are able to avoid the costs and efforts associated with these billing and collection activities. Tr. 442. More importantly, the fact that PPL Electric has a call center and collections staff does not somehow minimize the risk that uncollectible accounts receivable for shopping customers will be incurred.

RESA also asserts that its proposal to recover uncollectible accounts expense though the application of a non-bypassable charge to all distribution customers is consistent with POR programs of other EDCs. *See* RESA Initial Brief, p. 19. However, as explained in PPL Electric's Initial Brief, there is no state-wide standard EDC POR program. *See* PPL Electric Initial Brief, pp. 90-91. RESA completely disregards that each EDC is different, has different

capabilities, and serves entirely different customers located in different service territories. Clearly, such differences will be reflected in any non-standard POR program, especially if the EDCs are not required to offer the program. RESA's logic for why PPL Electric's POR program should be consistent with those offered by other EDCs is flawed and leads to nonsensical results. For example, under RESA's theory, it could be argued that all of PPL Electric's customer assistance programs should be identical to the programs offered by other Pennsylvania EDCs simply because the Commission has approved the other EDC's customer assistance programs. However, such a result clearly would ignore the differences among the EDCs and the customers they serve, which could be a detriment to the customers served by such important programs.

Further, although the Commission approved a POR program for PECO that included the generation-related uncollectible accounts expense within PECO's distribution rates, RESA fails to disclose that, unlike PPL Electric, PECO had not previously unbundled its generation-related uncollectible accounts expense from its distribution accounts expense. Rather, PECO proposed to continue to recover uncollectible expenses, including the expense associated with purchased EGS receivables, in its distribution rates. *Petition of PECO Energy Company for Approval of its Revised Electric Purchase of Receivables Program*, Docket No. P-2009-2143607, Slip. Op. at 37 (June 18, 2010). In addition, pursuant to the settlement of PECO's POR program, all parties other than the OTS agreed that the issue of unbundling generation-related uncollectible accounts expense would be deferred until PECO's next Default Service proceeding. *Id.* at 40.

RESA also attempts to distinguish Duquesne Light Company's use of an uncollectible accounts expense factor. However, in doing so, RESA concedes that the discount factor in Duquesne Light Company's POR program also includes an uncollectible accounts expense factor. *See* RESA Initial Brief, p. 20. Further, RESA acknowledges that the uncollectible

accounts expense factor was the result of a settlement that was intended to compensate Duquesne Light Company for assuming the risk associated with EGSs' uncollectible accounts. *See id.* Notwithstanding, RESA contends that the discount to offset the risk was justified for Duquesne Light Company because it reflects the actual uncollectible accounts expense for the shopping customers rather than the class average uncollectible accounts expense applied by the Company in this proceeding. RESA's attempt to distinguish the Duquesne POR program on this basis should be disregarded. First, throughout its brief, RESA has been inconsistent on whether the discount factor should or should not reflect the actual uncollectible accounts expense for shopping customers. *See, e.g.,* RESA Initial Brief, pp. 10, 17-18. Second, as explained above, the Company's use of the historic uncollectible accounts expense data, as adjusted to accurately reflect the increase in revenue resulting from the expiration of the generation rate caps, is reasonable. Third, the POR program was only recently approved and, as conceded by RESA, the retail market in PPL Electric's service territory is still in the early stages of development. *See* RESA Initial Brief, p. 23. As a result, there is not enough data to accurately reflect separate uncollectible accounts expense for shopping and non-shopping customers.

Finally, it must be remembered that PPL Electric is not required to offer a POR program. *See PPL Electric POR Petition*, at *12. For the many reasons set forth in PPL Electric's Initial Brief, RESA's proposal to eliminate the uncollectible accounts expense from the discount percentage factor is not acceptable to the Company. *See* PPL Electric Initial Brief, Section IV.B.2.a. Accordingly, for these reasons explained above and in PPL Electric's Initial Brief, RESA's proposal should be rejected.

6. RESA's Proposal to Expand the POR Program to Apply to Large C&I Customers Should Be Rejected.

PPL Electric current POR program for large c&i customers is explained in the Company's Initial Brief. *See* PPL Electric Initial Brief, p. 95. RESA contends that EGSs are at a competitive disadvantage under the current POR program for large c&i customers. RESA therefore recommends that the Company should expand the current POR program to apply to large c&i customers. *See* RESA Initial Brief, pp. 23-24. PPLICA supports RESA's proposal to expand the current POR program to large c&i customers on the condition that EGSs bear the costs associated with the implementation and administration of such program, and that RESA's proposal to recover uncollectible accounts expense through the application of a non-bypassable charge assessed to both shopping and non-shopping customers is not adopted. *See* PPLICA Initial Brief, p. 7. For the reasons explained below, as well as those more fully explained in the Company's Initial Brief, RESA's proposal should be rejected.

The Company's large c&i POR program is not part of, and is separate in design from the current POR program for the residential and small c&I customers. PPL Electric St. 6-R, p. 19. Importantly, in this proceeding PPL Electric has not proposed any changes to its current large c&i POR program, which previously has been approved by the Commission. Accordingly, RESA bears the burden of proof as to its proposal to expand the small c&i POR program to apply to large c&i customers. *See Pa. P.U.C. v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 at *111-12 (January 11, 2007); *Pa. P.U.C. v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45 at *165-68 (September 28, 2007). RESA has failed to satisfy its burden of proof.

In support of its proposal, RESA contends that the failure to unbundle generation-related uncollectible accounts expense from distribution rates for the large c&i customer class puts

EGSs at a competitive disadvantage. *See* RESA Initial Brief, p. 23. RESA's contention is without merit for several reasons. First, as explained above, RESA's contention that the failure to unbundle uncollectible accounts expense for large c&i customers is directly contrary to its proposal to rebundle uncollectible accounts for residential and small c&i customers. Second, RESA's contention that EGSs are at a competitive disadvantage because they must reflect the uncollectible accounts expense in their offers to large c&I customers is overstated. As explained in the Company's Initial Brief, the uncollectible accounts expense percentage factor for the large c&i customers is only 0.010%. Therefore, any competitive disadvantage that may exist after the first three months is not significant. *See* PPL Initial Brief, p. 95.

RESA also asserts that no EGSs currently appear to be using the Company's current POR program for large c&i customers. Although 78.7% of the total number of large c&I customers were taking service from an EGS or were signed up to begin supply pending the issuance of their next bill as of July 3, 2010, RESA disregards that currently two-thirds of these large c&i customers are being billed separately by their EGS. PPL Electric St. 6-R, pp. 19-20. Many of these customers are enrolled in complex, customized products that, as conceded by RESA, are simply not compatible with the EDC consolidated billing format under the POR program. RESA St. 1, p. 14; *see also* RESA Initial Brief, p. 16.

Finally, as explained in the Company's Initial Brief, the proposal to expand the POR program to large c&i customers would create significant risk for the Company, as well as other customers, in the event that a large c&i customer were to declare bankruptcy. Given the low uncollectible expense percentage factor for the large c&i customer class and the uncertainty regarding PPL Electric's ability to require a substantial deposit for generation supply services

provided by EGSs, it is unclear that the Company would be able to adequately offset the significant risk created by the bankruptcy of a large c&i customer. *See* PPL Initial Brief, p. 96.

For these reasons, as well as those more fully explained in the Company's Initial Brief, RESA has failed to demonstrate that the Commission's prior approval of the current large c&i POR program is no longer justified. Accordingly, RESA's proposal to expand the small c&i POR program to the large c&i customer class should be rejected.

IV. CONCLUSION

WHEREFORE, for all the foregoing reasons, PPL Electric Utilities Corporation respectfully requests that Administrative Law Judge Susan D. Colwell reject the contentions of other parties and approve Supplement No. 83 to PPL Electric Utility Corporation's Tariff – Electric Pa. P.U.C. No. 201, as modified by the "Joint Petition for Partial Settlement of Rate Investigation" that was filed on August 26, 2010.

Respectfully submitted,

David B. MacGregor (ID # 28804)
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Phone: 215-587-1197
Fax: 215-320-4879
E-mail: dmacgregor@postschell.com

Michael W. Gang (ID # 25670)
John H. Isom (ID # 16569)
Christopher T. Wright (ID # 203412)
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: mgang@postschell.com
E-mail: jisom@postschell.com
E-mail: cwright@postschell.com

Paul E. Russell (ID #21643)
Associate General Counsel
PPL Services Corporation
Office of General Counsel
Two North Ninth Street
Allentown, PA 18106
Phone: 610-774-4254
Fax: 610-774-6726
E-mail: perussell@pplweb.com

Of Counsel:

Post & Schell, P.C.

Date: September 13, 2010

Attorneys for PPL Electric Utilities Corporation