

COMMONWEALTH OF PENNSYLVANIA



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November 4, 2010

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

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

Dear Secretary Chiavetta:

Enclosed for filing please find the Office of Consumer Advocate's Exceptions to the Recommended Decision of Administrative Law Judge Susan D. Colwell in the above-referenced proceeding.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Aron J. Beatty'.

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

Enclosures

cc: Hon. Susan D. Colwell/ALJ  
Cheryl Walker Davis/Office of Special Assistants  
Parties of Record

125999

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

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EXCEPTIONS OF THE  
OFFICE OF CONSUMER ADVOCATE

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Dated: November 4, 2010

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## I. INTRODUCTION

On October 15, 2010, Administrative Law Judge Susan Colwell issued her Recommended Decision (R.D.) in the distribution base rate proceeding of PPL Electric Utilities Corporation (PPL or Company). The ALJ addressed the unopposed Partial Settlement of certain issues, including the agreed upon revenue requirement increase of \$77.5 million. The ALJ recommended approval of the Partial Settlement which the OCA supports. The ALJ further addressed the unresolved issues presented by several parties in the proceeding. Importantly, the ALJ addressed the unresolved issue of how the allowed revenue requirement increase should be allocated among the various customer classes. In her R.D., the ALJ adopts the Company's proposal to allocate the entire \$77.5 million rate increase to the residential customer class. That is, residential customers are being asked to shoulder the entire burden of this rate increase while the other customer classes pay none of the increase.

The OCA files these Exceptions to the ALJ's recommended allocation of the revenue requirement increase. The OCA respectfully submits that the ALJ has allocated this revenue requirement increase in a manner that is unjust and unreasonable. In reaching her recommendation, the ALJ relied upon a new cost of service study that PPL presented for the first time in this proceeding which materially changed its methodology from prior proceedings resulting in substantial changes to class rates of return from PPL's prior determinations. By relying on this new cost of service study, the ALJ was led to an unreasonable allocation of the revenue increase in this case.

As the ALJ and all of the parties recognized, under the Settlement of the PPL 2004 base rate proceeding remand, PPL agreed to a plan that would move the distribution service class rates of return to "at or near" the full cost of service over three rate proceedings,

subject to three caveats.<sup>1</sup> The 2004 base rate proceeding was the first, the 2007 base rate proceeding was the second, and the current filing is the third of the three rate cases. In this case, however, PPL made a material change to the methodology it had previously employed to conduct its cost of service study, which informs the decision as to whether customer classes are “at or near” the full cost of service as determined by that study. The change in methodology implemented by PPL for this proceeding significantly increased the amount of costs assigned to the residential customer class as compared to its prior methodology. As a result, despite having shown significant progress towards cost of service in the prior two cases, the residential class now seemed to be moving backwards, *i.e.*, the return provided by the residential class was getting lower rather than higher despite paying disproportionately higher increases in the 2004 base rate case remand and the 2007 base rate settlement.

PPL’s testimony on this material change in methodology was contained in a single sentence of the direct testimony of PPL’s cost of service witness. PPL St. 7 at 24. Yet the impact of this change was remarkable. Based on PPL’s new cost of service methodology, it appeared as if the primary residential rate class, Rate RS, was providing a return of 3.12% as compared to the system average return of 6.33%. That is, Rate RS appeared to be providing a return that was only 49.3% of the system average return. Under PPL’s prior method, which PPL used to guide its revenue allocations in the prior two distribution rate cases, however, the Rate RS has a return of 5.23% at current rates, or nearly 83% of the system average return. OCA St. 3-S at 7. As can be seen, under PPL’s prior methodology, even before any rate increase in this

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<sup>1</sup> The Company identified three caveats to achieving full cost of service. First, for certain rate classes, the Company recognized that one or two more rate cases may be required because these rates currently were so far below full cost of service that completing the move over three steps would be disruptive. Second, the Company recognized that cost of service is an art, not a science, and while the Company will attempt to move rates reasonably close to full cost of service, some modest differences may remain. Finally, the Company reserved the right to apply principles of gradualism to ameliorate individual customer rate impacts to the extent necessary in future proceedings. See PPL St. 6 at 18-19.

case, the residential class had already made significant progress toward the system average rate of return, and the distance to cover in this case was significantly less than what is shown under PPL's new methodology. In essence, PPL's material change in methodology moved the goal line just as the residential customer class was reaching it.

Under the Company's original method, Primary distribution facilities were allocated on a non-coincident peak basis. In the new study, however, the Company switched without explanation to a method that allocated 39% of the Primary system costs based on the number of customers in each class. OCA St. 3 at 8. This change radically increased the amount of costs that were allocated to the Residential class. For the Primary system, PPL's new methodology assigned an additional \$1.1 Billion of investment on a customer count basis rather than a demand basis. OCA St. 3 at 8-9. As the Residential class has by far the largest number of customers, this change fell disproportionately on the Residential class.

In her R.D., the ALJ determined to rely upon this materially changed cost of service study to guide her revenue allocation determination. R.D. at 46. Having determined to rely upon PPL's new cost of service study to guide her allocation decision, the ALJ is led to the same fundamental mistake as PPL in determining class revenue responsibility. That is, the ALJ reaches the conclusion that the entire rate increase must be borne by the residential class. The ALJ, however, did not consider the results of more reasonably conducted cost of service studies in her revenue allocation decision and she did not consider the results of PPL's own prior cost of service study that had formed the basis of PPL's plan to move classes "at or near" the system average return by the end of this distribution rate case.

OCA witness Glenn Watkins performed cost of service studies that corrected the flaws in PPL's new methodology to provide a more reliable indicator of the cost of serving each

class.<sup>2</sup> In his study, OCA witness Watkins classified Primary distribution plant as demand-related as PPL did in its prior study and he also classified Secondary distribution plant as demand-related. Mr. Watkins then allocated these demand costs using two methods – his preferred method of a non-coincident peak allocation and his secondary method of a peak and average allocation. In order to better inform his determination regarding revenue responsibility of the various customer classes, Mr. Watkins also considered a cost of service study prepared by PPL for rebuttal testimony using PPL’s own prior methodology that classified Primary distribution plant as 100% demand-related and allocated the costs on a non-coincident peak (NCP) demand allocator. The following charts summarize the data reviewed by Mr. Watkins:

Table 8(A)  
ROR At Current Rates

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

Source: OCA St. 3 at 27.<sup>3</sup>

<sup>2</sup> Mr. Watkins is Vice President and Senior Economist of Technical Associates, Inc., a business research and consulting firm with offices in Richmond, Virginia. Mr. Watkins has conducted load forecasting, marginal and embedded cost of service and rate design studies involving many water/wastewater, electric, gas, and telephone utilities, and has provided expert testimony in Alabama, Arizona, Georgia, Maine, Maryland, Michigan, New Jersey, Illinois, Vermont, Virginia, South Carolina and West Virginia. A complete description of Mr. Watkins' qualifications can be found in Schedule GAW-1, which is attached to OCA St. 3.

<sup>3</sup> The Residential class return in this chart combines Rate Schedules RS and RTS for presentation purposes.

What is clear from this chart is that the Company's new cost of service methodology produces the lowest return for the residential customer class of any of the studies. Mr. Watkins also reviewed the results of three additional cost of service studies provided by the Company to show the movement of the various customer classes toward the cost of service under the Company's proposed allocation. These studies were conducted using the proposed rates, assuming the full rate increase assigned as recommended by the Company:

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

Source: PPL Exh. JMK-5.

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

The OCA submits that when all of the record evidence is taken together in this case, and the principles of cost of service and gradualism are properly applied, it is clear that the Company's allocation of the entire rate increase to the residential class, adopted by the ALJ, is

unreasonable and will not result in rates that are just and reasonable. Applying the principles of cost of service based on the results of reasonable cost of service studies, and mindful of the need for gradualism and the avoidance of rate shock, OCA witness Watkins provided an alternative revenue allocation proposal that meets the requirements of Lloyd v. Pa. PUC, 904 A.2d 1010 (Pa. Commw. 2006)(Lloyd) and achieves the goals of the prior settlement.

The revenue allocation proposed by Mr. Watkins is based on a review of all of the cost of service evidence presented in this proceeding, including the study conducted using the Company's own prior method that originally guided the Company's plan.<sup>4</sup> The following chart presents Mr. Watkins' revenue allocation proposal at the full rate increase and at the agreed upon \$77.5 million rate increase level:

**OCA PROPOSED ALLOCATION AT ORIGINAL REQUEST AND SETTLEMENT AMOUNT**

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

Source: OCA St. 1 at 27-30.

<sup>4</sup> Even Company witness Krall acknowledged that he had not based his proposed revenue allocation on the study using the Company's prior methodology. Tr. at 428-429. Mr. Krall acknowledged, and the Company stated in their Reply Brief, that the allocation would be different if the prior study methodology was used to guide the revenue allocation. PPL St. 6-R at 22; PPL RB at 16-18. The Company essentially concedes that if it had used its prior study, it would have allocated less of a rate increase to residential customers.

Through this revenue allocation, all classes are moved closer to the cost of service when measured by reasonably conducted cost of service studies. Under the OCA's proposal, residential customers would still pay over \$60 million of the \$77.5 million increase. The OCA submits, however, that it is neither reasonable nor appropriate for residential customers to pay the entire rate increase in this case.

The OCA submits that the ALJ's recommended revenue allocation proposal must be rejected. It starts from a flawed PPL cost of service study that provides unreliable indications of the cost to serve the individual customer classes. Based on this incorrect starting point, the ALJ allocates the entire rate increase to the residential class, significantly burdening residential customers who have already borne two large distribution rate increases in 2004 and 2007.

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

## II. EXCEPTIONS

OCA Exception No. 1: The ALJ Erred By Recommending The Use Of PPL's New 2010 Cost Of Service Study To Allocate The Revenue Increase In This Proceeding. R.D. at 36-46; M.B. at 18-35; R.B. at 6-19.

### A. Introduction.

In her R.D., the ALJ reviewed the Class Cost of Service Study (CCOSS) evidence presented by the Company, OCA, and OSBA in this proceeding. R.D. at 36-46. Importantly, the ALJ recognized that all of the parties in this proceeding agree that the development of a cost of service study is not an exact science. R.D. at 37. The ALJ noted that both Company witness Kleha and OCA witness Watkins testified that the process of developing a cost of service study is subject to considerable discretion. R.D. at 38. As Company witness Kleha testified, the “process inherently requires a substantial level of judgment and can be more accurately described as engineering/accounting art, rather than science.” PPL St. 7 at 24. OCA witness Watkins explained that, “Cost allocation studies involve art as much as science and are subjective by their very nature.” OCA St. 3 at 4. As both PPL witness Kleha and OCA witness Watkins testified, the cost of service study should serve as a guide and one of a number of tools in assigning revenue responsibility. OCA St. 3 at 4; PPL St. 7 at 19-23.

The Company presented two cost of service studies in this proceeding. The first study, presented in its filing for the first time and updated throughout the course of the proceeding is the Company's new study which it prefers to use in this proceeding. Under its new study, the Company classifies both its Primary and Secondary distribution plant as both customer-related and demand-related. It then allocates the demand portion of the costs on a non-coincident peak (NCP) allocator and the customer portion of the costs on number of customers. The ALJ identified the Company's new study as JMK-2A.

In the rebuttal phase of this proceeding, the Company submitted another cost of service study that Company witness Kleha testified uses “exactly the same cost allocation methodology as it used in its two prior base rate proceedings.” PPL St. 7R at 10. Under this prior methodology (PPL 2004/2007 method), PPL classified its Primary distribution plant as 100% demand-related and its Secondary distribution plant as partially demand-related and partially customer-related.<sup>5</sup> In this study Primary distribution plant was allocated using an NCP allocator while the Secondary plant was allocated partially on the NCP allocator and partially based on number of customers. This study using PPL’s prior methodology from its 2004/2007 base rate proceedings was identified as JMK-2B.

Under both of the Company’s studies, a significant portion of distribution plant is allocated to the various customer classes based on the number of customers served. Under the Company’s new study, JMK-2A, however, a much greater percentage of distribution plant is allocated on a customer count basis as the Company now decided for the first time to classify a significant portion of its primary distribution plant (69%) as customer-related. OCA St. 3 at 8-9. This classification resulted in an additional \$1.1 Billion of Primary distribution plant being allocated based on the number of customers.

The OCA submits that the Company’s classification of a majority of both its Primary and Secondary Distribution plant on a customer basis is seriously flawed in several respects. First, the underlying assumption in the Company’s study that both Primary and Secondary distribution plant have a customer component is unsupported and inconsistent with the design and operation of PPL’s system in its service territory. Second, even if there were a

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

customer component to these facilities, PPL's minimum system study to determine that component is significantly flawed resulting in an overstated customer component. Third, the Company's new cost of service study in this proceeding deviates substantially from the studies it advocated in its 2004 and 2007 base rate proceedings that were used to guide the plan that resulted from the Settlement of the 2004 base rate remand. In those proceedings, Primary Distribution plant was classified as 100% demand related by PPL. In this proceeding, for the first time, PPL classified over \$1 Billion of Primary distribution plant as customer-related.<sup>6</sup> This change in methodology has major impacts on the results of the Company's cost of service study particularly for the Residential customer class that has by far the greatest number of customers.

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

B. The Company's New Cost of Service Study Misallocates Costs Among Customer Classes And Should Not Be Relied Upon.

1. The Company's New Study Does Not Follow Principles Of Cost Causation.

Underlying the Company's new cost of service study is an assumption that it is appropriate to allocate a large portion of joint costs, including both Primary and Secondary distribution facilities, based on customer counts. OCA St. 3 at 10. As OCA witness Watkins explained, however, this underlying assumption is flawed in this case and leads to a

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<sup>6</sup> The PPL distribution system is comprised of a Primary voltage system and a Secondary voltage system. The Primary system operates at higher voltage levels than the Secondary system and generally consists of plant and equipment between the substation and transformers. OCA St. 3 at 7.

misallocation of a significant portion of the costs of PPL's system. OCA witness Watkins testified that the only reason to classify a portion of joint distribution plant expenses based on customer counts as PPL did in its 2010 study, rather than based on the demands placed on the system, would be due to the customer mix and density in the service territory. As explained by Mr. Watkins, if all customer classes are equally represented in all portions of a utility's service territory, there is no basis for classifying or allocating distribution plant based on customer counts. OCA St. 3 at 10. Mr. Watkins explained that:

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

OCA St. 3-S at 4.

Mr. Watkins further explained the impact that the customer mix and density throughout the service territory may have on cost allocation, as follows:

Even though investment is made in distribution plant and equipment to meet the energy needs of its customers at required power levels, there may be considerable differences in both customer densities and the mix of customers throughout a utility's service area. As a hypothetical, suppose a utility serves both an urban area and a rural area. In this situation, many customers' electrical needs are served with relatively few miles of conductors, few poles, etc. in the urban area, while many more miles of conductors, more poles, etc. are required to serve the requirements of relatively few customers in the rural area. If the distribution of customers (customer mix) is relatively similar in both the rural and urban areas, there is no need to consider customer counts (number of customers) within the allocation process, because all classes use the utility's joint distribution facilities proportionately across the service area. However, if the customer mix is such that Commercial and Industrial customers are predominately clustered in the urban area, while the rural portion of the service territory consists almost entirely of Residential customers, it may be

unreasonable to allocate the total Company's investment based on usage or demand; i.e., a large investment in many miles of line is required to serve predominately Residential customers in the rural area while the Commercial and Industrial electrical needs are met with much fewer miles of lines in the urban area. Under this circumstance, an allocation of costs based on a weighting of customers and demand is usually considered equitable and appropriate.

OCA St. 3 at 6.<sup>7</sup>

The only technical reason to classify distribution plant as partially customer-related would be if there were considerable differences in both customer densities and mix of customers throughout the utility's service territory. OCA St. 3 at 6. Mr. Watkins performed an in-depth analysis of the mix and density of customers across PPL's service territory. OCA St. 3 at 10-12, Exh. GAW-2. Mr. Watkins' analysis showed that PPL's customer classes are all well represented throughout most of the urban population centers and most rural regions. This customer mix and density does not support a customer classification. See, OCA MB at 23-27.

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

The considerations I used to properly allocate PPL's distribution costs, which are also endorsed by Mr. Knecht in his direct testimony, are also advanced by Professor Bonbright in his well

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<sup>7</sup> OSBA witness Knecht provided a similar underlying rationale for classifying certain costs based on the number of customers in his Direct Testimony. OSBA witness Knecht testified as follows:

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

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

known treatise entitled Principles of Public Utility Rates. In his book, Dr. Bonbright states that there:

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

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

One of the ALJ’s rationale for adopting the Company’s new methodology was that it was consistent with the NARUC manual. R.D. at 46. The OCA submits that ALJ’s reliance on the NARUC manual to support adoption of the Company’s new cost of service study methodology is misplaced in this instance. The NARUC manual provides a generalized guide for generic use—it does not, nor could it, recognize the impact of its recommendations in every instance for every utility service territory. OCA witness Watkins explained that the methodological support for his position is found in the economic literature which he tested through a study specific to PPL’s service territory. In particular, OCA witness Watkins noted the considerations advanced by Professor Bonbright in his treatise entitled Principles of Public Utility Rates. In his treatise, Professor Bonbright stated that there is a very weak correlation between the mileage or area of a distribution system and the number of customers served by the system, noting an analysis that showed no statistical association between distribution costs and

number of customers. OCA St. 3-S at 5. Moreover, PPL's own history demonstrates that the NARUC manual has not governed how it allocates costs. The Company has not followed the NARUC manual for the allocation of Primary distribution plant prior to this proceeding. It cannot be the case that the NARUC manual establishes some kind of binding precedent when the Company's own practices have not utilized certain portions of that publication.

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

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

OCA St. 3 at 13. The Company acknowledged this fact on cross-examination. Tr. at 380-382.

The OCA submits that the PPL distribution system is not built such that the majority of costs are incurred simply to connect customers. The system is designed to meet the potential peak loads. The Company's proposal to allocate the majority of its Primary and Secondary distribution costs on the basis of customer counts is technically incorrect and should be rejected.

2. The Company's Minimum System Study Is Seriously Flawed.

As detailed by the customer density analysis undertaken by OCA witness Watkins, the classification of Primary and Secondary distribution plant costs based on the number of customers is not supported for PPL. See, OCA MB at 22-26. Even if such a

classification were to be entertained, the Company's methodology for determining the portion of the costs to allocate on a customer count basis is severely flawed. In determining how much of the plant to classify as customer-related, the Company performed a minimum system study. Based on this minimum system study, the Company classified 69% of its Primary plant as customer-related and 67% of its Secondary plant as customer-related. This resulted in \$1.65 Billion of plant being allocated based on the number of customers – a method that significantly impacts the Residential class. As detailed in the examples contained in the OCA's Main Brief (pp. 27-30), the technical flaws in Mr. Kleha's minimum system study render it unusable for determining a customer/demand split.

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

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

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

Mr. Kleha's anomalous results are even more pronounced for Account 367, underground conductors. That is, 84% of Primary

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

OCA St. 3 at 15.<sup>8</sup>

OCA witness Watkins also explained that the Company's record keeping practices limit its ability to perform a true "minimum" system study. OCA St. 3 at 15-16. In addition, OCA witness Watkins expressed serious concerns with the Company's measurement of wires for the minimum system study, the inclusion of fiber optic telecommunication wires in the minimum system study, and the over-use of multiplex cables in Mr. Kleha's analysis. OCA St. 3 at 16.

The OCA submits that the technical flaws in Mr. Kleha's minimum system study render it unusable for determining a customer/demand split even if one were necessary.

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

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

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<sup>8</sup> The Company's minimum system study even resulted in 44% of substation equipment being classified as customer-related. Substations are used to reduce the bulk transmission high voltage current down to lower voltage to be used within the distribution system. OCA St. 3 at 17. Mr. Watkins noted that these facilities are universally deemed 100% demand-related in the industry. *Id.*

distribution plant partially on peak usage and partially on average usage (a “peak and average” study).<sup>9</sup>

As Mr. Watkins testified, his cost of service study using a 100% demand classification for Primary and Secondary distribution plant as opposed to a study that classifies these facilities as partially customer-related is consistent with how the distribution system is designed and operated. As discussed above, Mr. Watkins’ analysis of customer density and customer mix in PPL’s service territory fully supports the classification of these distribution facilities as demand-related. OCA St. 3 at 10-12. Additionally, Mr. Watkins further explained the reasonableness of his approach:

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

The number of customers connected to the primary system have no impact on the size of the facilities installed. So that it is clear, reference to customers in this context refers to a generic customer with no information on size or type. In other words, simple knowledge of total connections on the primary system is meaningless to a design engineer. To put this in perspective, it makes virtually no difference in planning the size of distribution

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<sup>9</sup> Mr. Watkins testified that there are two principal reasons for considering energy usage. First, Mr. Watkins noted that, while distribution equipment must be sized to meet maximum loads, it is also sized to accommodate additional loads in emergencies and outages and for future growth, among other factors. OCA St. 3 at 20. In other words, these facilities are not simply designed for the peak loads under normal operating conditions. Second, Mr. Watkins noted the weak to moderate linear correlation between the costs and maximum capacity of distribution equipment, *i.e.*, costs increase at a slower rate than rated maximum capacity of equipment. *Id.* Mr. Watkins explained that an approach recognizing only peak demand implicitly assumes that costs increase in a linear fashion to load, resulting in an over allocation of costs to low load factor classes and an under allocation of costs to higher load factor classes. While Mr. Watkins noted the usefulness of the peak and average method, he relied primarily on his 100% demand method.

conductors whether there are 100 small customers with peak loads of 10 KW each or 10 larger customers with peak loads of 100 KW each. Poles (Account 364) are required to support overhead conductors and provide minimum overhead clearance for safety and traffic. Similarly, Underground Conduit (Account 366) is installed to protect underground conductors. As such, Poles and Conduit can be thought of as equipment required to support the required conductors. Up to this point in the distribution system, potential peak load is clearly the relevant design criteria and the number of customer connections are clearly meaningless.

OCA St. 3-S at 3-4. As can be seen, the classification of these facilities as demand-related is fully consistent with cost causation principles.

The results of Mr. Watkins recommended study using the NCP allocation at current rates are as follows:

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

OCA St. 3 at 26. Mr. Watkins' study shows that even at current rates, the Rate RS customers, the primary residential class, as having a return of 6.13%, almost at the system average return of 6.33%. While the Rate RTS still has a negative return as that rate is adjusted, the return for the

Residential class as a whole (Rate RS and Rate RTS) is 5.7% as compared to the system average return of 6.33%, still 90% of the system average. OCA St. 3 at 27, Table 8(A).

The OCA's recommended cost of service study is reasonable and consistent with sound ratemaking principles. As OCA witness Watkins testified, the Pennsylvania Commission utilizes a "demand-only" methodology with no customer component for comparable facilities of gas distribution companies and there is no theoretical reason to differentiate between these two types of utilities on this point. OCA St. 3-S at 6. In addition, OCA witness Watkins testified that, while most state Commissions (including Pennsylvania) do not mandate a particular type of cost of service study, the state of Washington applies his demand-only cost of service methodology for electric distribution utilities. See, e.g., Washington Utilities and Transportation Comm'n v. Puget Sound Power & Light Company, Docket No. UE-920499, 1993 Wash. UTC LEXIS 65 (August 16, 1993) at \*15-\*17 (where the Washington Utilities and Transportation Commission selected a cost of service study for electric distribution service "which treats substations, poles, towers, conduit, and transformers as demand-related" and where the Washington Commission specifically rejected the Minimum System approach in that proceeding and going forward. The OCA's position is grounded in reasonable, accepted ratemaking principles.<sup>10</sup>

As discussed earlier, PPL has previously used a 100% demand classification for Primary distribution plant. In JMK-2B, the Company presented its cost of service study using the exact same methodology it used in its 2004 and 2007 base rate cases. This study used a

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<sup>10</sup> The OCA would also note that the Company presented the results of a "no-customer component" cost of service study in its Exhibit JMK-5. Exhibit JMK-5 contains a "50-50 Demand-Energy Allocators" cost of service study that is best described as a "peak and average" study. In his Direct testimony, Company witness Krall discussed the results contained in Exhibit JMK-5, noting "cost-of-service is an art, not a science, and there is clearly no universally accepted method for conducting such studies." PPL St. 7 at 21. Upon examining the results contained in Exhibit JMK-5, including the "no-customer component" cost of service study, Mr. Krall testified that each study "begins with assumptions that, while different, *are not unreasonable*." PPL St. 7 at 22 (emphasis added).

100% demand-related classification for Primary plant, as did Mr. Watkins. While JMK-2B classifies Secondary plant as partially demand-related and partially customer-related, it is clear that the Company has previously used a similar method to Mr. Watkins. The OCA submits that the cost of service study proposed by Mr. Watkins using a demand allocation for the Primary and Secondary distribution facilities provides a reasonable guide for use in this proceeding. Mr. Watkins study most closely aligns with the Company's allocation methodology from 2004 and 2007. As such, the OCA recommends that the Commission place primary reliance on the OCA's preferred study in this proceeding, while considering the other evidence of record, including JMK-2B.

D. Conclusion.

PPL's new CCOSS embodied in JMK-2A is flawed because it does not accurately reflect cost causation. In addition, the Company has proposed a major modification in its cost of service methodology that is not reasonable at this time. The Company's 2010 CCOSS JMK-2A, as a result, should not be used as a guide for setting rates in this proceeding. OCA witness Watkins' study properly allocates costs in a more accurate and reasonable manner that is reflective of cost causation on the PPL system. The OCA submits that Mr. Watkins' study, when viewed in conjunction with PPL's own 2004/2007 Method study and Mr. Watkins' and PPL's peak and average studies, provides a useful guide for setting rates in this proceeding. For these reasons, the OCA proposes that the Commission reject the ALJ's recommendation regarding the Company's study.

OCA Exception No. 2: The ALJ Erred By Relying Solely On The Company's Flawed Cost Of Service Study And Adopting PPL's Recommendation That The Entire Revenue Requirement Increase Should Be Allocated To Residential Customers. R.D. at 36-58; M.B. at 35-50; R.B. at 19-29.

Using PPL's flawed cost of service study as a guide, the ALJ placed the entire Settlement revenue increase of \$77.5 Million on Residential customers. The OCA submits that, for the reasons set forth in its Main and Reply Briefs as well as below, the ALJ's acceptance of the Company's revenue allocation, guided by a materially changed cost of service study, is in error. The OCA's proposed allocation of the revenue increase is reasonable under the Company's prior cost of service methodology and under the OCA's cost of service methodology. Therefore, the OCA's revenue allocation should be accepted.

A. The Company's Proposed Revenue Allocation.

By relying on its new cost of service study, which is not only based on a changed methodology from prior cases but is based on assumptions that are seriously flawed, PPL was led to an unreasonable proposed allocation of the revenue increase that is awarded in this case. OCA witness Glenn Watkins, however, corrected the significant flaws in PPL's cost of service methodology to produce a more reliable indicator of the cost of serving each class. The Company also provided in Rebuttal a cost of service study (PPL 2004/2007 method) that had guided and informed its Plan to move customers "at or near" full cost of service in three rate cases with this case being the third in the Plan. The following chart shows the returns provided by the OCA preferred study, the PPL 2004/2007 Method study, and the PPL 2010 Method Study at current rates:

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

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

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

What can be seen is that, under Mr. Watkins' cost of service study, Residential Rate RS is already providing a rate of return of 6.13% at current rates as compared to the system average return of 6.33%. In other words, Rate RS is already providing almost 97% of the cost of serving the class at current rates under Mr. Watkins' cost of service study. Rate RS is shown to already be "at or near" the cost of service. For the residential class as a whole, when Rate RTS customers' returns are accounted for, the residential class still shows a rate of return at current rates of 5.7%, thus providing 90% of the cost to serve the class.<sup>11</sup> There is, therefore, no reason to impose such a disproportionate increase on residential customers, let alone the entire increase as recommended by the ALJ. Under the Company's new cost of service study, however, the Residential class appears to be losing ground despite having received disproportionately large

<sup>11</sup> Under Mr. Watkins alternative peak and average method performed for this case, the residential class as a whole is providing the system average return of 6.3%, i.e., the class as a whole is shown to providing all of the costs to serve the class. See, OCA St. 3 at 27.

rate increases in the prior two steps of the Company's Plan. The lost ground is particularly troubling when compared to PPL's own prior study.

Based on the cost of service studies, three parties presented revenue allocations based on the Company's full revenue request in direct testimony. PPL relied on its new study for its proposal. OCA witness Watkins used his own study, as well as PPL's prior methodology, as his primary guides. OSBA relied on its own study that recognized a customer-related allocator. A comparison of the allocations presented at the filed increase is provided below:

Comparison of Proposed Class Revenue Increases  
(\$000)

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

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

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

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

The OCA submits that the ALJ has inappropriately and unnecessarily assigned the entire rate increase to the Residential class. The ALJ approved a revenue allocation that PPL witness Krall acknowledged on cross examination is based on a new cost of service study methodology and does not reflect an appropriate allocation if one were to consider the results of PPL's prior cost of service methodology that had previously informed its plan to move classes "at or near" full cost of service. Tr. 428-429; PPL St. 6-R at 22. As OCA witness Watkins demonstrated, the Company's new method improperly and disproportionately assigns costs to the Residential class which makes it appear as if the Residential class is providing a lower rate of return than under a properly conducted study. While PPL witness Krall argued that his revenue allocation principles were closely aligned with the principles that ultimately guided the 2004 and 2007 base rate proceeding revenue increases for each rate class, the starting point for his application of these principles was not aligned with the cost of service study methodology used by the Company itself to guide its proposed revenue allocations in 2004 and 2007.

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

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

PPL St. 7-R at 9-10.

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

Q. ON PAGE 4 OF HIS REBUTTAL TESTIMONY, MR. KLEHA OPINES THAT CONSISTENCY IS AN IMPORTANT

FACTOR IN THE PREPARATION OF A COST ALLOCATION STUDY. DO YOU AGREE WITH THIS OPINION?

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

OCA St. 3-S at 7. As noted, Mr. Watkins' methodology more closely aligns with PPL's prior approach.

PPL made it clear throughout its filing that this case represents the third, out of three, distribution cases planned for the post-restructuring period. PPL St. 6 at 16-19. Just as this third case was to be completed, PPL filed a new cost of service study methodology, with no compelling rationale, that assigned significantly more costs to residential customers, making it appear as if this class had moved farther away from the goal of being "at or near" full cost of service. It is one thing to say that residential customers should be moved "at or near" cost of service over three cases, and quite another to move the goal line in midstream and assign hundreds of millions of dollars of additional costs to those customers. The OCA submits that the resulting revenue allocation adopted by the ALJ based on this new CCOSS is, therefore, unreasonable and must be rejected. Instead, the OCA's proposed revenue allocation, which was guided by Mr. Watkins' properly conducted CCOSS and provides results that are more consistent with PPL's prior methodology and considered the results of PPL's 2004/2007 methodology, should be adopted.

B. OCA Witness Watkins' Proposed Revenue Allocation Methodology.

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

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

OCA St. 3 at 26. As Mr. Watkins explained, cost of service study results provide guidance, but it is important to review the range of results in this proceeding. After reviewing this data, Mr. Watkins summarized his observations as follows:

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

OCA St. 3 at 27-28.

Based on his analysis, Mr. Watkins developed a class revenue responsibility which fairly allocated the revenue increase among the classes. A scale back of his allocation based on the \$77.5 million revenue increase agreed upon in the Partial Settlement is, in effect, a proportional scale back in that it utilizes the same framework regardless of the increase amount. The following chart summarizes the revenue responsibility for each class using Mr. Watkins' methodology and the \$77.5 million agreed upon rate increase:

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

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

OCA St. 1 at 27-29. Under the Settlement, residential customers would still pay 78% of the overall increase and small commercial customers in Rate Class GS-1 would pay nothing. In addition, in order to avoid rate shock, LP-5/LP-6 would remain capped at 150% of the system average increase.

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

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

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

OCA St. 3-S at 7. As a result, the only revenue allocation in evidence in this proceeding that recognizes PPL's 2004 and 2007 cost of service study methodology is that proposed by OCA witness Watkins.<sup>13</sup>

Based on the results of his cost of service study, OCA witness Watkins recognized three basic categories of customer classes when determining an appropriate revenue allocation: customer classes that were well above system average and warranted no increase (e.g., GS-1); customer classes that were well below system average that warranted an increase, but moderated to prevent rate shock (e.g., LP-5); and customers that should bear most of the remainder of the increase (e.g., RS). Recognizing that rate class GS-3 did not fit squarely into any category, but had a class return of 7.1% when the Company was requesting a return of 9.1%, OCA witness Watkins recognized that some increase, though moderated, was needed for GS-3. OCA St. 3 at 28.<sup>14</sup> To achieve this, Mr. Watkins proposed an increase for GS-3 capped at 80% of the system-wide percentage increase, *i.e.* a less than system average increase.

For the reasons set forth in its Main and Reply Briefs and above, the OCA submits that OCA witness Watkins' allocation provides a more appropriate allocation than the flawed Company approach adopted by the ALJ. The OCA's approach moves classes closer to

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<sup>13</sup> The ALJ recognized that there was value in maintaining some degree of consistency in this proceeding with prior cost of service studies. The ALJ stated as follows:

OCA's point that bringing rate schedules as close to their cost of service over a three case period requires that there be some consistency among the three methods of evaluation is well-taken.

The ALJ further noted that the Company provided an alternative allocation proposal in the event the Commission determined that the PPL cost of service methodology utilized in its 2004 and 2007 proceedings should be used in this proceeding. The Company has acknowledged that if the 2004/2007 methodology contained in Exh. JMK-2B, is utilized, a "100% residential" allocation would not be reasonable.

<sup>14</sup> In discussing his class revenue allocation on page 28, Mr. Watkins specifically references the GS-3 rate of return of 7.1% which is from his demand-based cost of service study results shown on page 27, Table 8(A), last column.

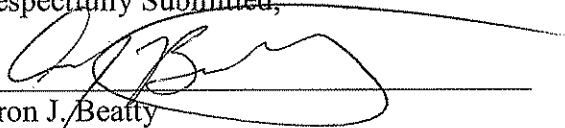
the system average return based on the results of reasonable cost of service studies and applies principles of gradualism and avoidance of rate shock in a reasonable way. Additionally, Mr. Watkins' revenue allocation meets the standards set forth in Lloyd and in the prior settlement. Specifically, as required by Lloyd, the allocation proposed by Mr. Watkins is guided by the cost of service studies performed in this case that are more consistent with the 2004 cost of service study that gave rise to the original Lloyd appeal. Principles of gradualism and avoidance of rate shock also have been applied to the extent necessary to alleviate major disruptions in customer service for those classes that are producing revenue substantially below the system average. In addition, Mr. Watkins' revenue allocation still places the great majority of the increase on residential customers, while holding other rate classes at a zero increase which will produce movement toward the system average return. Importantly, OCA witness Watkins reviewed the cost of service study performed by the Company using the 2004 and 2007 methodology and testified that the results of his preferred study, and the 2004/2007 Method PPL Study, were reasonably close and therefore supported his approach.

The OCA submits that the ALJ erred in assigning the Company's entire revenue increase to residential customers. Accordingly, the OCA submits that the ALJ's adoption of the Company's flawed revenue allocation is in error and must be rejected and that that the OCA's recommendations set forth above and in its Main and Reply Briefs should be adopted by the Commission.

### III. CONCLUSION

For the reasons detailed above and in its Main and Reply Briefs, the OCA respectfully submits that the Company's proposed allocation of the settlement revenue increase, which was adopted by the ALJ, should be rejected. Instead, the allocation proposed by the OCA should be adopted. The OCA submits that its recommendations concerning cost of service and revenue allocation in this proceeding are reasonable. The OCA's recommendations apply appropriate cost of service and ratemaking principles, and meet the goals of the prior settlement resulting in rates that are just and reasonable and are guided primarily by cost causation, consistent with Lloyd.

Respectfully Submitted,



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Dated: November 4, 2010  
135280.doc

CERTIFICATE OF SERVICE

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

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

Dated this 4th day of November 2010.

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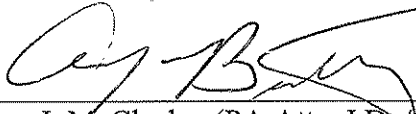
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