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January 9, 2012

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

**VIA Electronic Filing**

**RE: Petition of PPL Electric Utilities Corporation for Approval to Implement a Reconciliation Rider for Default Supply Service; Docket No. P-2011-2256365**

Dear Secretary Chiavetta:

Enclosed please find for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") the original Main Brief of the PP&L Industrial Customer Alliance ("PPLICA") concerning the above-referenced proceeding.

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

Very truly yours,

McNEES WALLACE & NURICK LLC

By

A handwritten signature in black ink, appearing to read 'Adeolu A. Bakare', written over a horizontal line.

Adeolu A. Bakare

Counsel to PP&L Industrial Customer Alliance

Enclosures

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

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**CERTIFICATE OF SERVICE**

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

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Dated this 9<sup>th</sup> day of January, 2012, at Harrisburg, Pennsylvania.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Corporation for :  
for Approval to Implement a Reconciliation : Docket No. P-2011-2256365  
Rider for Default Service Supply Service :

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**MAIN BRIEF OF THE  
PP&L INDUSTRIAL CUSTOMER ALLIANCE**

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Dated: January 9, 2012

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## I. INTRODUCTION

On August 3, 2011, PPL Electric Utilities Corporation ("PPL" or "Company") filed a Petition for Approval to Implement a Reconciliation Rider ("RR") for Default Supply Service ("Initial Petition"). Shortly afterwards, On August 25, 2011, PPL filed an Amended Petition to Implement a Reconciliation Rider and Competitive Transition Rider ("CTR") for Default Supply Service ("Amended Petition" or "Petition"). The RR would replace PPL's current Transmission Service Charge ("TSC"), Generation Supply Charge-1 for small business and residential customers ("GSC-1"), and Generation Supply Charge-2 for large commercial and industrial customers ("GSC-2"). PPL proposed both riders seeking to more accurately recover undercollections and overcollections related to the provision of generation supply and transmission service.

PPLICA filed an Answer to the Initial Petition on August 25, 2011 and an Answer to the Amended Petition on September 19, 2011. PPLICA is an ad hoc association of energy-intensive commercial and industrial customers receiving electric service in PPL's service territory. PPLICA members purchase service from PPL primarily under Rate Schedules LP-4, LP-5, LP-6, IS-P and IS-T, as well as available riders.<sup>1</sup> These Rate Schedules make up the Large Commercial and Industrial ("Large C&I") Class.

In its Answer to the Amended Petition, PPLICA concluded that the Petition raises questions about the treatment of the overcollection of the TSC from the Large C&I customer class and PPL's methodology for reconciling generation-related costs. Based on the important questions unanswered by the Amended Petition, PPLICA recommended that the Commission further investigate the Amended Petition and the underlying charges.

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

Multiple other parties intervened in the proceeding. The Office of Small Business Advocate ("OSBA") filed a Notice of Intervention, Public Statement, and Answer on August 18, 2011. The Office of Consumer Advocate ("OCA") filed a Notice of Intervention and Public Statement on August 23, 2011. The Retail Energy Supply Association ("RESA"), filed an Answer on August 23, 2011, followed by an Answer to the Amended Petition on September 14, 2011. Dominion Retail, Inc. d/b/a Dominion Energy Solutions ("Dominion") filed an Answer on August 23, 2011, and an Answer to the Amended Petition on September 14, 2011. The Richards Energy Group, Inc. ("REG") filed a Petition to Intervene on August 29, 2011. Finally, Wal-Mart Stores East, L.P. and Sam's East, Inc. ("Walmart") filed a Petition to Intervene on September 23, 2011.

The Commission subsequently assigned the proceeding to Administrative Law Judge ("ALJ") Susan D. Colwell. Each party submitted a prehearing memorandum pursuant to the Prehearing Order issued on August 29, 2011.

On October 3, 2011, the Company circulated PPL Statement No. 1, the direct testimony of Joseph M. Kleha.

The prehearing conference was held on October 5, 2011. At the prehearing conference, ALJ Colwell granted the Petitions to Intervene submitted by PPLICA, RESA, REG, Dominion, and Walmart. Additionally, the ALJ adopted a litigation schedule submitted by PPL and agreed to by all parties. The litigation schedule and other matters addressed at the prehearing conference were memorialized in a Scheduling Order also issued on October 5, 2011.

On November 3, 2011, parties other than PPL circulated direct testimony. The submitted statements were OSBA Statement No. 1, the direct testimony of Robert D. Knecht; I&E Statement No. 1, the direct testimony of Scott Granger; OCA Statement No. 1, the direct

testimony of Alvaro E. Pereira; RESA Statement No. 1, the direct testimony of Richard J. Hudson; REG Statement No. 1, the direct testimony of Frank Richards; Walmart Statement No. 1, the direct testimony of Steven W. Chriss; and Dominion Statement No. 1, the direct testimony of Thomas J. Butler.

On November 16, 2011, parties circulated rebuttal testimony. The Company submitted PPL Statement No. 1-R, the rebuttal testimony of Mr. Kleha. The statements submitted by intervenors were OSBA Statement No. 2, the rebuttal testimony of Mr. Knecht; and Dominion Statement No. 1-R, the rebuttal testimony of Mr. Butler.

On November 30, 2011, parties circulated surrebuttal testimony. The Company submitted PPL Statement No. 1-SR, the surrebuttal testimony of Mr. Kleha. Intervenor surrebuttal statements received were OSBA Statement No. 3, the surrebuttal testimony of Mr. Knecht; I&E Statement No. 1-SR, the surrebuttal testimony of Mr. Granger; OCA Statement No. 1-S, the surrebuttal testimony of Mr. Pereira; Dominion Statement No. 1-SR, the surrebuttal testimony of Mr. Butler; and RESA Statement No. SR-1, the surrebuttal testimony of Mr. Butler.

Pursuant to the litigation schedule adopted in the Scheduling Order, evidentiary hearings were held on December 5, 2011. With the exception of I&E Statements Nos. 1 and 1-SR, all testimony statements were entered into evidence.<sup>2</sup> Additionally PPLICA offered into evidence PPLICA Cross-Examination Exhibit No. 1, consisting of interrogatory responses received from PPL, and PPLICA Cross-Examination Exhibit No. 2, consisting of data responses PPL filed with the Commission in compliance with a May 19, 2011 Order at Docket No. M-2010-2213754. The

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<sup>2</sup> At the December 5 evidentiary hearing, PPL made an oral Motion to Strike portions of I&E Statements No. 1 and 1-SR.

ALJ entered both cross-examination exhibits into the evidentiary record. PPL Electric Exhibit No. 1 and OSBA Hearing Exhibit No. 1 were also entered into the evidentiary record.

In compliance with the Scheduling Order, PPLICA now submits this Main Brief.

## **II. SUMMARY OF ARGUMENT**

PPLICA opposes the RR and the GSC component of the CTR, but does not object to the TSC component of the CTR. With regards to the RR, PPLICA believes that PPL's ratepayers would be better served by a solution that addresses the causes of PPL's undercollection and overcollection variance. For the Large C&I class, the overcollections and undercollections seem to be isolated, one-time events that do not warrant a permanent migration rider. The large "undercollection" for the GSC-2 occurred primarily due to a single event following the end of the generation rate caps. As this was a one-time event, implementing a permanent rider to address the related reconciliation effects would be imprudent. Similarly, for the TSC, there was a large overcollection for the TSC that PPL is unable to address due to the expiration of the rate caps and increased shopping. Additionally, the RR proposes to treat Large C&I Primary and Large C&I Transmission as single class for reconciliation purposes, in contrast with Commission precedent and PPL's current TSC. For the above reasons, PPLICA recommends that the Commission deny the proposed RR.

PPLICA opposes adoption of the GSC component of the CTR for similar reasons. As stated above, the recent volatility of PPL's GSC undercollections and overcollections arises more from timing issues with the Company's accounting methodology than any real revenue shortfall. Further, unlike the RR, the CTR seeks to charge all ratepayers for generation-related expenses regardless of whether individual ratepayers contributed to such expenses. Accordingly, the GSC component of the CTR should be rejected as contrary to cost of service principles.

PPLICA would not oppose implementation of the TSC component of the CTR provided that the rider separately reconciles the E-factor for Large C&I Transmission customers and Large C&I Primary customers in the same manner as the currently effective TSC. As stated above, PPLICA opposes the generation component of the CTR. However, unlike the variances experienced under the GSC-1 and GSC-2, the transmission costs to be reconciled through the CTR include overcollections attributable to the entire Large C&I customer class. Specifically, the current overcollection balance for the TSC relates back to a significant overcollection from the Large C&I class that existed as of December 31, 2009, and cannot be refunded at this time due to deferral by the Commission. PPLICA's non-opposition is not without concern, as the costs to be reconciled through the CTR are unknown and TSC data provided by PPL throughout this proceeding is subject to review and modification by other dockets currently before the Commission. Notwithstanding the uncertainty surrounding PPL's historical TSC balances, and under the condition that Large C&I Primary and Large C&I Transmission remain separate customer classes for transmission cost reconciliation purposes, PPLICA does not oppose implementation of a CTR to address transmission-related variances.

### **III. ARGUMENT**

#### **A. PPL's Proposed Reconciliation Rider Should be Denied.**

PPL proposes to implement the RR to recover variances in generation and transmission-related expenses from customers based on a customer's status when such costs were incurred. The proposed RR would be an annual reconciliation, replacing the current TSC, GSC-1, and GSC-2 riders and recovering the total transmission service and generation supply E-Factor, otherwise referred to as variance, from the prior application period. PPL Stmt. No. 1, p. 19. Effective June 1, 2012, the rider would refund or recover undercollection and overcollection balances incurred in providing default service. PPL Stmt. No. 1, p. 20. To accurately target the

maximum number of customers imposing costs on PPL's default service procurement, PPL would require customers switching from default service to continue paying the RR for up to 12 months, and exempt customers switching to default service from paying the RR for up to 12 months.<sup>3</sup> PPL Stmt. No. 1, p. 20.

The Company alleges that the RR is necessary because the introduction of competitive supply since January 2010 has eroded its default service customer base and threatens its ability to recover overcollections from remaining default service customers. The Company claims that the requested relief is authorized by the provisions of Act 129 providing that default service providers shall have the right to recover, on a full and current basis, all reasonable costs incurred in providing default service. See 66 Pa. C.S. § 2807(e)(3.9).

Generally, PPLICA would support a proposal designed to more accurately recover costs from cost-causers. However, in attempting to engineer a reconciliation methodology aligning costs with cost causers, PPL has created a system with no real impact on the underlying accounting mismatch responsible for the volatile undercollections and overcollections. As the majority of the overcollections and undercollections recently experienced by PPL originate from the one-time introduction of competitive supply, it does not appear that the requested relief is necessary under Act 129. Considering the obviated need for the rider, PPLICA recommends that the Commission deny PPL's request to implement the RR.

**1. PPL Proposes to Implement the Permanent RR in Response to Non-Recurring Events.**

For the Large C&I customer class, The "revenue shortfalls" affecting PPL's ability to recover generation-related default service expenses originate from an ongoing billing mismatch,

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<sup>3</sup> The duration of the applicability or exemption from the RR is determined by the length of time that a customer took either service prior to switching to the other. PPL Stmt. No. 1, p. 20.

which was greatly exacerbated by the introduction of competitive supply in January 2010.

OSBA Witness Robert Knecht illustrates PPL's billing mismatch as follows:

As PPL Electric indicates, the GSC-1 variances are substantially related to the Company's reconciliation accounting method, in which costs are recorded when incurred, but revenues are recorded only when billed. This approach results in a rolling half month lag between revenue recorded for reconciliation and the costs recorded for reconciliation. OSBA Stmt. No. 1, p. 5.

While Mr. Knecht references the GSC-1, PPL applies the same billing methodology to the GSC-2 and TSC. See PPLICA Cross-Examination Ex. No. 1, p. 8. Under this billing methodology, incurred costs are not reconciled with received revenues, but with billed revenues. See PPLICA Cross-Examination Ex. No. 1, p. 8. The appropriateness of this billing method, within the context of the GSC-1, is the subject of another proceeding at Docket No. C-2011-2245906. While PPLICA believes that PPL's billing methods must be improved to more accurately match costs and revenues in a competitive retail market, the primary import of the billing method to the proposed RR comes from its impact upon PPL's transition to a competitive supply market in January 2010.

While the volatile undercollections and overcollections experienced in January 2010 resulted from PPL's billing methodology, the record indicates that the severity of the variance was caused by the expiration of rate caps and is therefore unlikely to reoccur. Due to the prorated billing methodology, PPL bills issued in January 2010 reflected a half month lag of revenue attributable to December 2009 for reconciliation purposes. OSBA Stmt. No. 1, p. 5. PPL billed its default service customers for all costs incurred for delivering power in January, but for reconciliation purposes, only revenues received for power consumed in January were recorded. OSBA Stmt. No. 2, p. 6. The revenues received in January for power consumed in December 2009 were prorated back to December 2009. OSBA Stmt. No. 2, pp. 6-7.

Although the mismatch occurs during every billing cycle, the 2010 mismatch produced unusually severe undercollections. See PPL Stmt. No. 1, 13-14, see also PPLICA Cross-Examination Ex. No. 1, p. 7. PPL cites these undercollections as reasons for instituting the RR, but the undercollections and overcollections have since stabilized. Id. OSBA Witness Robert Knecht also disagrees with parties suggesting that PPL's imbalances will not continue. OSBA Stmt. No. 2, p. 6. Mr. Knecht argues that PPL will continue to see seasonal variances due to the proration method. Id. However, as stated previously, although some variance will continue, the severity of the January 2010 undercollections is unlikely to recur. This conclusion was recognized by Mr. Knecht as, in arguing that the variances will continue, he also acknowledged that "the accounting mismatch is largest in the first month of reconciliation." OSBA Stmt. No. 2, p. 6. The one-time nature of the January 2010 undercollections is also supported by the fact that no customer class has experienced even 50% of the GSC undercollection rate recorded in January 2010 in any subsequent month.<sup>4</sup>

Similarly, the TSC overcollections for the Large C&I classes relate primarily to an isolated event. Specifically, as discussed in more detail in the next section of this brief, large overcollections were allowed to accrue in 2009 when most customers were on default service prior to the expiration of the rate caps. When the rate caps expired in 2010, most of the Large C&I customers load shopped, which made it impossible to fully refund those overcollections to the appropriate customers. Again, this seems to be an isolated event.

Additionally, PPL's billing methodologies are already under review in several other Commission dockets. Resolution of these dockets could further reduce PPL's GSC and TSC

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<sup>4</sup> A comparison of the January 2010 undercollections as compared to the next highest undercollection through September 2011, which occurred in January 2011 for all three classes, shows that the severity of the January 2010 undercollections (listed first for each class) has not been replicated: Residential \$77,051,816/\$32,847,069; Small C&I - \$29,221,975/\$18,979,416, Large C&I -\$14,110,107/\$5,843,841. See PPLICA Cross-Examination Ex. No. 1, p. 7.

variances by reforming the Company's billing methodology. Considering that the severity of monthly GSC variances has stabilized since the isolated events of January 2010 alongside with the Commission's ongoing review of PPL's billing methodology, PPLICA finds the proposed RR to be unnecessary for PPL to effectively recover its default service costs.

**2. PPL Must Separately Reconcile Transmission-Related Costs for the Large C&I Primary and Large C&I Transmission Customer Classes**

In addition to targeting an outlier situation that is unlikely to recur, the RR is fundamentally flawed in its failure to replicate important components of the existing TSC reconciliation for Large C&I customers. The current TSC segregates Large C&I customers into two groups, Large C&I Primary and Large C&I Transmission. This mechanism is applied for the express purpose of ensuring that Large C&I transmission charges track the PJM billing methodologies. Recombining the overcollections or undercollections for purposes of establishing an ongoing charge that will apply even if the customer subsequently shops is inconsistent with the goal of more accurately assigning cost responsibility to the customer classes. A sophisticated utility such as PPL certainly can address the separate reconciliation and billing of any overcollections or undercollections of transmission costs for each of these classes. PPLICA actively participated in the litigation and negotiations leading to the existing TSC reconciliation and submits that the Commission should not permit PPL to eliminate a rate structure established by interested stakeholders and approved by the Commission. If the Commission approves the RR, despite PPLICA's objections, the Commission should require PPL to separately reconcile transmission-related expenses for the Large C&I Primary and Large C&I Transmission customer classes consistent with the current TSC.

PPL's current TSC rate structure was the result of a Commonwealth Court proceeding requiring that PPL modify its TSC to ensure non-discriminatory rates. In its 2004 base rate

proceeding, PPL submitted its initial TSC which would have allocated all transmission and ancillary costs on a kWh basis. Tr. 75. The Commission subsequently approved PPL's proposal over PPLICA's objections. See Pa. Pub. Util. Comm'n v. PPL Elec. Utilities Corp., Docket Nos. R-00049255 et al. (Order entered Dec. 20, 2004). PPLICA appealed the decision to the Commonwealth Court, arguing that PPL's proposal amounted to an interclass subsidy as it failed to allocate transmission costs in compliance with cost of service principles. See Lloyd v. Pa. Pub. Util. Comm'n, 904 A.2d 1010 (Pa. Cmwlth. 2006). The Commonwealth Court agreed with PPLICA and remanded the proceeding to the Commission for the establishment of a non-discriminatory rate structure for recovery of PPL's transmission-related costs. See Lloyd, 1021 A.2d 1010.

During the remand proceeding, the parties reached a Settlement, agreeing that PPL would recover transmission-related costs through both demand and energy based rates in order to more accurately reflect cost of service. Tr. 75-76. As summarized in the following excerpt from the Recommended Decision approved by the Commission, the current practice of separately reconciling transmission costs for Large C&I Primary and Large C&I Transmission customers was essential to the design of cost-based rates:

31. The purpose of this remand proceeding is to re-examine the rates established in the Company's 2004 base rate case in light of the Commonwealth Court's Lloyd decision and to develop new rates which comply with that decision, including the refund of storm damage costs disallowed by the Court. The proposed Settlement fully accomplishes this goal and proposes new rates that are consistent with the Court's decision and are just and reasonable.
32. To accomplish this result, the Settlement, for TSC purposes, groups customers into four classes, Residential, Small C&I, Large C&I-Primary, and Large C&I-Transmission. The Large C&I classes were divided into two groups, Large C&I-Primary and Large C&I-Transmission, in response to concerns raised by Large C&I customers related to the different voltage levels at which these

customer groups take service from the Company. [citation omitted] Moreover, the rate design of the TSC for these two large groups has been revised to establish a demand rate and an energy rate in order to reflect the widely varying load factors of these customers. [citation omitted] The result is a rate design that more accurately reflects cost of service and is fully compliant with Lloyd.

Pa. Pub. Util. Comm'n et al. v. PPL Elec. Utilities Corp., Recommended Decision, Docket Nos. R-20049255 et al. (June 29, 2007) ("TSC Remand Recommended Decision"), approved in Pa. Pub. Util. Comm'n et al. v. PPL Elec. Utilities Corp., Docket Nos. R-00049255 et al. (Order entered July 25, 2007) ("TSC Remand Order").

As recognized by PPL's witness, the Company has continued administering its TSC in compliance with the Settlement. Tr. 73-75. The demand costs have been appropriately assigned to each of the four customer classes based upon PLC data provided by PJM and the energy costs are assigned on a per kWh basis. Tr. 73. However, in a striking departure from the Commission-approved Settlement, the Company now proposes to aggregate Large C&I Primary and Large C&I Transmission customers into a single class for purposes of reconciling transmission-related costs. PPL Electric Ex. No. 1, Appendix F. This proposal is not consistent with the Commonwealth Court's directive to allocate costs and design rates in a manner reflective of cost of service. PPL Witness Mr. Kleha believes that the Company's tariff only requires reconciliation on a per kWh basis.<sup>5</sup> However, in Lloyd, the Commonwealth Court found that Section 2804(3) of the Competition Act mandates that rates for services be unbundled and set primarily on a cost-of-service basis. See Lloyd, 904 A.2d 1010.

With respect to the reconciliation of transmission-related default service costs, the circumstances today are no different from when the Commission approved the Remand Order

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<sup>5</sup> During cross-examination by PPLICA's counsel, PPL Witness Joseph Kleha acknowledged that PPL modified its TSC methodology in compliance with the Settlement, but stated that "I don't necessarily believe that [the TSC] has to be billed to customers on any basis other than kilowatt-hour basis even though the tariff suggest it should be." Tr. 6.

implementing the segregated TSC reconciliation for Large C&I Primary and Large C&I Transmission customers. See TSC Remand Recommended Decision, TSC Remand Order. Large C&I Primary and Large C&I Transmission customers take service at vastly different voltages and with different rate designs for the recovery of demand-related costs (i.e., Large C&I Transmission customers are billed based on the PJM rate design, while Large C&I Primary customers are billed based on monthly peak demand). Jointly reconciling undercollections and overcollections for the two classes promotes interclass subsidies and reverses PPL's trajectory towards cost-based rates.

The unreasonableness of this proposal is apparent from a simple example. For the period December 1, 2009 through November 30, 2010, Large C&I Primary customers incurred an approximately \$5.8 million undercollection while Large C&I Transmission customers incurred only a \$1.6 million undercollection. PPLICA Cross-Examination Ex. No. 1, p. 3. However, had PPL administered this reconciliation in the manner proposed in the CTR, Large C&I Primary and Transmission customers would be jointly responsible for a combined \$7.5 million undercollection. Id. On top of the addition to the total dollar amount, Large C&I Transmission customers would also bear a disproportionate share of the undercollection as the CTR assigns costs on a per kWh basis. The Commission must not allow PPL to implement a mechanism that reverses current policy trends towards cost-based rates.<sup>6</sup> See 66 Pa. C.S. §§ 2804(3) and 2804(7). While PPLICA opposes the RR and the generation component of the CTR entirely, we strongly encourage the Commission to require PPL separately reconcile transmission-related default service costs for any rider approved in this proceeding.

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<sup>6</sup> As stated above, the Competition Act requires public utilities to unbundle generation, transmission, and distribution rates. 66 Pa. C.S. § 2804(3). The Competition Act also requires EDCs to set rates that do not unduly discriminate between customer classes. 66 Pa. C.S. § 2804(7).

**B. Competitive Transition Rider.**

As previously observed, PPL amended its Initial Petition to add a CTR. The proposed CTR would recover generation and transmission-related expenses like the RR, except that it would apply only to historical undercollection and overcollection balances as of May 31, 2012. PPL describes the CTR as a temporary non-bypassable rider set to expire one year after taking effect. Although PPL proposes a CTR for recovery of both generation and transmission-related expenses, PPLICA finds that the proposed CTR fails to recognize important differences between PPL's historical generation and transmission variances. To that end, we have provided a separate analysis of each component of the proposed CTR.

**1. The Generation Component of PPL's CTR Should Be Denied.**

The recovery of generation-related expenses through the CTR is improper and should be denied by the Commission. The generation component of PPL's proposed CTR would recover default service expenses from all customers, regardless of any individual customer's status as a default service customer or competitive supply customer. This proposal violates cost causation principles and exceeds the scope of Act 129's provisions for full and current recovery of default service expenses. In addition, the GSC-2 "undercollection" is primarily due to PPL's accounting methodology for January 2010 generation costs and revenues rather than an actual shortfall of billed costs to revenues. While PPL is statutorily entitled to recovery of reasonable default service costs, broad recovery of such costs from shopping customers is not reasonable. Accordingly, PPLICA recommends that the Commission deny PPL's request.

**(a) The Recovery of Default Service-Related Generation Costs from Shopping Customers is Not Authorized by Act 129.**

PPL's assertion that Act 129 authorizes the proposed CTR is misplaced. Act 129 entitles an electric supplier serving as a provider of last resort to full and current recovery of all

reasonable costs incurred in providing default service. 66 Pa. C.S. § 2807(e)(3.9). However, Section 2807(e)(3.9) of the Act does not suggest or imply that such costs can be recovered from customers taking competitive supply. Further, Act 129 does not supersede the Commission's overarching duty to ensure that all rates charged by public utilities are just and reasonable. See 66 Pa C.S. § 1301.

Whereas the proposed RR would apply only to customers who had switched from or returned to default service within a 12-month period, the CTR would apply to all customers on PPL's system. However, following the expiration of generation rate caps, many customers immediately selecting competitive suppliers never took default supply from PPL during the application period of the CTR. From a general ratemaking standpoint, it is patently unjust and unreasonable to recover generation-related undercollections for default service supply variances from customers who have not taken default service during the application period. PPL's reliance on Section 2807(e)(3.9) overextends the meaning of the statute. The statute addresses only an EDC's right to recover default service costs; its plain meaning does not authorize recovery of such costs from shopping customers. See 66 Pa. C.S. § 2807(e)(3.9)

PPL counters that many of the current shopping customers contributed to its historical GSC undercollections and overcollections. See PPL Stmt. No. 1-R, p. 25. PPLICA disagrees with the Company's reasoning on this point. As PPL's original GSC became effective on January 1, 2010, and was replaced by the current GSC-1 and GSC-2 on January 1, 2011, it would seem that customers switching to default service upon the expiration of generation rate caps on December 31, 2009 did not contribute to PPL's historical generation costs. See PPL Stmt. No. 1, p. 9. At the time PPL filed the Amended Petition, at least 85% of Large C&I customers were taking competitive supply. PPL Electric Ex. No. 1, p. 9. As PPL has not demonstrated that these

shopping customers materially contributed to PPL's generation supply costs during the CTR application period, the rider cannot meet the just and reasonable standard under Section 1301 of the Public Utility Code. Therefore, the Commission should deny the generation component of PPL's proposed CTR as contrary to the requirement that all rates charged be just and reasonable.

**(b) PPL's Generation-Related Variance is Not Attributable to Any Significant Discrepancy Between Retail Rates and PPL's Wholesale Obligations**

The generation component of the proposed CTR should be denied because the generation supply undercollections experienced in January 2010 arose from an accounting mismatch affecting the recovery of costs incurred after the introduction of competitive supply. PPL has not suggested that the rates paid to its wholesale suppliers are higher than the rates billed through the GSC-2. Rather the Company confirms that the undercollections are due to its proration accounting methodology. While this accounting method results in significant recorded undercollections, such undercollections were not caused by any revenue shortfall occurring prior to December 31, 2009.

As previously discussed, PPL billed its default service customers for all costs incurred for delivering power in January 2010, but for reconciliation purposes, only revenues received for power consumed in January were recorded. OSBA Stmt. No. 2, p. 6. The revenues received in January, for power consumed in December 2009, were prorated back to December 2009. OSBA Stmt. No. 2, pp. 6-7. The revenues for the "missing" half month of January costs were actually received in February 2010. Due to the rolling lag resulting from the initial proration of January revenues to December costs, the undercollection carried forward as the "missing" half month of revenues from February 2010 were received in March. The lag continues in this pattern from month-to-month.

PPL does not dispute the effects of proration and readily confirms that application of the proration methodology in concert with customer migration to shopping created the January 2010 undercollections. PPL Witness Joseph Kleha describes the effect as follows "These undercollections primarily were due to proration and were compounded by a higher than expected number of customers who ceased taking default service from PPL Electric and began shopping for market-based supply from alternative generation suppliers." PPL Stmt. No. 1, p. 14.

PPL's proposal to recover historical GSC variances through the proposed CTR is not authorized by the cost recovery provisions in Act 129. Further the undercollection cited as justification for the generation component of the CTR originates from impact of the proration accounting methodology on generation-related costs incurred after the commencement of competitive supply in January 2010. Because the costs generating the undercollection were incurred after the onset of competitive supply, PPL cannot be permitted to recover variances associated with such expenses from customers that took competitive supply after December 31, 2009 and therefore did not materially contribute to the Company's GSC expenses. Accordingly, the Commission should deny the generation component of PPL's proposed CTR as unjust and unreasonable under Section 1301 of the Public Utility Code.

**2. PPLICA Does Not Oppose the Transmission Component of PPL's CTR.**

Contrary to the generation costs to be recovered through the proposed CTR, PPL's recent transmission variances present compelling reasons justifying a CTR. The Commission is currently reviewing several matters related to PPL's TSC. While the outcome of current investigations into PPL's TSC is unknown at this time, the relief may include refunds of TSC overcollections attributable to events occurring prior to the expiration of generation rate caps. PPLICA finds that the CTR may provide the Commission with a mechanism for administering

any necessary refunds resulting from its ongoing investigation into PPL's TSC. However, PPLICA's non-opposition is limited to the transmission component of the CTR. Additionally, as with any rider that the Commission may approve in this proceeding, PPLICA requests that the Commission require PPL to separately reconcile the E-factors for the Large C&I Primary and Large C&I Transmission classes, consistent with the current TSC.

**(a) PPL's Historical Large C&I Transmission Variances Predate Competitive Supply and are Attributable to the Entire Class**

A non-bypassable charge is an appropriate recovery measure when costs to be recovered are limited to those reasonably attributable to the entire customer base. See generally Competition Act, 66 Pa. C.S. § 2808. The Competitive Transition Charges authorized by the Competition Act required all EDC distribution and transmission customers to pay for stranded generation costs incurred by EDCs prior to divesting their generation assets. Id. Unlike the GSC variances, PPL's TSC variances for Large C&I customers predate the expiration of generation rate caps. As demonstrated below, the current overcollection is attributable to the entire Large C&I customer base.

An analysis of PPL's historic TSC variances, through the 2010, 2011, and 2011/2012 TSC application periods, demonstrates that a currently deferred TSC overcollection is largely attributable to periods during which virtually all of PPL's Large C&I customer base remained on default service.<sup>7</sup> For December 2009, prior to the expiration of generation rate caps, PPL's records show an overcollection balance of \$3,219,928 for Large C&I Primary customers, and an overcollection balance of \$5,072,159 for Large C&I Transmission customers. See PPLICA Cross-Examination Ex. No. 1, p. 5. Through the 2010 TSC, which followed the opening of

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<sup>7</sup> On December 16, 2010, the Commission approved Supplement No. 97 to Tariff Electric Pa. – P.U.C. No. 201, at Docket No. R-2010-2208496. The Tariff Supplement changed the TSC computation period from a calendar year to a PJM Planning Year Basis, covering the twelve month period of June 1 through May 31.

competitive supply markets in January 2010, PPL refunded only \$549,626 to Large C&I Primary customers and \$1,529,672 to Large C&I Transmission customers. See id. The ending balances for the 2010 TSC for Large C&I Primary and Transmission customers is illustrated in Table 1 below:

Table 1

	2010 TSC Over/(Undercollection) Balance <sup>8</sup>	
	Large C&I Primary	Large C&I Transmission
December 2009	\$3,219,928	\$5,072,159
November 2010	\$2,445,311	\$3,528,102

Despite the large overcollection existing as of December 2009, which was clearly attributable to all Large C&I customers because the vast majority purchased default service in 2009, the refunds distributed in 2010 and afterwards would be disbursed only to default service customers under PPL's current TSC methodology. The trajectory of PPL's TSC variance has fluctuated due to miscalculated demand charges, but the end result continues to reflect the carry-forward of large overcollections paid by all Large C&I customers prior to the expiration of the rate caps and the corresponding increases in shopping levels in January 2010.

While properly reporting the overcollection balances resulting from 2010 TSC revenues, PPL's 2010 TSC Reconciliation Report ("2010 TSC Report") erroneously calculated the demand charges to be reconciled and recovered through the 2011 TSC application period. The 2010 TSC Report showed significant *undercollections* for Large C&I Customers.<sup>9</sup> However, on March 22, 2011, PPL self-reported an error in the Report, informing Commission staff that the Company erroneously used 2008 Peak Load Contribution ("PLC") data to reconcile the 2010 TSC in place

<sup>8</sup> See PPLICA Cross-Examination Ex. No. 1, p. 5.

<sup>9</sup> See PPLICA Cross-Examination Ex. No. 1, p. 3 (reproducing Schedule 1 of PPL's 2010 December TSC Reconciliation Report, at Docket No. M-2010-2213754).

of 2009 PLC data. See PPL Electric Utilities Corp. Proposed Transmission Service Charge (TSC) Reconciliation for the Twelve Months Ending November 30, 2010, Docket No. M-2010-2213754, p. 2 (Order entered May 19, 2011) ("PPL TSC Investigation Order"). This disclosure prompted the Commission to issue an Order on May 19, 2011 deferring consideration of the February 8, 2011 Recommended Decision and opening an investigation into PPL's TSC reconciliation methods. See generally PPL TSC Investigation Order.<sup>10</sup> More importantly to the immediate concerns of this proceeding, the TSC undercollection and overcollection balances for the 2011 TSC application period of December 2010 through April 2011, shown in Table 2 below, reflect a decline from the December 2009 balances primarily due to the incorporation of erroneously inflated demand charges from the 2010 TSC.

Table 2

	2011 Unadjusted TSC Over/(Undercollection) Balance <sup>11</sup>	
	Large C&I Primary	Large C&I Transmission
December 2010	\$(3,414,054)	\$1,919,695
April 2011	\$(7,353,797)	\$897,098

As undercollection and undercollection balances are products of the reported variance from the previous application period, the balances reported in the 2011 TSC were affected by the miscalculated demand charges. However, the 2011 TSC also included corrections to the experienced undercollections and overcollections from December 2010 through April 2011, which are incorporated into the balances for the following application period. This adjustment is

<sup>10</sup> The Commission also issued an Order initiating a statewide investigation to determine whether TSC methodology revisions are required for all jurisdictional EDCs. See generally Investigation re Transmission Reconciliation Service Charge (TSC) Reconciliation Methods, Docket No. M-2011-2239714 (Order entered May 19, 2011) ("Statewide TSC Investigation Order")

<sup>11</sup> See PPL Final 2011 Transmission Service Charge Report, at Docket No. M-2011-2240269, Schedule 7. Note that the TSC overcollection and undercollection balances shown here reflect the erroneous undercollection reported in the 2010 TSC.

reflected on Schedule 1 of the 2011 TSC.<sup>12</sup> The effects of the adjustment are manifested in the Large C&I undercollection and overcollection balances reported for the 2011/2012 application period from June 1, 2011 through May 31, 2012:

Table 3

	2011/2012 Adjusted TSC Over/(Undercollection) Balance <sup>13</sup>	
	Large C&I Primary	Large C&I Transmission
April 2011	\$966,427	\$4,471,391
May 2011	\$1,407,007	\$4,404,155
November 2011	\$1,407,007	\$4,404,155

With PPL's adjustment of the reconciliation error, the current TSC variances for the Large C&I classes continue to reflect the overcollections from December 2009, which will remain largely unrecovered by ratepayers until the Commission concludes its Investigation into PPL's TSC methodologies. Concurrently with PPL's filing of the 2011 TSC Reconciliation Report, the Company filed its proposed calculation of its 2011/2012 TSC. The Commission subsequently issued an Order at Docket No. M-2011-2239805 noting that the filing was mathematically correct, but ordering PPL to defer refunds of the approximately \$5 million overcollection of Large C&I TSC in order to avoid unintended market disruptions caused by effect of the large refund upon PPL's PTC.<sup>14</sup> PPL was directed to file a plan determining how to

<sup>12</sup> Line 8 of Schedule 1 shows an "Audit Adjustment" for PPL's previously self-reported demand factor correction. PPL 2011 Transmission Service Charge Reconciliation Report, at Docket No. M-2011-2240269, Schedule 1.

<sup>13</sup> See PPL Transmission Service Charge Reconciliation Report for Quarter Ended November 30, 2011, at Docket No. M-2011-22398059, Schedule 7.

<sup>14</sup> "[I]n its order entered on May 25, 2011, at Docket No. M-2011-2239805, the Commission ordered PPL Electric to defer the refund of approximately \$5 million for Large C&I customers, and set the Transmission Service Charge ("TSC") application period (June 1, 2011 through May 31, 2012) E-factor to zero, in order to avoid a distortion in prices that would be disruptive to retail markets." PPL Stmt. No. 1-R, 13, see PPL Electric Utilities Corporation Transmission Service Charge Effective June 1, 2011, Docket No. M-2011-2239805 (Order entered May 25, 2011) ("May 25 Order"). As observed in Table 3, supra, the overcollection balances for Large C&I Primary and Large C&I Transmission customers are unchanged from May 2011 through November 2011, reflecting the zero E-factor.

best issue the refunds to customers contributing to the overcollection between January 2010 and May 31, 2011.<sup>15</sup> PPL's plan must be filed within 30 days of the issuance of a Final Order in the TSC Investigation docket, at which time, interested parties will have 15 days to file Reply Comments.

As an ancillary note, PPLICA believes that all parties would benefit from a comprehensive resolution of the various dockets currently before the Commission in relation to PPL's TSC. A common thread to all of the Commission dockets addressing PPL's TSC remains the uncertainty surrounding each proceeding. As of the filing of this Main Brief, PPL has provided no estimate of the transmission costs to be recovered through the CTR. Indeed, PPL's Witness, Joseph M. Kleha, has represented that such a calculation cannot be done with any reasonable certainty until shortly before implementation of the rider, when actual data for the period January 2012 through April 2012 becomes available. Tr. 81-82. Aside from the projected data, even the actual data provided in this proceeding remains indeterminate because of the Commission's pending decision as to whether PPL must modify its practice of applying historical demand allocators or use current monthly demand allocators. See May 25 Order, Tr. 83. Use of monthly demand allocators in place of historical demand allocators would have drastically reduced PPL's transmission-related expenses for 2010 and greatly impacted the data relied upon by all parties in evaluating the proposed RR and CTR.<sup>16</sup> PPLICA respectfully requests that the Commission resolve the PPL TSC Investigation, Statewide TSC Investigation, and the

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<sup>15</sup> As discussed below, PPLICA does not agree that only customers taking default service after January 2010 contributed to the deferred overcollection.

<sup>16</sup> In response to data requests set forth by the Commission in the PPL TSC Investigation, the Company estimates that use of monthly demand allocators in place of historical demand allocators would have increased transmission-related expenses for the Residential class by approximately \$14 million, while decreasing transmission-related expenses for Small C&I, Large C&I Primary and Large C&I Transmission customers by approximately \$7.5 million, \$4 million, and \$2.5 million respectively. See PPLICA Cross-Examination Ex. No. 2, p. 30.

2011/2012 Proposed Rate proceedings so that PPL's customers can benefit from improved TSC allocations that appropriately reflect costs in a competitive supply market.

However, based on the available record evidence in this proceeding, the currently deferred Large C&I overcollections, must be recovered from the entire Large C&I customer class. Unlike PPL's recent generation variances, which most parties to this proceeding agree are generally attributable to the Company's customers leaving default service in January 2010<sup>17</sup>, the existence of PPL's TSC overcollection dates back to 2009. As shopping levels were minuscule until January 2010, the entire Large C&I customer base contributed to the substantial TSC overcollections existing in December 2009. As such, PPLICA does not oppose the implementation of a CTR provided that the mechanism is applied solely for the purposes of reconciling transmission expenses and consistently with PPL's current practice of separately reconciling Large C&I Primary and Large C&I Transmission variances.

**(b) PPL Must Separately Reconcile Transmission-Related Costs for the Large C&I Primary and Large C&I Transmission Customer Classes**

Finally, if the Commission approves the transmission component of the CTR, PPLICA requests that PPL be required to separately reconcile transmission costs for each of the Large C&I Primary and Large C&I Transmission customer classes consistent with its current TSC. In support of this request, the arguments set forth above regarding the segregation of transmission-related costs to be recovered through the proposed RR, are hereby incorporated by reference. See supra Section III.A.2.

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<sup>17</sup> This observation excludes the variances associated with PPL's time-of-use rates, which are the subject of considerably more debate amongst other parties to this proceeding.


**IV. CONCLUSION**

**WHEREFORE**, the PP&L Industrial Customer Alliance respectfully requests that the Commission deny the proposed Reconciliation Rider and the generation component of the proposed Competitive Transition Rider. Additionally, should the Commission approve any Rider in this proceeding, PPL requests that the Commission attach a condition requiring that the Large C&I Primary and Large C&I Transmission customer classes remain separate for purposes of reconciling the transmission-related E-Factors in conformance with the current Transmission Service Charge.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By

  
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