

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**MAIN BRIEF ON BEHALF OF
WAL-MART STORES EAST, LP AND SAM'S EAST, INC.**

As ordered in the Scheduling Order of October 5, 2011 at paragraph 3, Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, "Walmart") hereby submits its Main Brief.

I. Factual and Procedural Background

On or about August 5, 2011, PPL Electric Utilities Corporation ("PPL" or "the Company") filed an Amended Petition with the Pennsylvania Public Utility Commission ("Commission") requesting approval from the Commission to submit a revised tariff supplement to Tariff Electric-Pa P.U.C. No. 201 to implement a Reconciliation Rider and a Competitive Transition Rider ("CTR") to become effective on June 1, 2012 ("Amended Petition"). The proposed Reconciliation Rider ("RR") would implement a mechanism to refund or recover net over and under collections related to transmission service and generation supply service to and from customers who take default service from PPL. The CTR, if approved, would implement a temporary non-bypassable rate mechanism to refund or recoup historic over or under collections related to transmission service and generation supply service that were incurred between January 1, 2010 and May 31, 2012.¹

¹ See Direct Testimony of Joseph M. Kleha, page 24, line 3 to line 18. See also Amended Petition at pp. 3-4.

II. SUMMARY OF ARGUMENT

The Commission should reject the CTR. As proposed, the mechanism would unfairly impose the costs of PPL's default service on customers that did not take PPL's default service during the proposed CTR reconciliation period, in violation of ratemaking and cost causation principles. The CTR also violates the letter and spirit of Pennsylvania law which requires that a local distribution company recover default service costs from default service customers and prohibits such companies from punishing its distribution customers from shopping for competitive supply.

III. ARGUMENT

PPL finds fault with the existing mechanism it uses to reconcile over and under collection balances that have resulted from any difference between the costs PPL incurs in the provisioning of default service and revenues resulting from PPL's provision of default service.² According to PPL, the removal of the rate caps at December 31, 2009, has contributed to the accumulated balances of over and under collections of default service costs because of migration of customers from PPL's default service to competitive supply.

With this docket, PPL has attempted to propose a combination of riders to "recover or credit such over and under collection balances from customers who were default customers when an over/under collection is refunded or recouped." It proposes that the RR be charged to default customers who take service during the reconciliation time period, proposed to begin on June 1, 2012, to recoup or refund over/under collections after that date. The proposed RR is an annual reconciliation mechanism and PPL proposes not to apply the RR to the bills of customers who

² Specifically, the costs related to providing default service are the costs of generation and transmission. Customers who have chosen a competitive supplier of electricity ("shopping customers") do not cause PPL to incur generation or transmission costs --- PPL's default customers are the sole cause of generation and transmission costs.

switch from shopping to PPL generation supply and transmission service for the first 12 months after they switch.

PPL also proposes the CTR, which according to PPL, is a rider that would be used to reconcile net *historic* over and under collections of default service related costs that accumulated from the time period between January 1, 2010, and June 1, 2012.³ PPL proposes to charge the CTR to all distribution customers, even those customers who do not purchase default service now and who may not have been billed for any default service on any bill, pro-rated or otherwise, during the PPL proposed CTR Reconciliation Period. PPL proposes that if the CTR is approved, that the RR be set at zero on June 1, 2012.

Walmart Statement 1 consists of the Direct Testimony and Exhibit of Steve W. Chriss, Walmart's Senior Manager, Energy Regulatory Analysis. As demonstrated by Exhibit SWC-1, Mr. Chriss has testified in over 50 electric proceedings before state public utility commissions in the past seven years.

The purpose of Witness Chriss' testimony was to address PPL's proposed Competitive Transition Rider ("CTR"). Witness Chriss testified that the Commission should reject the CTR.⁴ The Commission should determine that from a general public policy perspective, it is not appropriate to implement mechanisms that charge shopping customers for generation supply and transmission service costs incurred by the utility only to serve non-shopping customers.⁵ The CTR would unfairly apply to even those customers who had been receiving electric supply from a competitive supplier even before December 31, 2009.⁶ These customers would not have contributed at all to any under collection being recovered through the CTR. Witness Chriss is

³ See Amended Petition at pp. 3-4.

⁴ See Walmart Statement No. 1 at p. 3, lines 12-14.

⁵ See Walmart Statement No. 1 at p. 3, lines 8-11.

⁶ *Id* at p. 6, lines 5-7.

concerned that the CTR as proposed would make shopping customers, who take generation supply and transmission service from competitive electric generation suppliers, pay, or receive a refund from, PPL for some part of PPL's generation supply costs. This misaligns cost causation and cost responsibility and results in inequitable rates.⁷ For these reasons, Witness Chriss recommends rejection of the CTR on grounds of equity and the failure of the mechanism to adhere to cost causation principles.

A. The CTR Improperly Assigns Generation and Transmission (Default Service) Costs to Shopping Customers that did not take PPL's Default Service During the Reconciliation Period.

The CTR, as proposed, is not just and reasonable because it assigns costs for generation and transmission service, related to the provision of default service, to non-default or "shopping" customers who did not cause PPL to incur those costs. The CTR is proposed to recover or refund historic over and under collections from the period of January 1, 2010, to May 31, 2012.⁸ The CTR would also impose costs related to PPL's provision of default service on customer accounts that had not been billed for any default service during the "historic" period for which the CTR is proposed to recover/refund accumulated imbalances between default service revenues and costs.⁹ At a minimum, this violates principles of ratemaking.

Collecting generation and transmission costs from customers that are not on PPL's default service, and thus do not contribute to generation and transmission costs, violates cost

⁷ *Id* at p. 5, lines 11-15.

⁸ *See* Amended Petition at pp. 3-4. Note however, as explained below, by the time any ruling on PPL's Amended Application has occurred, the existing reconciliation mechanism will have reconciled over and under collections for some of this period of time.

⁹ Because until December 31, 2009 the rates were capped, and given utility billing cycles which encompass more than one month, there might be some customers who switched energy suppliers prior to January 1, 2010, who also received a bill inside the proposed CTR period that included some pro-rated amount of default service costs. Nonetheless there are customer accounts that switched to competitive supply in enough time prior to December 31, 2009 so that they did not have prorated bills that spanned the capped and uncapped periods and thus had not caused any generation supply or transmission service cost to be incurred by PPL on their behalf.

causation principles. Walmart advocates that rates be set based on the utility's cost of service. Costs should be collected in a manner which accurately reflects how they are incurred. This practice produces equitable rates for ratepayers that reflect cost causation, send proper price signals, and minimize price distortions.

If the CTR were to take effect, customers who shopped during the reconciliation period would essentially be forced to pay for some of PPL's generation and transmission costs when they already paid their supplier for the costs related to the provision of their electric supply during that period. This would be the case especially for those shopping customers who switched prior to the expiration of the price caps and were not billed for any default service costs pro-rated or otherwise during the proposed CTR period (from Jan. 1, 2010-May 31, 2012). The price paid by shopping customers to their energy supplier includes the cost of power and the cost of procurement for that power (e.g., generation and transmission), compliance costs, and other underlying operating costs. As a result of the CTR, not only will these shopping customers pay PPL for a cost for which they will receive no benefit, effectively these customers will be paying *twice* for generation and transmission costs. For these reasons, the adoption of the CTR would misalign cost causation and cost responsibility, resulting in inequitable rates that disadvantage shopping customers. Additionally, this cost misalignment moves generation and transmission rates for the Company's default customers and competitively supplied customers away from the respective cost of service for each customer, and would not allow for rates that accurately reflect cost causation, send proper price signals, or minimize price distortions.

PPL's Witness Kleha's response to these valid concerns is not convincing. He states that PPL is entitled by law to fully recover its costs of providing default service¹⁰ but fails to mention

¹⁰ PPL Statement No. 2 at p. 4, lines 14-15.

that under Pennsylvania law, reasonable costs related to providing default service are recoverable from default customers.¹¹ Mr. Kleha alleges that “for the most part,” the current shopping customers were formerly default customers in 2010 or 2011 when the under collections were incurred. Based on this premise, Kleha concludes that it is “reasonable to charge all customers a small amount to recover these under collections rather than charge remaining default customers a much larger amount.”¹² Not only does PPL’s witness confirm that there are shopping customers who were not billed for PPL default service during the time period identified to be reconciled through the CTR, he testifies that ratemaking and cost causation principles should be ignored when doing so would only violate *some* customers “a small amount.”

However, while PPL Witness Kleha tries to minimize the number of shopping customers who would not have contributed at all to the generation and transmission costs proposed to be collected through the CTR, the reality could be quite opposite. Given there is an annual active reconciliation mechanism in place now for generation and transmission cost reconciliation,¹³ a portion of the CTR period’s accumulated balance have been and will continue to be reconciled before an order issues in this case. As this has happened, there are more and more shopping customers who have not contributed at all to creating any remaining CTR balance (e.g., have not been billed for any default service that caused any remaining imbalance that may exist as of May 31, 2012). In fact, OSBA Witness Knecht testified: “Any under-collections that built up in 2010

¹¹See 52 Pa. Code 54.187 (the costs incurred for providing default service shall be recovered through a default service rate schedule.)

¹²PPL Statement No. 2 at p. 5, lines 6-9.

¹³PPL’s currently has an e-factor built into existing transmission and generation service that reconciles over and under collections related to default service. While PPL proposes for the e-factor to discontinue as part of its Application, the e-factor has still continued to reconcile over and under collection balances during the time this proceeding has been pending. With respect to transmission costs for large commercial and industrial customers, there was an overcollection during the last period, the e-factor has been set to zero and the refund of the existing overcollection from customers for transmission costs has been deferred. See PPL Electric Utilities Corporation Transmission Service Charge Effective June 1, 2011, Docket M-2011-2239805, Opinion and Order (May 25, 2011).

before the large shopping migration occurred are no longer on the Company's books and therefore will not be on the books at May 31, 2012,"¹⁴ For this reason, the CTR is just as or more likely to unfairly charge many shopping customers not a just a few as Mr. Kleha suggests.

B. The CTR, if Adopted, By Assigning Transmission and Generation Costs to Non-Default Service Customers Violates the Letter and Spirit of Pennsylvania Law.

52 Pa. Code §54.187 provides that the costs incurred for providing default service shall be recovered through a default service rate schedule. Clearly the CTR, which even Witness Kleha admits would constitute charging some shopping customers for default service costs,¹⁵ violates this provision. Additionally, because, as demonstrated above, the CTR would impose default service costs on shopping customers who were not default customers during the CTR period, PPL would be effectively punishing shopping customers in violation of the spirit of 66 Pa. Code § 2807(E)(4). That section provides:

If a customer that chooses an alternative supplier and subsequently desires to return to the local distribution company for generation service, the local distribution company shall treat that customer exactly as it would any new applicant for energy service. *Id.*

While subsection (E)(4) involves a customer that re-initiates service with PPL, it is clear that the legislature's intent was to prevent local distribution companies from punishing customers for exercising their statutory right to shop for electricity generation.

* * * *

IV. CONCLUSION

The Commission should reject the CTR. As proposed, the mechanism would unfairly impose the costs of PPL's default service on customers that do not take PPL's default service, in

¹⁴ See OSBA Statement No. 3 at p. 6, lines 13-17.

¹⁵ PPL Statement No. 2 at p. 5, lines 6-12.

violation of ratemaking and cost causation principles. The CTR also violates the letter and spirit of Pennsylvania law which requires that a local distribution company recover default service costs from default service customers and prohibits such companies from punishing its distribution customers from shopping for competitive supply.

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Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and by first-class postage prepaid mail (*except as otherwise noted), to all parties on this 9th day of January, 2011.

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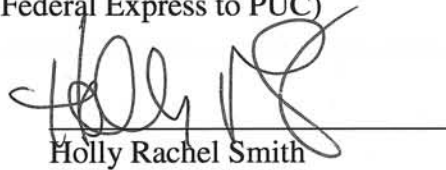
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