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April 24, 2012

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
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P.O. Box 3265
Harrisburg, PA 17105-3265

**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 the Exceptions of PPL Electric Utilities Corporation for the above-referenced proceeding. Copies have been provided as indicated on the Certificate of Service.

Respectfully Submitted,


David B. MacGregor

DBM/skr

Enclosure

cc: Certificate of Service
Honorable Susan D. Colwell
Office of Special Assistants

CERTIFICATE OF SERVICE

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

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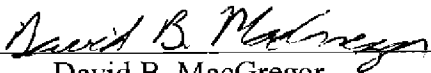
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Date: April 24, 2012


David B. MacGregor

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**EXCEPTIONS OF
PPL ELECTRIC UTILITIES CORPORATION**

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Dated: April 24, 2012

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I. INTRODUCTION AND BACKGROUND

On August 25, 2011, PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) filed with the Pennsylvania Public Utility Commission (“Commission”) the Amended “Petition of PPL Electric Utilities Corporation for Approval to Implement a Reconciliation Rider for Default Supply Service” at Docket No. P-2011-2256365. Therein, PPL Electric seeks Commission approval to implement two new Section 1307(e) cost recovery mechanisms to: (1) refund or recover the experienced net over or under collection balances related to transmission service and generation supply charges; and (2) provide a better methodology for refunding or recovering future over or under collection balances.

It is undisputed that PPL Electric has experienced significant over and under collections related to its transmission service and generation supply service charges, and that PPL Electric has experienced significant levels of shopping within its service territory. It also is undisputed that these over and under collection balances and high shopping levels have caused significant volatility and uncertainty in PPL Electric’s default service rates and the Price to Compare (“PTC”), and that this volatility is not directly related to the market price of electricity.

To help remedy and prevent similar issues from occurring in the future, PPL Electric seeks to implement a Reconciliation Rider (“RR”) to refine its existing default service recovery mechanisms to refund or recover net over and under collection balances arising after the effective date of the RR. PPL Electric also seeks to implement a one-time Competitive Transition Rider (“CTR”) to provide a temporary, non-bypassable, reconcilable Section 1307(e) cost recovery mechanism that will provide a fresh start by refunding or recovering any remaining net historic over or under collection balances related to transmission service and generation supply service that were incurred prior to the effective date of the RR. In addition, PPL Electric seeks Commission approval to modify the reconciliation of its Generation Supply Charge-1

(“GSC-1”) from a quarterly basis to an annual basis and to net the GSC and Transmission Service Charge (“TSC”) over and under collection balances for each customer class. These proposals are designed to help alleviate the significant volatility and uncertainty in PPL Electric’s default service rates and the PTC, while at the same time ensuring that PPL Electric fully recovers its reasonable costs related to providing default service. These proposals are more fully explained in PPL Electric’s Main Brief.¹

A Notice of Appearance was filed by the Commission’s Bureau of Investigation and Enforcement (“I&E”). Notices of Intervention were filed by the Office of Consumer Advocate (“OCA”), Office of Small Business Advocate (“OSBA”), Retail Energy Supply Association (“RESA”), Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“Dominion”), Richards Energy Group (“REG”), and Wal-Mart Stores East, L.P. and Sam’ East, Inc. (“Wal-Mart”). Answers to the Amended Petition were filed by OSBA, PP&L Industrial Customer Alliance (“PPLICA”), RESA, and Dominion.

In accordance with the procedural schedule set at the prehearing conference, direct testimony was served by PPL Electric, the Bureau of Investigation and Enforcement (“I&E”), OCA, OSBA, Dominion, RESA, REG, and Walmart. Rebuttal testimony was served by PPL Electric, OSBA, and Dominion. Surrebuttal testimony was served by PPL Electric, I&E, OCA, OSBA, RESA, and Dominion.² An evidentiary hearing was held on December 5, 2011, at which the Parties moved their respective testimonies and exhibits into the record.³ Certain Parties’ witness were cross-examined and presented rejoinder testimony.

¹ See PPL Electric Main Brief, Section V.B

² PPLICA did not serve any testimony in this proceeding.

³ REG did not move into the record all of the testimony it served.

The Recommended Decision (“R.D.”) of Administrative Law Judge Susan D. Colwell (“ALJ”) was issued by Secretarial Letter dated April 4, 2012. Therein, the R.D. concluded that the Commission should approve PPL Electric’s proposals to: (1) implement the RR, provided that the E-Factor be determined by matching the time period to be reconciled for both revenues and expenses; (2) include the Residential and Small C&I Time of Use (“TOU”) program over and under collections in the RR rates applicable to the respective Residential and Small C&I customer classes, consistent with the amount ultimately approved in *Pa. PUC v. PPL Electric Utilities Corporation, Supplement No. 110 to Tariff Electric – PA. PUC No. 201 Time of Use Program*, Docket No. R-2011-2264771; and (3) modify the provisions of the GSC-1 to permit reconciliation on an annual PJM Planning Year basis. (R.D. pp. 58-60)

The R.D. further recommended that the CTR be denied without prejudice to PPL Electric refunding or recovering the net historic over and under collection balances through a reconciliation method that results in a reasonable rate and is consistent with Act 129. (R.D., p. 43.) The R.D. also recommended that PPL Electric’s proposal to net the over and under collections of the respective GSC-1 and GSC-2 with the TSC reconciliations for each customer class be deferred until the resolution of *PPL Electric Utilities Corporation Proposed Transmission Service Charge Reconciliation for the Twelve Months Ending November 30, 2010*, Docket No. M-2010-2213754. (R.D., pp. 59-60.) Finally, the R.D. recommended that the Commission adopt PPLICA’s proposal that the RR, and the CTR if approved, reflect separate rates for Large Commercial & Industrial (“Large C&I”)-Primary and Large C&I-Transmission customers. (R.D., p. 23.)

PPL Electric herein files these Exceptions to the R.D., pursuant to 52 Pa. Code § 5.533, and the Secretarial Letter dated April 4, 2012. For the reasons explained below, PPL Electric

respectfully requests that the Commission adopt PPL Electric's Exceptions and revise the R.D. accordingly.

II. SUMMARY OF EXCEPTIONS

Exception No 1. The CTR is a just and reasonable temporary, non-bypassable, reconcilable Section 1307(e) cost recovery mechanism to refund or recover any remaining net historic over and under collection balances incurred for transmission service and generation supply service prior to the effective date of the RR. The R.D. concluded that the CTR violates Act 129 and the Commission's regulations that require the cost of default service to be borne by default service customers. This conclusion is in error for several reasons.

PPL Electric has experienced significant over and under collections related to its transmission service and generation supply service charges and has experienced significant levels of shopping within its service territory. PPL Electric is statutorily required/entitled to refund or recoup these over and under collections related to transmission service and generation supply service on a full and current basis. In order to fully refund or recover its historic over or under collection balances, reduce rate volatility, promote retail competition, and better assign costs to customers, PPL Electric seeks to implement the CTR.

The CTR does not violate Act 129 or the Commission's default service regulations because shopping customers contributed to the over/under collections that will be refunded/recouped, and the CTR will be applied on a customer class basis. Further, these customers are eligible for default service at any time. PPL Electric as a default service provider is statutorily required to be ready, willing, and able to provide default service. It, therefore, is reasonable for these customers to pay for a portion of these default service costs. For these reasons, PPL Electric's proposal to implement the CTR should be approved.

Exception No. 2. The CTR is needed to refund or recover any remaining net historic over and under collection balances incurred for transmission service and generation supply service prior to the effective date of the RR. PPL Electric has experienced significant over and under collections related to its transmission service and generation supply service charges, and has experienced significant levels of shopping within its service territory. Given the significant levels of shopping, in particular with the Large C&I customer class, PPL Electric is essentially without a means to refund or recover any remaining net historic over and under collection balances incurred for transmission service and generation supply service prior to the effective date of the RR. PPL Electric is statutorily required/entitled to refund or recover these costs and the CTR is a reasonable method of recovery. At a minimum, the Commission should approve a limited CTR to refund/recover the historic over/under collections incurred to provide transmission service and generation supply to the Large C&I customers.

Exception No. 3. The R.D. erred in recommending that PPL Electric abandon its long-standing practice of prorating its Section 1307(e) cost recovery mechanisms to match actual billed revenue pursuant to the automatic adjustment clause with actual incurred costs for each application period. PPL Electric's Section 1307(e) reconciliation methodology currently is under review by the Commission. Although the Commission's disposition could potentially affect the total amount of transmission service and generation services costs that are to be reconciled in a reconciliation period, this does not change the fact that customers will continue to switch between default service and shopping, and that the RR will more closely align over and under collection balances with the customers that caused such balances to be incurred, remove volatility from the PTC, and help ensure that PPL Electric recovers its costs to provide default service in a full and timely manner.

Exception No. 4. The R.D. erred in deferring resolution of PPL Electric's proposal to net the over and under collections of the respective GSC-1 and GSC-2 with the TSC reconciliations for each customer class. The amount of over and under collections ultimately approved by the Commission will not impact the methodology employed to refund and recoup over and under collections from each customer class. Combining the respective over or under collections related to the transmission service and generation supply charges will help reduce the overall impact of reconciling the over and under collections.

Exception No 5. PPL Electric should not be required to establish separate RR rates for Large C&I-Primary and Large C&I-Transmission customers. In this proceeding, PPL Electric has proposed that the RR and CTR be separately calculated for the following three customer classes: Residential, Small C&I, and Large C&I. The R.D. rejected this proposal and recommended that the Commission adopt PPLICA's proposal that the RR and CTR reflect separate rates for Large C&I-Primary and Large C&I-Transmission customer classes. PPL Electric did not have a meaningful opportunity to present testimony or evidence in response to this alternative proposal because it was raised for the first time in a list of issues submitted by PPLICA following the evidentiary hearing. Further, the R.D. failed to give sufficient weight to the fact that PPL Electric is only proposing to combine these groups for reconciliation purposes, not for setting of the initial transmission service rates.

Importantly, the Large C&I-Primary and Large C&I-Transmission customers pay the same default service generation rates and the same generation supply over/under collections for reconciliation purposes. Although presently deferred as explained in Exception No. 4, if the Commission ultimately approves PPL Electric's proposal to net the over and under collections of the respective GSC-1 and GSC-2 with the TSC for each customer class, it would not be

appropriate to retain separate TSC reconciliations for the Large C&I Primary and Large C&I Transmission customer classes. These two classes currently pay the same GSC rate and pay separate TSC rates. If the GSC and TSC are netted for reconciliation purposes, PPL Electric will be unable to separately allocate the Large C&I-Primary and Large C&I-Transmission transmission service over/under collections because PPL Electric will have no way to determine which customers caused the generation supply over/under collections and whether the same customers caused the transmission service over/under collections. For these reasons, PPL Electric believes that it is reasonable and appropriate for the RR to reflect a single class for Large C&I customers.

To the extent that the Commission approves a CTR for the Large C&I customer class only, PPL Electric will forego netting historic the GSC and TSC over/under collections for the Large C&I customers, which are not presently netted and already allocated, for purposes of the limited CTR.

III. ARGUMENT

- A. **Exception No. 1 - The CTR is a just and reasonable temporary, non-bypassable, reconcilable Section 1307(e) cost recovery mechanism to refund or recover any remaining net historic over and under collection balances incurred for transmission service and generation supply service prior to the effective date of the RR.**

The R.D. recommended that the CTR be denied without prejudice, recognizing that PPL Electric is lawfully entitled to refund or recover the net historic over/under collection balances if it can demonstrate that the method results in a reasonable rate and is consistent with the Commission's regulations and Act 129. (R.D., p. 43.) The R.D. concluded that the CTR violates Act 129 and the Commission's regulations that require the cost of default service to be borne by default service customers. (R.D., p. 42.) However, the R.D. did not give sufficient weight to the

fact that PPL Electric is statutorily entitled/required to refund or recover over and under collections related to transmission service and generation supply service. Further, the R.D. did not give sufficient weight to the fact that current shopping customers contributed to the historic over/under collections that will be refunded/recouped, and that the CTR will be applied on a customer class basis. For these reasons, as more fully explained below, the CTR should be approved.

Act No. 129 states that providers of last resort service (“POLR” or “default service”) are entitled to recover, on a full and current basis, all reasonable costs incurred in providing default service through a reconcilable surcharge. *See* 66 Pa.C.S. § 2807(e)(3.9); *Pa. Power Co. v. Pa. P.U.C.*, 932 A.2d 300, 307 (Pa. Cmwlth. 2007). Under its currently effective tariff, PPL Electric recovers any applicable over or under collections related to the TSC, GSC-1, and GSC-2 through the E-Factor applied to the transmission and generation rates paid by customers who take default service from PPL Electric in the next application period. However, PPL Electric historically has experienced significant volatility in the under and over collection balances related to the transmission service and generation supply charges. Further, PPL Electric has experienced a significant number of customers that have switched from default service to competitive supply since the expiration of the generation rate caps on December 31, 2009. Although PPL Electric is entitled by law to fully recover its costs of providing default service, due to a variety of factors, including increased shopping levels and disparities between TOU rates and default service rates, PPL Electric, to date, has not been able to recover/refund all of its default service costs in a full and timely manner.⁴

⁴ *See* PPL Electric Main Brief, Section V.B.1.

Given the magnitude of the over and under collection balances and the small number of non-shopping customers, the RR alone is not sufficient because it may not be likely or reasonable to refund or recover all the historic over and under collection balances from such a very small number of customers in a timely manner. For example, if PPL Electric were to attempt to recover significant under collections from a small subset of customers, default service rates would increase so significantly that almost all customers would shop and there would be no customers left to pay the outstanding under collection balance. Indeed, PPL Electric had a TOU under collection of approximately \$1.0 million with only 3,000 customer taking TOU service as of March 31, 2012. Similarly, there presently is a significant under collection balance associated with the GSC rates for Large C&I customers. However, approximately 86% of PPL Electric's Large C&I customers, which represents 95% of Large C&I class' load, currently take competitive supply from EGSs. If PPL Electric attempted to recover these under collection balances from so few customers, this would very likely increase the RR rates so high that the few remaining TOU and Large C&I default service customers would leave default service prior to the effective date of the RR. Consequently, the RR alone is not a sufficient or reasonable method to recover/refund the historic over or under collection balances.

In order to fully recover and refund its outstanding historic over or under collection balances related to transmission service and generation supply charges, PPL Electric seeks to implement the CTR. The CTR is a one-time temporary, non-bypassable, reconcilable Section 1307(e) cost recovery mechanism that will provide a fresh start by refunding or recovering any remaining net historic over or under collection balances related to transmission service and generation supply service that were incurred prior to the effective date of the RR, or as of May 31, 2012. As more fully explained in PPL Electric's Main Brief, the CTR will be applicable to

all customers, will reflect different rates for different customer classes, and will be either an additional charge or a credit on the customer's monthly bill under the applicable rate schedule depending on whether PPL Electric is reconciling a net historic under or over collection of transmission service and generation supply charges. The CTR will be shown as a separate line item on customers' bills and will not be included in the PTC. The CTR will be reconciled at the end of the initial 12-month application period and will continue for the minimum number of months necessary to true-up the balance and then will be discontinued once the balance has been fully collected or refunded.⁵ PPL Electric's proposal to implement the CTR carefully and appropriately balances the need to promote competition, alleviate the volatility and uncertainty associated with the over and under collection balances related to transmission service and generation supply costs, and the need to ensure that PPL Electric fully recovers these costs as required by law.

Act 129 provides, in pertinent part, as follows:

The default service provider shall have the right to recover on a full and current basis, pursuant to a reconcilable automatic adjustment clause under section 1307 ..., all reasonable costs incurred under this section and a commission approved competitive procurement plan.

66 Pa.C.S. § 2807(e)(3.9). The Commission's default service regulations provide, in pertinent part, as follows:

The costs incurred for providing default service shall be recovered through a default service rate schedule. The rate schedule shall be designed to recover fully all reasonable costs incurred by the DSP during the period default service is provided to customers, based on the average cost to acquire supply for each customer class.

52 Pa. Code § 54.187(a). The R.D. concluded that the CTR violates Act 129 and the Commission's regulations because it requires the net historic costs of default service to be borne

⁵ See PPL Electric Main Brief, Section V.B.3.

by both default service customers and shopping customers. (R.D., p. 42.) However, the R.D. did not give sufficient weight to the fact that current shopping customers contributed to the historic over/under collections that will be refunded/recouped, and that the CTR will be applied on a customer class basis.

Prior to the expiration of generation rate caps, shopping was almost non-existent on PPL Electric's system. As a result, many current shopping customers were default service customers when these historic costs arose. The parties to this proceeding presented no evidence that shopping customers have switched to competitive supply prior to the expiration of the generation rate caps. Indeed, REG acknowledged that of the approximately 1,400 customer accounts it represents, only about 43 customer accounts began receiving competitive supply by December 31, 2009.⁶

Moreover, PPL Electric, as the default service provider, is statutorily required to be ready, willing, and able to provide default service to all customers at all times. At any point in time, any customer is eligible to switch between default service and shopping. Similar to ready to serve charges, it is reasonable for these customers to pay for a portion of these default service costs. Indeed, the Commission has explained that:

By allowing ready to serve charges, the Commission provides the utility with the ability to provide adequate and continuous service. The utility is able to offer service as soon as it is needed and the property owner enjoys an increased value in his property because utility service is available.

Stephen Sutter, et al. v. Clean Treatment Sewage Company, Docket Nos. C-20078197, et al., 2009 Pa. PUC LEXIS 7 (May 15, 2009).⁷

⁶ See PPL Electric Main Brief, Section V.C.5.a.

⁷ See PPL Electric Reply Brief, pp. 35-36.

Further, there may be customers that were on default service at one point in time, contributed to the historic over or under collection during that period, and then became shopping customers. The over or under collections created during that period will be netted with the over and under collection balances that will be recovered or refunded through the CTR. These customers should be entitled to receive a credit if there is a net historic over collection as of the effective date of the CTR, or should be required to pay a charge if there is a net historic under collection as of the effective date of the CTR.⁸

In addition, the R.D.'s focus on individual customers is inconsistent with principles of class ratemaking. It is well established that utility rates cannot be designed to reflect individual customer's costs and usage patterns.⁹ Section 1304 of the Public Utility Code prohibits unreasonably prejudicial and disadvantageous rates, and expressly requires rates to be designed based on class ratemaking principles. *See* 66 Pa.C.S. § 1304; *see also Philadelphia Suburban Trans. Co. v. Pa. P.U.C.*, 281 A.2d 179 (Pa. Cmwlth. 1971) (rate structure must be based on economic facts and on an understanding of all facts and circumstances that affect rates and services; rates must be designed to furnish the most efficient and satisfactory service at lowest reasonable price for the greatest number of customers); *see, e.g., U.S. Steel Corp. v. Pa. P.U.C.*, 390 A.2d 849 (Pa. Cmwlth. 1978) (denying separate rate classification for largest individual customer of a gas utility even though its volume far exceeded any other customer and even though it received its gas service through a direct connection with the transmission line).

Although there may be individual customers who did not contribute to any of the net historic over and under collection balances, many current shopping customers took default service at one point in time and contributed to the net historic over or under collection balances

⁸ *See* PPL Electric Main Brief, Section V.C.5.a.

⁹ *See* PPL Electric Main Brief, Section V.C.5.a.

to be recovered through the CTR. Further, as acknowledged by RESA, there are customers in each customer class that continue to take default service.¹⁰ Clearly, customers from each class contributed to the respective class net over and under collection balances at some point in time, otherwise there would be no net over and under collection balances. Based on class ratemaking principles, PPL Electric believes that the non-bypassable CTR is just, reasonable, and fully consistent with Section 1304 of the Public Utility Code, Act No. 129, and *Pa. Power Co. v. Pa. P.U.C.*, 932 A.2d 300, 307 (Pa. Cmwlth. 2007).

B. Exception No. 2. The CTR is needed to refund or recover any remaining net historic over and under collection balances incurred for transmission service and generation supply service prior to the effective date of the RR.

The R.D. erred in concluding that there is no evidence that the CTR is needed to refund or recover the remaining net historic over and under collection balances that will exist as of May 31, 2012. (R.D., p. 42.) In fact, PPL Electric historically has incurred significant over and under collections related to default service, and to date, PPL Electric has not been able to recover/refund all of its default service costs in a full and timely manner due to increased shopping levels. PPL Electric is unable to recover the remaining net historic over and under collection balances through the current cost recovery mechanisms, and the RR alone will not fully address this problem. This is particularly problematic for the under collections related to the historic transmission service and generation supply costs for the Large C&I customers. Absent the CTR, PPL Electric is without a reasonable means to refund or recover the remaining net historic over and under collection balances incurred for transmission service and generation supply service prior to the effective date of the RR.

¹⁰ See RESA Main Brief, p. 7 (citing to Switching Statistics as of October 22, 2011); see also PPL Electric St. 1, pp. 12-13.

It is un-refuted that PPL Electric has incurred substantial over and under collection balances under its current transmission service and generation supply charges reconciliation mechanisms. In addition, all parties to this proceeding agreed that a significant number of customers have switched to competitive generation supply from EGSs. As a result, there are fewer non-shopping customers from which to refund or collect these historic over and under collection balances. However, as explained above, the existing default service customers were not the sole contributors to the historic over and under collection balances. If the CTR is not approved, the existing default service customers will be responsible for the entire net historic over and under collection balances, including those over and under collection balances that were incurred when existing shopping customers were taking default service.

Given the magnitude of the over and under collection balances and the small number of non-shopping customers, it may not be likely or reasonable to refund or recover all the historic over and under collection balances from such a very small number of customers in a timely manner. If PPL Electric were to attempt to recover significant under collections from a small subset of customers, default service rates would increase so significantly that almost all customers would shop and there would be no customers left to pay the outstanding under collection balance. If PPL Electric were to attempt to refund significant over collections to a small subset of customers, this would cause a significant decrease in the PTC and likely cause a significant number of customers to return to default service, which in turn could cause PPL Electric to refund too much.¹¹ For these reasons, PPL Electric is unable to refund or recover all the historic over and under collection balances under the current cost recovery mechanisms in a timely manner.

¹¹ See PPL Electric Main Brief, Section V.B.1.

Although the R.D. recommended that the Commission approve the RR, the RR is not sufficient to permit recovery of the outstanding net historic over/under collection balances related to transmission service and generation supply costs. It must be remembered that the RR is a new prospective cost recovery mechanism that will replace the existing cost recovery mechanisms. The RR attempts to hold shopping a customer accountable only for the reconciliation impacts created during the period the customer actually took default service.¹² The RR does not provide a method to recover/refund the reconciliation impacts that arose prior to the effective date of the RR, but, rather, is designed to attempt to align costs with those customers that caused such costs to be incurred. Further, even if PPL Electric were permitted to include these historic over/under collection balances in the RR, it may not be likely or reasonable to refund or recover all the historic over and under collection balances in a timely manner given the magnitude of the over and under collection balances and the small number of non-shopping customers as explained above.

Importantly, it must be noted that presently there is a significant under collection balance associated with the GSC rates for Large C&I customers. However, approximately 86% of PPL Electric's Large C&I customers, which represents 95% of Large C&I class' load, currently take competitive supply from EGSs. Consequently, there is no meaningful way to recover the under collection associated with the GSC for this customer class, through either the current cost recover mechanism or the RR. For this reason alone, the Commission should, at a minimum,

¹² If a customer switches from default service to shopping, the customer will be subject to the RR for a period equal to the number of consecutive months, not to exceed twelve months, that the customer took default service immediately prior to becoming a shopping customer. This approach will help to assure that shopping customers bear their fair share of the reconciliation impacts that arose while the customer took default service. If a customer switches from shopping to default service, the customer will be exempt from the RR for a period equal to the number of consecutive months, not to exceed twelve months, that the customer was a shopping customer immediately prior to switching to default service. This approach will help to assure that returning default service customers are not subject to the reconciliation impacts that arose while those customers were taking competitive supply. *See* PPL Electric Main Brief, Section V.B.2.

approve a limited CTR for the Large C&I customer class to refund and recover the historic over and under collection balances incurred to provide transmission service and generation supply service to the Large C&I customers. PPL Electric is statutorily entitled to recover these historic costs incurred under its Commission-approved default service plan¹³ to provide transmission service and generation supply to the Large C&I Customers.

Several parties asserted that the CTR is not needed because the remaining balances for the Residential and Small C&I customer classes at the effective date of the RR, May 31, 2012, will be small. PPL Electric is proposing to implement the RR to provide a prospective mechanism to refund or recover the experienced net over or under collection balances related to transmission service and generation supply charges from customers after the effective date of the RR. However, because of the levels of customer shopping on PPL Electric's system at this time, and the timing of the implementation of the RR, it is not clear that the RR alone will fully address the timely refund or recovery of all the historic over and under collection balances incurred prior to the effective date of the RR.

Further, although the remaining balances at May 31, 2012, may be small, it is impossible to predict with certainty what the over and under collection balances will be as of May 31, 2012. Even assuming that the remaining net historic over or under collection balances will be small, recovering such balances through the non-bypassable CTR will result in a de minimus charge or credit to customers. For these reasons, PPL Electric believes the CTR, as proposed, is prudent and should be approved by the Commission, regardless of the amount of the net historic over or under collection balances as of May 31, 2012.

¹³ See *Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan for the Period January 1, 2011 Through May 31, 2013*, Docket No. P-2008-2060309 (June 30, 2009).

Based on the foregoing, PPL Electric believes that it is necessary and appropriate to establish a temporary, reconcilable, non-bypassable cost recovery mechanism to refund/recoup the Company's prudently incurred historic over/under collections from customers.¹⁴ This is particularly true for the Large C&I customer class where there are very few remaining default service customers. The CTR is a one-time mechanism that will provide a fresh start by eliminating net historic over and under collection balances related to transmission service and generation supply charges. Consistent with class ratemaking principles, PPL Electric believes that the non-bypassable CTR is just and reasonable, and will help to minimize the uncertainty and effect on default service rates caused by reconciling the historic over and under collection balances.

C. Exception No. 3. The R.D. erred in recommending that PPL Electric abandon its long-standing practice of prorating its Section 1307(e) cost recovery mechanisms to match actual billed revenue with actual incurred costs for each application period.

The R.D. recommended that the Commission approve the RR and that the over or under collection balances of the Residential and Small C&I TOU program rates be reconciled with the respective Residential and Small C&I customer classes. However, it appears that this recommendation is conditioned on a requirement that PPL Electric discontinue prorating revenues received in the first month of a new Section 1307(e) cost recovery mechanism, and that the E-Factor be calculated by "matching" 12 months of revenues with 12 months of expenses. (R.D., p. 54.) This condition should be rejected because the method for calculating PPL Electric's over/under collection balances currently is under review by the Commission at a separate docket.¹⁵ Further, the RR is a new prospective cost recovery mechanism to refund or

¹⁴ See PPL Electric Main Brief, Section V.B.3.

¹⁵ See Docket Nos. C-2011-2245906 and M-2011-2243137.

recover the experienced net over or under collection balances regardless of how large or small they may be and how they may be calculated.

When the generation rate caps expired, the generation prices PPL Electric had to pay suppliers in January 2010 were substantially higher than those paid in December 2009 under capped rates. Because of cycle billing (bills are rendered throughout the month, rather than all bills being rendered at the end of the month) default service customer bills issued in January 2010 were prorated for usage which occurred in December 2009 when PPL Electric's generation rates were capped, and prior to the implementation of the 2010 GSC, actual billed revenue under the 2010 GSC for January 2010 reflected only about one-half month of revenue, related to actual application of the GSC mechanism, that typically would be derived from a full, non-prorated billing month.¹⁶ However, generation supply-related costs incurred for January 2010 reflected a full month of customer electricity usage. Due to the effects of proration, the Section 1307(e) cost recovery mechanism for 2010 reconciled 12 months of costs with 11 ½ months of revenue, resulting in an under collection of the Company's costs. This difference between prorated billed revenue and actual incurred costs created a significant under collection for the month of January 2010. The effect of this under collection was exacerbated due to the significant number of

¹⁶ Anytime there is a change in rates, including a new Section 1307(e) cost recovery mechanism, customers bills must be prorated because the rate change becomes effective before the billed revenue for utility service provided in the month prior to the rate change is actually received by the utility. Tr. 55-55. The proration of customers' bills is a fundamental utility process that follows generally accepted ratemaking principles and proper regulatory accounting procedures, as well as the Commission's long-standing practice and precedent regarding Section 1307(e) cost recovery mechanisms. As such, the proration of customers' bills for ratemaking purposes properly matches the actual billed revenue for utility service provided in a given month with the actual incurred costs to provide such utility service in the same month. Whenever utility rates change "for service rendered on and after" a given date, especially when those rate changes are related to the initial implementation month of a new Section 1307(e) cost recovery mechanism, the proration of actual billed revenue is both necessary and appropriate so that customers are not billed new rates for service rendered before the effective date of those rates. Accordingly, in the implementation month of any Commission-approved rate change, customers' bills are prorated between the actual billed revenue for utility service provided in the month prior to the rate change becoming effective and the actual billed revenue for utility service provided in the current month following the effective date of the approved rate change. PPL St. 1, p. 14; PPL St. 1-SR, pp. 3-8.

customers that subsequently elected to take competitive supply from EGSs in 2010. PPL St. 1, pp. 14.

PPL Electric notes that its proration methodology presently is under review by the Commission at Docket Nos. C-2011-2245906 and M-2011-2243137.¹⁷ Although the Commission's disposition could potentially affect the total amount of transmission service and generation services costs that are to be reconciled in a reconciliation period, this does not change the fact that customers will continue to switch between default service and shopping, and that the RR will more closely align over and under collection balances with the customers that caused such balances to be incurred, remove volatility from the PTC, and help ensure that PPL Electric recovers its costs to provide default service in a full and timely manner.¹⁸ PPL Electric is proposing the RR to provide a new prospective cost recovery mechanism to refund or recover the experienced net over or under collection balances regardless of how large or small they may be and how they may be calculated. For these reasons, the Commission should reject the recommendation that the approval of the RR and the reconciliation of the Residential and Small C&I TOU over and under collections be conditioned on "matching" 12 months of expenses with 12 months of revenues.

¹⁷ In a Recommended Decision issued by Secretarial Letter dated April 4, 2012, the ALJ concluded that Section 1307(e) requires that the expenses for an application period be compared with revenues "realized" for the identical time period, not revenues actually received in that time period. (Recommended Decision, Docket No. M-2011-2243137, p. 27.) Because PPL Electric uses cycle billing, it prorated the revenues received in January 2010 and, consequently, reconciled 12 months of expenses with 11.5 months of *billed* revenues, which were billed under its automatic adjustment clause, at the end of 2010, the R.D. concluded that PPL Electric's reconciliation method was unreasonable. (Recommended Decision, Docket No. M-2011-2243137, p. 30.) Contemporaneously herewith, PPL Electric is filing exceptions to that Recommended Decision. For the reasons more fully explained therein, PPL Electric's reconciliation methodology is fully consistent with the plain language of Section 1307(e), the rate cap provisions of the Competition Act, the cost recovery provisions of Act 129, and over 30 years of Commission practice and policy.

¹⁸ See PPL Electric Main Brief, Section V.C.4.b.

D. Exception No. 4. The R.D. erred in deferring resolution of PPL Electric's proposal to net the over and under collections of the respective GSC-1 and GSC-2 with the TSC reconciliations for each customer class

The R.D. recommended that PPL Electric's proposal to net the over and under collections of the respective GSC-1 and GSC-2 with the TSC reconciliations for each customer class be deferred until the Commission's disposition of *PPL Electric Utilities Corporation Proposed Transition Service Charge Reconciliation for the Twelve Months Ending November 30, 2010*, Docket No. M-2010-2213754. The R.D.'s proposal to defer netting the respective GSC-1 and GSC-2 with the TSC reconciliations for each customer class should not be adopted.

PPL Electric's procedures employed to calculate and reconcile its transmission service and generation services costs currently are under review by the Commission at Docket No. M-2010-2213754. Although the outcome of this proceeding is unknown at this time, PPL Electric acknowledges that Commission's disposition thereof could potentially affect the total amount of historic transmission service costs that are to be reconciled. However, the outcome of this proceeding will not change the fact that PPL Electric has experienced substantial difficulty in recovering or refunding its over and under collections associated with its transmission service and generation supply costs on a full and timely basis under its current default service cost recovery mechanisms. Further, the outcome of this proceeding will have no impact on the design and purpose of PPL Electric's proposals.

PPL Electric carefully and appropriately balanced the need to reduce rate volatility, promote retail competition, better assign costs to customers, and ensure that PPL Electric fully recovers these costs as required by law. The RR and CTR are new Section 1307(e) cost recovery mechanisms that will help alleviate the volatility and uncertainty associated with the over and under collection balances related to transmission service and generation supply costs, while at the same time ensure that PPL Electric fully recovers these costs. Further, changing the GSC-1

to an annual reconciliation basis and netting the GSC and TSC over and under collection balances for each customer class will help to reduce the volatility of the RR, reduce the number of calculations required, and reduce customer confusion regarding this issue.

The amount of historic over and under collections that ultimately is approved by the Commission will not impact the methodology employed to refund and recoup over and under collections from each customer class. Combining the respective over or under collections related to the transmission service and generation supply charges will help reduce the overall impact of reconciling the over and under collections. This, in turn, should help to reduce the volatility in both the default service rate and transmission supply charges. For these reasons, the Commission should not defer resolution of this issue.

E. Exception No. 5. - PPL Electric should not be required to establish separate RR rates for Large C&I-Primary and Large C&I-Transmission customers.

PPL Electric proposed that the RR and CTR reflect different rates for the following three customer classes: Residential, Small C&I, and Large C&I. If the RR and CTR are approved as proposed, those cost recovery mechanisms would reflect a single class for Large C&I customers. The R.D. accepted PPLICA's proposal that PPL Electric separately reconcile the transmission-related default service costs for any rider that is approved in this proceeding.¹⁹ PPLICA's proposal should be rejected for several reasons.

PPL Electric's proposal for the RR and CTR to reflect a single class for Large C&I customers was set forth in its Amended Petition. At no time during this proceeding did any party object or question PPL Electric's proposal to combine the Large C&I-Primary and Large C&I-Transmission customers for reconciliation purposes. Rather, the issue was raised for the first

¹⁹ See PPLICA Main Brief, p. 12.

time in a list of issues submitted by PPLICA following the evidentiary hearing.²⁰ Consequently, PPL Electric did not have reasonable notice of PPLICA's proposal and, moreover, had no meaningful opportunity to present testimony or evidence in response to PPLICA's recommendation.

PPLICA contends that the Commission required PPL Electric to separately reconcile the transmission costs for Large C&I-Primary and Large C&I-Transmission customers to comply with the cost of service principles established in *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (2006), *appeal denied*, 591 Pa. 676, 916 A.2d 1104 (2007). This is not correct because the Commission did not independently make such a finding. Rather, the separation of the Large C&I-Primary and Large C&I-Transmission customer classes was the result of a settlement that was developed by the parties upon the Commonwealth Court's remand of the Company's 2004 base rate case at Docket No. R-0049255. Clearly, the settlement was a compromise of competing interests and positions. Although the Commission ultimately approved the settlement, it did not specifically find that the separation of the Large C&I-Primary and Large C&I-Transmission customer classes was required by *Lloyd*. Tr. pp. 76-78.

In addition, PPL Electric is only proposing to combine the Large C&I-Primary and Large C&I-Transmission customer classes for reconciliation purposes, not for setting of the initial transmission service rates. The Large C&I-Primary and Large C&I-Transmission customer classes will continue to pay their respective transmission service rates.

Importantly, the Large C&I-Primary and Large C&I-Transmission customers pay the same default service generation rates. Consequently, these groups pay the same generation supply over/under collections for reconciliation purposes. These generation supply over/under

²⁰ See PPL Reply Brief, p. 45.

collections are not allocated between Large C&I-Primary and Transmission customers but, rather, only to the Large C&I default service customer class as a whole. Because the Large C&I-Primary and Transmission customers pay the same generation supply over/under collections for reconciliation purposes, PPL Electric believes that it is reasonable and appropriate for the RR and CTR to reflect a single class for Large C&I customers.

The over or under collections related to the Large C&I transmission service and generation supply charges currently are not netted for reconciliation purposes.²¹ Although the R.D. recommended that the proposal be deferred as explained in Exception No. 4, if the Commission ultimately approves PPL Electric's proposal to net the over and under collections of the respective GSC-1 and GSC-2 with the TSC for each customer class, PPL Electric will net the future over or under collections related to the transmission service and generation supply charges for the Large C&I customer class for purposes of the RR. However, because there is only one GSC and two separate TSC rates for the Large C&I customers, PPL Electric cannot fairly net the GSC with the TSC unless there is only one TSC for the entire Large C&I customer class. Once netted with the generation supply charges, PPL Electric will be unable to separately allocate the Large C&I-Primary and Large C&I-Transmission transmission service over/under collections because PPL Electric has no way to know which customers caused the generation supply

²¹ It is not uncommon for PPL Electric to experience an over collection for generation supply charges and an under collection for transmission service charges, or vice versa. For example, in calendar year 2010, PPL Electric experienced an under collection of approximately \$8 million for generation supply charges associated with Large C&I default service customers under the 2010 GSC. However, PPL Electric also experienced an over collection of approximately \$2 million in the 2010 TSC applicable to Large C&I-Transmission default service customers. PPLICA does not oppose the CTR for purposes of the TSC for the Large C&I customer class, which presently is over collected and will result in a credit to these customers. However, PPLICA opposes the CTR for purposes of the generations supply costs, which presently under collected and will result in a charge to these customers, arguing that the Large C&I customers switched to competitive supply upon the expiration of the generation rate caps on December 31, 2009, and did not contribute to the historic generation supply cost over and under collection balances. See PPLICA Main Brief, pp.13-14. Stated otherwise, PPLICA supports receiving a refund of the TSC over collection, which would reduce the TSC rates its customers would pay, but opposes PPL Electric's recovery of the GSC under collection, which would increase the rates its customers would pay. PPLICA provided no evidence to support its proposal. Further, it is clear that PPLICA's proposal is inconsistent on its face.


over/under collections and whether they are the same customers that caused the transmission service over/under collections. Therefore, if ultimately approved by the Commission, PPL Electric will be unable to implement the proposal to net the over and under collections of the respective GSC-1 and GSC-2 with the TSC, as well as PPLICA's proposal to separately reconcile the transmission costs for Large C&I-Primary and Large C&I-Transmission customers. For purposes of the RR, these two proposals are inconsistent. Accordingly, PPL Electric believes that it is reasonable and appropriate for the RR to reflect a single class for Large C&I customers.

As explained above, PPL Electric has a specific problem with the recovery of the under collection for generation supply charges associated with Large C&I default service customers because there are very few Large C& I default service customers remaining. Although PPL Electric is statutorily entitled to recover these historic costs, there simply is no meaningful way for PPL Electric to recover these historic under collections under its existing tariff mechanisms or through the RR as explained above. Therefore, the Commission should, at a minimum, approve a limited CTR for the Large C&I customer class to refund and recover the historic over and under collection balances. To the extent that the Commission approves a limited CTR for the Large C&I customers, PPL Electric will forego netting the historic GSC and TSC over and under collection balances for Large C&I customers because these historic costs presently are not netted and already have been allocated to the respective Large C&I-Primary and Transmission customers. However, for the reasons explained above, the RR should reflect a single class for Large C&I customers.

IV. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Recommended Decision of Administrative Law Judge Susan D. Colwell issued on April 4, 2012, be modified, as discussed above, and that the Pennsylvania Public Utility Commission approve the Company's proposal to submit a revised tariff supplement to Tariff Electric-Pa. P.U.C. No. 201 to: (1) implement the RR; (2) implement the CTR; (3) include the Residential and Small C&I TOU program over and under collections in the RR and CTR rates applicable to the respective Residential and Small C&I customer classes; (4) net the over and under collections of the respective GSC-1 and GSC-2 with the TSC reconciliations for each customer class; and (5) modify the provisions of the GSC-1 to permit reconciliation on an annual PJM Planning Year basis.

Respectfully submitted,



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Dated: April 24, 2012

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