Four Penn Center
1600 John F Kennedy Blvd.
Philadelphia, PA 19103
215-587-1000 Main
215-587-1444 Fax
www.postschell.com

David B. MacGregor

dmacgregor@postschell.com
215-587-1197 Direct
215-320-4879 Fax
File #: 02507/140070

May 4, 2012

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

RE: 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 Replies of PPL Electric Utilities Corporation to the Exceptions of Other Parties 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).

VIA E-MAIL AND FIRST CLASS MAIL

Tanya J. McCloskey
Aron J. Beatty
Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101-1923

Richard A. Kanaskie
Senior Prosecutor
Bureau of Investigation & Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

Elizabeth Triscari, Esquire
Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Pamela C. Polacek
Adeolu A. Bakare
McNees, Wallace & Nurick
P.O. Box 1166
100 Pine Street
Harrisburg, PA 17108-1166

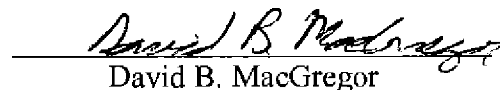
Todd Stewart
Hawke, McKeon & Sniscak LLP
100 N. 10th Street
P.O. Box 1778
Harrisburg, PA 17105-1778

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

Craig A. Doll
P.O. Box 403
25 West Second Street
Hummelstown, PA 17036

Holly Rachel Smith
Holly Rachel Smith, PLLC
Hitt Business Center
3803 Rectortown Road
Marshall, VA 20115

Date: May 4, 2012


David B. MacGregor

7478916v2

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	:	

REPLY OF PPL ELECTRIC UTILITIES CORPORATION TO EXCEPTIONS OF OTHER PARTIES

Paul E. Russell (Pa. Bar I.D. #21643)
Associate General Counsel
PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101
Voice: 610.774.4254
Fax: 610.774.6726
E-mail: perussell@pplweb.com

Of Counsel:

Post & Schell, P.C.

David B. MacGregor (Pa. Bar I.D. #28804)
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Voice: 215.587.1197
Fax: 215.320.4879
E-mail: dmacgregor@postschell.com

Anthony D. Kanagy (Pa. Bar ID #85522)
Christopher T. Wright (Pa. Bar ID #203412)
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
Voice: 717.731.1970
Fax: 717.731.1985
E-mail: akanagy@postschell.com
E-mail: cwright@postschell.com

Dated: May 4, 2012

Attorneys for PPL Electric Utilities Corporation

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND 1

II. PPL ELECTRIC'S REPLY TO EXCEPTIONS 2

A. RECOVERY OF DEFAULT SERVICE COSTS 2

B. TREATMENT OF NEW AND RETURNING CUSTOMERS 8

C. PRICE TO COMPARE 9

D. THE RR IS COMPETITIVELY NEUTRAL 11

E. NEED FOR RECONCILIATION RIDER 13

F. CUSTOMER CONFUSION 15

G. TOU PROGRAM IS A DEFAULT SERVICE RATE OPTION 16

H. INTEREST RATE 18

I. ANNUAL RECONCILIATION OF GSC-1 20

J. CTR FOR LARGE C&I CUSTOMER CLASS 21

III. CONCLUSION 24

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.[1]

The Recommended Decision ("R.D.") of Administrative Law Judge Susan D. Colwell ("ALJ") was issued by Secretarial Letter dated April 4, 2012. The R.D. recommended that the Commission 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.

[1] The procedural history and background of this matter is more fully explained in PPL Electric's Main Brief and Exceptions.

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.) On April 24, 2012, PPL Electric filed Exceptions to the R.D.

Pursuant to 52 Pa. Code § 5.535 and the Secretarial Letter dated April 4, 2012, PPL Electric herein files this Reply to the Exceptions filed by the following parties: The Commission's Bureau of Investigation and Enforcement ("I&E"); the Office of Consumer Advocate ("OCA"); the Office of Small Business Advocate ("OSBA"); Retail Energy Supply Association ("RESA"); Dominion Retail, Inc. d/b/a Dominion Energy Solutions ("Dominion"); and PP&L Industrial Customer Alliance ("PPLICA").[2] For the reasons explained below, as well as those reasons more fully explained in the R.D. and PPL Electric's Main Brief, Reply Brief, and Exceptions, PPL Electric respectfully requests that the Commission deny the Exceptions of these parties, adopt PPL Electric's Exceptions, and revise the R.D. accordingly.

II. PPL ELECTRIC'S REPLY TO EXCEPTIONS

A. RECOVERY OF DEFAULT SERVICE COSTS

RESA and Dominion assert that the R.D. erred in recommending that the Commission approve the RR because it violates Act 129 and the Commission's default service regulations.

[2] Although Richards Energy Group ("REG") and Wal-Mart Stores East, L.P. and Sam' East, Inc. ("Wal-Mart") were parties to this proceeding, REG and Wal-Mart did not file Exceptions to the R.D.

According to RESA and Dominion, Act 129 and the default service regulations permit a default service provider to recover the costs incurred to provide default service only from default service customers. RESA and Dominion assert that the RR recovers default service costs, in part, from shopping customers and, therefore, is unlawful.[3] The RESA/Dominion argument must be rejected for several reasons.

It is undisputed that PPL Electric is statutorily required/entitled to fully recover the costs incurred to provide transmission service and generation supply to default service customers.[4] It is further undisputed that PPL Electric has experienced significant over and/or under collection balances related to the Transmission Service charge ("TSC"), Generation Supply Charge-1 ("GSC-1"), and Generation Supply Charge-2 ("GSC-2"). Due to a variety of factors, PPL Electric, to date, has not been able to recover/refund all of its default service costs in a full and timely manner under its current reconciliation method.[5] In order to fully refund or recover its over and under collection balances, reduce rate volatility, promote retail competition, and better assign costs to customers, PPL Electric seeks to implement the RR.

The RR attempts to more closely assign over/under collections to those customer that received default service during the period in which the over/under collection occurred. 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 received default service immediately prior to becoming a shopping customer. This approach will help to assure that shopping customers pay/receive their fair share of the over or under collections that arose while the customer received default service. Conversely, if a

---

[3] *See* RESA Exception Nos. 3 and 5; Dominion Exception No. 1.

[4] *See* PPL Electric Main Brief, Section V.A.

[5] *See* PPL Electric Main Brief, Section V.B.1.

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.[6]

RESA and Dominion assert that the RR violates Act 129 and the Commission's default service regulations because it recovers default service costs, in part, from shopping customers 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). There is nothing in Act 129 that prohibits a default service provider from recovering default service costs from the customers that caused those costs to be incurred. Rather, Act 129 merely provides that such costs should be recovered on a full and current basis. This is exactly what the RR attempts to do -- recover the default service costs on a full and current basis from the customers that cause the costs to be incurred. Clearly, the RR is consistent with Act 129.

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 Commission's regulations require that default service costs be recovered through a default service rate "designed to recover fully all reasonable costs incurred by the DSP during the period default service is provided to customers." This is exactly what the

---

[6] Application of the RR will be determined each time a customer's status changes from default service to shopping or from shopping to default service. The application of the RR is fully explained in PPL Electric's Main Brief. *See* PPL Electric Main Brief, Section V.B.2.

RR is designed to do. The RR is a default service rate that refunds/recovers the over/under collections incurred during the period default service was provided to customers. There is nothing in the Commission's regulations that prohibits a default service provider from recovering default service costs from the customers that caused the costs to be incurred. Clearly, the RR is consistent with the Commission's default service regulations.

The Commission previously has found reconciliation mechanisms similar to PPL Electric's proposed RR as reasonable and appropriate means to recover under collections from or refund over collections to customers who switch from default to competitive supply. For example, the Commission approved a migration rider for Peoples Natural Gas Company LLC, concluding as follows:

> The Migration Rider, by design, addresses a unique situation. With the advent of retail choice for residential and small commercial customers, purchased gas cost under or over-recoveries may be severely impacted by customers switching to transportation service. The Migration Rider appears to appropriately address the extraordinary situation where many customers leave sales service in a relatively short time period while the application of the E-Factor to new customers appropriately recognizes the limited effect of normal customer additions and deletions on the E-Factor. Accordingly, we find that Peoples' Migration Rider does not allow Peoples to double recover for gas reconciliations associated with sales customer's overall experience.
>
> ***
>
> On consideration of the positions of the parties, we find that the Migration Rider is a reasonable and appropriate means to recover or credit purchased gas costs under or over collections from customers who switch from sales service to transportation service. The Rider ensures that the migrating customer is responsible for the purchased gas costs that Peoples incurred to serve that customer while on retail service. Because these costs were already incurred at the time that the customer switched to transportation service, the Migration Rider is an attempt to ensure that those customers that caused Peoples to incur those costs are responsible for paying them, or in the alternative, receive a credit in the event of an over-recovery.

Enron Capital & Trade Resources Corporation v. The Peoples Natural Gas Company, et al., Docket No. R-00973928C0001, 1998 Pa. PUC LEXIS 199 at *20-22 (August 24, 1998) (citing to the Reply Brief of the Office of Consumer Advocate). The Commission further concluded that migration riders are not unduly discriminatory and does not inhibit competition or confer an unfair advantage. *Id.* at *28-29, *35-37. *See also Pennsylvania Public Utility Commission, et al. v. The Equitable Gas Company*, Docket No. R-00963858, 1997 Pa. PUC LEXIS 92 (December 4, 1997) (noting that the PUC has "approved other Migration Riders similar to that proposed by Equitable for other utilities such as The Peoples Natural Gas Company, National Fuel Distribution Corporation and Columbia Gas of Pennsylvania.").

It also should be noted that the Commission has not only approved migration riders for gas companies, but also has approved a migration rider for an electric distribution company. In PECO Energy Company's ("PECO") 2009 default service proceeding, the Commission approved a migration rider for PECO. *Petition of PECO Energy Company for Approval of Its Default Service Program and Rate Mitigation Plan*, Docket P-2008-2062739 (June 2, 2009).

Both RESA and Dominion are critical of the R.D.'s "reliance" on the natural gas migration riders approved by the natural gas distribution companies ("NGDCs"). Although the R.D. notes that the Commission previously approved NGDC migration riders,[7] the R.D. does "rely" on this fact in rejecting the parties' opposition to the RR and recommending that the Commission approve the RR.[8] Rather, the R.D. made an independent determination from the evidence of record that the RR is a just and reasonable Section 1307(e) cost recovery mechanism.

---

[7] *See* R.D., p. 56.

[8] *See* R.D., pp. 29-36 (recommendation on RR proposal).

RESA and Dominion also argue that the R.D. erred in "relying" on the Commission-approved migration rider for PECO because it was part of a settlement and that PECO is required to give notice before implementing the rider.[9] However, the fact that the PECO migration rider was part of a settlement and that PECO must give notice before implementing the rider does not change the fact that it was approved by the Commission. If the RR violates Act 129 or the Commission's default service regulations, as RESA and Dominion contend, then the part of the settlement that provided for PECO migration rider could not have been approved by the Commission.[10]

The proposed RR is consistent with Act 129 and the Commission's default service regulations. Further, the proposed RR is consistent with the cost-causation principles established in *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (2006), *appeal denied*, 591 Pa. 676, 916 A.2d 1104 (2007), because it recovers default service costs from those default service customers that actually caused the costs to be incurred. Finally, the RR clearly is a better cost assignment methodology than the Company's current methodology which: (1) allows default service customers to avoid under collections by shopping, or (2) does not provide shopping customers with the benefit of any refund due to over collections that occurred while the shopping customer was taking default service. Based on the foregoing, and for the reasons more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of RESA (Exception Nos. 1, 5) and Dominion (Exception No. 1), that the R.D. erred in recommending that the Commission

---

[9] Despite RESA and Dominion's assertion to the contrary, the R.D. explicitly refused to take judicial notice of the PECO migration rider. *See* R.D., pp. 19, n. 6, and 56.

[10] *See Application of Laser Northeast Gathering Company, LLC*, Docket No. A-2010-2153371, 2011 Pa. PUC LEXIS 6 at *54 (June 14, 2011) (denying the term and condition of a settlement that provided for "light-handed" regulation of Laser because it would be unlawful and inconsistent with Chapters 11, 19, and 21 of the Public Utility Code).

approve the RR because it violates Act 129 and the Commission's default service regulations, should be denied.

B. TREATMENT OF NEW AND RETURNING CUSTOMERS

RESA asserts that the R.D. erred in recommending approval of the RR because, according to RESA, it fails to treat customers returning to default service the same as new default service customers in violation of 66 Pa.C.S. § 2807(e)(4).[11] RESA's argument is without merit.

Initially, it must be emphasized that RESA's fundamental assertion that the RR treats new and returning customers differently is simply wrong. Both groups will be exempt from the RR to the extent that they were not taking default service from PPL Electric prior to their becoming default service customers. New customers will be exempt for 12 months because they were not PPL Electric default service customers and did not cause PPL Electric to incur default service costs on their behalf during the prior 12 month period. Returning customers will be exempt from the RR on the same basis, *i.e.*, to the extent that they were shopping and did not cause PPL Electric to incur default service costs, they will be exempt from the RR for up to a 12-month period.

The purpose of the RR is to align transmission service and generation supply costs with the customers who caused such costs to be incurred. The principles of cost causation are equally applied to both new default service customers and customers returning to default service through the RR. New PPL Electric customers did not contribute to the prior annual over or under collection and should not be charged or credited for such over or under collections.[12] Customers

[11] *See* RESA Exception No. 1.

[12] Similar to new customers, customers returning to default service who have shopped for twelve months or more did not contribute to the prior annual over or under collection and, therefore, are exempt from the RR for twelve months.

returning to default service who shopped for less than twelve months did contribute to the prior annual over or under collections and should be charged or credited for such over or under collections.[13] Clearly, the RR applies the principles of cost causation to both new default service customers and customers returning to default service in a reasonably and non-discriminatory manner. Based on the foregoing, and for the reasons more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of RESA (Exception No. 1), that the RR violates 66 Pa.C.S. § 2807(e)(4), should be denied.

C. PRICE TO COMPARE

RESA and Dominion assert that the R.D. erred in recommending that the E-Factor not be included in the Price to Compare ("PTC"). RESA and Dominion contend that the over/under collections to be recovered through the RR are default service costs, and that the PTC will not accurately reflect the actual costs to acquire default service if the over and/or under collections related to transmission service and generation supply costs are removed from the PTC.[14] This argument should be rejected for several reasons.

First, there is nothing in the Commission's default service regulations that requires the E-Factor to be included in or excluded from the PTC. Either result is consistent with the regulations. This is a policy decision for the Commission.. For the reasons explained herein, as well as those more fully explained in PPL Electric's Main Brief, the Commission should adopt the recommendation that the E-Factor not be included in the PTC.[15]

The Commission's regulations define the PTC as follows:

[13] *See* PPL Electric Reply Brief, Section III.C.1.

[14] *See* RESA Exception No. 3; Dominion Exception No. 2.

[15] *See* PPL Electric Main Brief, Section V.C.3.

> A line item that appears on a retail customer's monthly bill for default service. The PTC is equal to the sum of all unbundled generation and transmission related charges to a default service customer *for that month of service*.

52 Pa. Code § 54.182 (emphasis added). Clearly, the PTC is designed to reflect the actual and current costs to provide default service to default service customers during the current application period that the service is provided, *i.e.*, the cost factor ("C-Factor").[16] However, Section 1307(e) cost recovery mechanisms, such as the RR, are designed to recover the transmission service and generation supply over and under collection balances from the prior application period, *i.e.*, the E-Factor. Including the E-Factor in the PTC does not accurately reflect the actual costs to acquire default service for that month of service.

By excluding the RR and CTR, the PTC will more accurately reflect the actual costs to acquire default service supply, which in turn should facilitate customers' ability to make accurate comparisons and better informed shopping decisions.[17] Presently, PPL Electric's PTC includes both the C-Factor and the E-Factor. Under PPL Electric's current default service reconciliation mechanisms, the over and/or under collection balances associated with transmission service and generation supply service have caused significant volatility in the PTC.[18] Indeed, the historical variances in the PTC are attributable to the over and/or under collection balances, rather than significant changes in the pricing of power.[19]

Based on the foregoing, and for the reasons more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of RESA (Exception No. 3) and Dominion

---

[16] Notably, Dominion concedes that "the PTC is to be designed to recover those costs during the period service is provided" to default service customers. *See* Dominion Main Brief, p. 8.

[17] Indeed, customers will not have to consider and account for the unknown impacts of over/under collections when making their shopping decisions.

[18] *See* PPL Electric Main Brief, Section V.B.1.

[19] *See* Tr. 163-64.

(Exception No. 2), that the R.D. erred in recommending that the E-Factor not be included in the PTC, should be denied.[20]

D. THE RR IS COMPETITIVELY NEUTRAL

RESA and Dominion assert that the RR is anti-competitive. Specifically, RESA asserts that "an EDC that is not including all the costs to provide default service in its default service rate could be given an unfair competitive advantage to create an artificially subsidized lower default service rate with which EGSs will never be able to compete."[21] Similarly, Dominion contends that the "RR provides an incentive to understate the PTC and recover those costs through the RR, which makes the PTC look more attractive to a customer."[22] Dominion also asserts that the "un-refuted evidence shows that in the natural gas industry, migration riders are competition killers."[23] These arguments must be rejected for several reasons.

RESA and Dominion fail to acknowledge that the E-Factor can be positive or negative. Moreover, the RR will not be part of the PTC. Therefore, customers will not have to consider the unknown impacts of over and/or under collections when they are deciding whether to shop. This will make it easier for customers to make shopping decisions.

The argument that the RR provides an incentive to "understate" or offer an "artificially subsidized lower" default service rate is premised on the incorrect assumption that there is some motive or benefit to drive shopping customers to switch to default service. Default service providers are statutorily entitled to recover on a full and current basis all reasonable costs incurred in providing default service. However, unlike competitive suppliers, default service

[20] *See* PPL Electric Main Brief, Sections V.C.1 and V.C.3; PPL Electric Reply Brief, Section III.A.1.

[21] RESA Exceptions, p. 14.

[22] Dominion Exceptions, pp. 12-13.

[23] *Id.*, p. 12.

providers do not procure and provide customers with default service supply for a profit.[24] Thus, despite RESA's and Dominion's characterizations to the contrary, there is absolutely no motive to drive shopping customers to switch to default service, because the reasonable costs to procure default service are passed through to the customers in the C-Factor, without a return or profit.

The purpose of the RR is not to encourage shopping customers to return to default service or to discourage default service customers from shopping. Rather, the purpose of the RR is to more closely align over and/or under collection balances with the customers who created 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. The RR will help assure that customers bear their fair share of under collected transmission service and generation supply charges or receive their fair share of any refund of over collected of transmission service and generation supply charges created while the customers took default service from PPL Electric.[25]

Finally, Dominion's contention that it is "un-refuted" that the migration riders implemented by the NGDCs are "competition killers" is, in fact, directly contrary to the evidence of record. Dominion disregards that the Commission previously has concluded that migration riders are not unduly discriminatory and do not inhibit competition or confer an unfair advantage. *See Enron Capital & Trade Resources Corporation v. The Peoples Natural Gas Company, et al.*, Docket No. R-00973928C0001, 1998 Pa. PUC LEXIS 199 at *35-37 (August 24, 1998). Moreover, as explained by OSBA in this proceeding, five out of the seven NGDC migration riders examined by Dominion currently have an E-Factor credit, which provides a competitive opportunity for competitive suppliers.[26]

---

[24] *See* 66 Pa.C.S. § 2807(e)(3.9) (default service providers are only permitted to recover the reasonable costs incurred under a Commission-approved default service plan).

[25] *See* PPL Electric Main Brief, Section V.C.4.a.

[26] *See* OSBA Main Brief, pp. 16-17.

Contrary to RESA and Dominion's arguments, the RR is not anti-competitive. The volatility caused by including the over and/or under collections in the Price to Compare under the current mechanism has created the potential for customers to shift between default service and competitive supply for reasons entirely unrelated to actual competitive market conditions. PPL St. 1-R, pp. 10-11; Tr. 163-64. The RR will align transmission service and generation supply costs with the customers who caused such costs to be incurred, will more accurately reflect the actual costs to acquire default service supply, will help eliminate the reconciliation distortions from the Price to Compare, and will align it more closely with competitive market prices.[27] For these reasons, as more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of RESA (Exception No. 3) and Dominion (Exception No. 2), that the RR is anti-competitive, should be denied.

E. NEED FOR RECONCILIATION RIDER

RESA and Dominion contend that the RR is not needed because the over and/or under collection balances will be relatively small[28] and because shopping levels and the default service customer base have both stabilized. RESA and Dominion further contend that the RR is not needed because PPL Electric will obtain full recovery of the remaining over and/or under collection balances through the current reconciliation methodology.[29] In making these arguments, RESA and Dominion disregard the evidence of record and ignore the purpose of the RR.

RESA and Dominion disregard that PPL Electric has experienced and continues to experience significant over and under collection balances related to the TSC, GSC-1, and GSC-2,

---

[27] *See* PPL Electric Main Brief, Section V.C.4.a.

[28] RESA and Dominion are combining the over/under collection balances associated with the TSC and GSC. PPL Electric currently does not net the over and under collections of the respective GSC-1 and GSC-2 with the TSC reconciliations for each customer class.

[29] *See* RESA Exception No. 2; Dominion Exception No. 2.

and that PPL Electric has experienced a significant number of customers that have switched from default service to competitive supply.[30] Further, although PPL Electric is entitled by law to fully recover its costs of providing default service, it is undisputed that PPL Electric, to date, has not been able to recover/refund all of its default service costs in a full and timely manner. Based on these experiences,[31] PPL Electric is proposing the RR to provide a *new prospective* cost recovery mechanism to refund or recover the experienced net over and/or under collection balances incurred after the effective date of the RR, May 31, 2012.

PPL Electric acknowledges that at the present time the total number of shopping customers has stabilized.[32] However, this does not change the fact that customers will continue to switch between default service and shopping. This is precisely why the RR is appropriate. The RR attempts to align transmission service and generation supply costs with the customers who caused such costs to be incurred.[33]

PPL Electric also acknowledges that, prospectively, there may be reconciliation periods where the over and/or under collections for the applicable period are relatively small. However, the small balance argument against reconciliation was previously considered and rejected by the Commonwealth Court. *Pa. Power Co. v. Pa. PUC*, 932 A.2d 300, 307 (Pa. Cmwlth. 2007). Further, PPL Electric is proposing the RR to provide a new prospective cost recovery mechanism

---

[30] *See* PPL Electric Main Brief, Section V.B.1.

[31] Remarkably, RESA contends that PPL Electric's past experiences cannot be used to justify its future actions. *See* RESA Exceptions, p. 9. PPL Electric, the Commission, and RESA all routinely and appropriately rely on past experience as a basis for determining future actions. While not binding, "what's past is prologue," William Shakespeare, The Tempest, Act II, Scene 1, and "those who cannot remember the past are condemned to repeat it," George Santayana, The Life of Reason or The Phases of Human Progress: Reason In The Common Sense, 284 (Charles Scribner's Sons, New York, NY, 1924).

[32] RESA and Dominion seem to assume that the current level of shopping will not increase for residential customers. This is contrary to Commission policy and a number of initiatives currently proposed by Commission to increase shopping. *See Investigation of Pennsylvania's Retail Electricity Market: Recommendations Regarding Upcoming Default Service Plans*, Docket No. I-2011-2237952, Slip Op. p. 54 (December 16, 2011). *See also* Prepared Comments of Chairman Robert F. Powelson, before the Pennsylvania House of Representatives Consumer Affairs Committee August 2, 2011.

[33] *See* PPL Electric Main Brief, Section V.C.4.b.

to refund or recover the experienced net over and/or under collection balances, however large or small they may be.[34]

Based on the foregoing, and for the reasons more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of RESA (Exception No. 2) and Dominion (Exception No. 2), that the RR is not needed, should be denied.

F. CUSTOMER CONFUSION

OCA and RESA assert that the RR should not be approved because it will cause customer confusion. OCA argues that the RR poses significant educational challenges and could create customer confusion about default service, because it would be applied to some, but not all, default service customers and due to the frequent rate changes.[35] RESA asserts that, if the RR is approved, customers will have difficulty in determining whether the reconciliation impact will be a charge or credit and comparing "that full cost" to the prices offered by EGSs.[36] However, as explained in PPL Electric's Main Brief, PPL Electric believes that the RR will simplify the PTC and should be easy for customers to understand.

It must be noted that Commission-approved migration riders similar to the RR have been in place for many years. Clearly, if customer confusion was caused by the frequent changes in the applicability of these migration riders, it likely already would have been raised and addressed by the Commission.

The RR should make the PTC easier for customers to understand because it will remove from the PTC all balances arising from reconciliation of PPL Electric's default service rates and

---

[34] *See* PPL Electric Main Brief, Section V.C.4.b

[35] *See* OCA Exception No. 2.

[36] *See* RESA Exception No. 3.

will more accurately reflect the actual costs to acquire default service.[37] Customers will be able to more easily use that data to evaluate offers from competitive suppliers and make informed shopping decisions. Further, the application of the RR should be easy for customers to understand because it will be based on a customer's change in status. Finally, PPL Electric will provide customers with detailed education about the RR before it is implemented.[38]

The concerns of OCA and RESA regarding customer confusion are unwarranted and not supported by the record. For the reasons more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of OCA (Exception No. 2) and RESA (Exception No. 3), that the RR will cause customer confusion, should be denied.

G. TOU PROGRAM IS A DEFAULT SERVICE RATE OPTION

I&E, OCA, and RESA all take exception to the R.D.'s recommendation with respect to PPL Electric's TOU program. Specifically, I&E asserts that the Residential and Small C&I TOU program is not default service because the TOU program is optional and default service customers must elect to participate in the program. I&E analogizes the Residential and Small C&I TOU program with electing to take competitive supply from an EGS.[39] OCA contends that the TOU program is not a default service because it is established in a separate proceeding from a default service plan.[40] RESA contends that the TOU over and/or under collection balances cannot be recovered through the RR and CTR because only default service customers were

[37] RESA's argument is based on the incorrect premise that the E-Factor must be included in the PTC. As explained above, including the E-Factor in the PTC does not accurately reflect the actual costs to acquire default service for that month of service. *See* Section II.C, *supra*.

[38] *See* PPL Electric Main Brief, Section V.C.5.d.

[39] *See* I&E Exception No. 1. However, I&E takes no position on whether PPL Electric should be permitted to refund or recover the TOU program over and under collection balances through the RR and CTR.

[40] *See* OCA Exception No. 3. Notwithstanding, OCA argues that PPL Electric should be permitted to refund/recover the TOU program net historic over/under collections through the CTR.

eligible to participate in the program.[41] These arguments are without merit and should be rejected for the reasons that follow.

PPL Electric, as a default service provider, is required to offer a TOU program under Act No. 129. 66 Pa. C.S. § 2807(f)(5). However, an incumbent electric distribution company ("EDC"), such as PPL Electric, is only permitted to provide default supply services to customers. There is nothing in the Public Utility Code that authorizes the incumbent EDC to provide alternative or competitive supply to customers, *i.e.*, provide generation supply to shopping customers. To conclude, as I&E suggests, that the TOU program is an "alternative service," rather than default service, would imply that PPL Electric could offer its TOU program to all customers, including those outside its service territory, as an alternative competitive supply available to shopping customers.[42] If it did provide alternative generation service, PPL Electric would be in competition with EGSs. Such a result clearly was not intended by the General Assembly, and is very unlikely to be allowed by the Commission.

Default service is the provision of generation supply to customers that do not shop. That is exactly what TOU service is. It is one of two rate options offered by PPL Electric to *default service customers*. The TOU rate option simply is priced differently than the Fixed Price rate option. Clearly, the TOU program is a default service rate option that is provided by a default service provider. Indeed, the Commission recently confirmed that a TOU program is an element of default service under 66 Pa.C.S. § 2807(f)(5) provided by a default service provider, not a transmission or distribution rate option provided by an electric distribution company.[43] For these

---

[41] *See* RESA Exception No. 4.

[42] PPL Electric does not provide any alternative generation service, only default service.

[43] *See* PPL Electric Main Brief, Section V.C.6.a (citing *Petition of PECO Energy Company for Approval of its Initial Dynamic Pricing and Customer Acceptance Plan*, Docket No. M-2009-2123944, 2011 Pa. PUC LEXIS 5 at *32-33 (April 15, 2011)).

reasons, I&E's and OCA's argument that the TOU program is not default service should be rejected.

Customers can freely switch between default service and competitive supply at any time.[44] Shopping customers clearly can switch to default service and elect to take service under the TOU rate option or the Fixed Price rate option. TOU default service customers can elect to shop with an EGS. Indeed, it is likely that many former TOU default service customers are now taking service from an EGS. PPL St. 1-R, p. 31. PPL Electric as a default service provider is statutorily required to be ready, willing, and able to provide default service, including the TOU program. It is reasonable for all customers to pay for a portion of these default service costs. For these reasons, RESA's argument that it is improper to recover default service costs from customers who are now shopping because shopping customers did not cause the under collection is incorrect.

As explained above, PPL Electric's TOU program is a default service rate option and, therefore, the Company is entitled to recover these under collections. However, such recovery has been hampered by the fact that very few customers continue to take service under the TOU rate option. For these reasons, as more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of I&E (Exception No. 1), OCA (Exception No. 3), and RESA (Exception No. 4), that the TOU program is not a default service, should be denied.

H. INTEREST RATE

Although OSBA generally supports the RR, the OSBA asserts that the R.D. erred in not adopting OSBA's proposal to adjust the interest rate applied under the RR to over and/or under collection balances. Specifically, OSBA recommends that the interest rate on under collections

---

[44] Subject of course to any contract restrictions.

in the RR be set at an interest rate equivalent to what PPL Electric earns on short-term deposits, and that the interest rate in the RR on over collections also be set at approximately the short-term cost of capital. Alternatively, OSBA recommends that the interest rate in the RR paid by PPL Electric on over collections be based on a published bank prime lending rate, and that the interest rate in the RR earned by PPL Electric on under collections be set at 200 basis points below the prime bank lending rate.[45] OSBA acknowledges that the RR interest rates proposed by PPL Electric are consistent with the Commission's regulations. *See* 52 Pa. Code § 54.187(f). Nonetheless, OSBA requests a waiver from the Commission's regulations.[46]

OSBA's request for a waiver is premised on its concern that the interest rate set forth in the Commission's regulations "can distort incentives, create a potential windfall for DSPs, and distort competition."[47] However, as found by the R.D., other than OSBA's unsubstantiated concerns, there is absolutely no evidence of record to suggest that the interest rates set forth in the Commission's default service regulations have provided or will provide PPL Electric with the alleged incentive to under collect its default service costs. (R.D., p. 54.) Stated otherwise, there simply is no basis to support OSBA's proposal to single out and penalize PPL Electric with arbitrary interest rates through this petition proceeding, while allowing other default service providers to continue to use the interest rates set forth in the Commission's default service regulations. For the reasons, as more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of OSBA (Exception No. 1) should be denied.

---

[45] *See* OSBA Exception, p. 5.

[46] *See* OSBA Exception, p. 4.

[47] *See* OSBA Exception, p. 4.

I. ANNUAL RECONCILIATION OF GSC-1

RESA contends that the R.D. erred in recommending that the Commission approve PPL Electric's proposal to modify the provisions of the GSC-1 to permit annual reconciliation, rather than on a quarterly basis.[48] RESA argues that reconciliation on a yearly basis does not provide for recovery of costs on a current basis as required by the 66 Pa.C.S. § 2807(e)(7) and 52 Pa. Code § 54.187(a). RESA also asserts that annual reconciliation of the GSC-1 will send inaccurate price signals, and that PPL Electric has failed to provide a valid reason to change from quarterly to annual reconciliation.[49] RESA's contentions are without merit and should be rejected.

Section 2807(e) of the Public Utility Code provides that default service providers shall offer rates that "change no more frequently than on a quarterly basis."[50] Therefore, quarterly rate changes are the most frequent changes that can occur under Section 2807(e), and are not the statutory parameter for current cost recovery. Moreover, there is no provision of the Public Utility Code or the Commission's regulations that requires a quarterly reconciliation period to insure "current" recovery of costs.

Quarterly reconciliation adjustments can be substantially larger than annual reconciliation adjustments and can cause a much greater distortion in default service rates.[51] Further, the record evidence demonstrates that quarterly reconciliation of the GSC-1, together with the

[48] Although the GSC-1 would be reconciled annually under PPL Electric's proposal, the Company would continue to revise GSC-1 rates on a quarterly basis to reflect changes in the cost of purchasing default service supplies. Further, the Company has accepted the OSBA's recommendation that the RR be calculated and reconciled on a rolling 12-month annual basis. The annual reconciliation of the GSC-1 should reduce the volatility of the RR, reduce the number of calculations required, and reduce customer confusion. *See* PPL Electric Main Brief, Section V.B.5.

[49] *See* RESA Exception No. 6.

[50] Section 2807(e)(3.9) provides a default service provider with the "right" to recover its costs on a full and current basis under Section 1307(e) of the Public Utility Code. The vast majority of reconciliation mechanisms under Section 1307 reconcile costs on an annual basis.

[51] See PPL Electric Main Brief, Section V.B.5.

decreasing default service customer base, has caused continued rate instability for the GSC-1 rates.[52]

Changing the GSC-1 to an annual reconciliation basis will help to reduce the volatility of the RR. Indeed, the Commission recently issued an Order wherein it recognized that longer reconciliation periods may help smooth out over and/or under collections and also indicated that it would consider annual reconciliation periods in future proceedings. *Investigation of Pennsylvania's Retail Electricity Market: Recommendations Regarding Upcoming Default Service Plans*, Docket No. I-2011-2237952, Slip Op. p. 54 (December 16, 2011).

Finally, RESA's contention that annual reconciliation of the GSC-1 will send inaccurate price signals disregards the fact that the RR will not be included in the PTC under PPL Electric's proposals. As explained above, excluding the RR from the PTC will help eliminate the reconciliation distortions from the PTC and align it more closely with competitive market prices.

Based on the foregoing, and for the reasons more fully explained in the R.D. and PPL Electric's Main and Reply briefs, the exceptions of RESA (Exception No. 6) should be denied.

J. CTR FOR LARGE C&I CUSTOMER CLASS

PPLICA argues that the R.D. erred in not recommending that the Commission approve PPLICA's proposal to implement the CTR solely for the purpose of refunding historic transmission service over collections to Large C&I customers. In support, PPLICA argues that the net under collection for generation supply charges associated with Large C&I default service customers is attributable to customers remaining on default service after the expiration of generation rate caps, whereas the net over collection for transmission service charges associated with Large C&I default service customers is attributable to all Large C&I customers.[53]

---

[52] *See* PPL St. 1-R, p. 33; PPL St. 1-SR, p. 7; *see also* OSBA Hearing Exhibit No. 1.

[53] *See* PPLICA Exception No. 1.

In essence, PPLICA opposes 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. PPLICA is attempting to create a situation where its customers receive refunds for over collections, but are not required to pay under collections. As found by the R.D, this is two sides of the same coin and clearly unreasonable. (R.D., p. 30.) If the Commission approves a CTR, the CTR should apply to all balances, not just over collections.

PPLICA's recommendation is based on its unsupported contention that "almost all" Large C&I customers took competitive supply when the generation rate caps expired in December 31, 2009, and did not at all contribute to the net historic over and/or under collection balances associated with generation supply costs. PPLICA's argument turns logic on its head. If all existing Large C&I shopping customers have taken default service since the generation rate caps expired on December 31, 2009, as PPLICA contends, there would not be a Large C&I net over and/or under collection balance related to generation supply costs.

Prior to the expiration of generation rate caps, shopping was almost non-existent on PPL Electric's system. Although the customers may now be shopping customers, many of these customers were still default service customers when these historic costs arose. PPL St. 1-R, p. 24. Further, there may be Large C&I customers that were on default service at one point in time, contributed to the over and/or under collection during that period, and then became a shopping customer. The over and/or under collections created during that period will be netted with the over and/or under collection balances that will be recovered or refunded through the CTR. These Large C&I 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.

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/or under collection balances incurred for transmission service and generation supply service prior to the effective date of the RR. As explained in PPL Electric's Exceptions, 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.

For the reasons explained in its Exceptions, PPL Electric believes that the R.D. erred in not recommending that the Commission approve the CTR, in particular for the Large C&I customer class. However, for the reasons explained above, as well as the R.D. and PPL Electric's Main and Reply Briefs, to the extent that the Commission approves the CTR, the Commission should reject PPLICA's proposal and approve PPL Electric's proposal to net the over and/or under collections of the respective GSC-1 and GSC-2 with the TSC for each customer class, including the Large C&I customer class.[54]

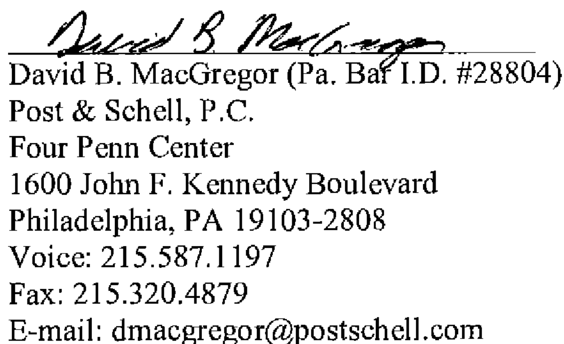
---

[54] *See* PPL Electric Main Brief, Section V.B.5; PPL Electric Reply Brief, Section III.F.

III. CONCLUSION

WHEREFORE, for the reasons explained above, as well as those set forth in the Recommended Decision, the Pennsylvania Public Utility Commission should deny the Exceptions filed by I&E, OCA, OSBA, RESA, Dominion, and PPLICA, and should adopt the Exceptions filed by PPL Electric and revise the Recommended Decision accordingly.

Respectfully submitted,



David B. MacGregor (Pa. Bar I.D. #28804)
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Voice: 215.587.1197
Fax: 215.320.4879
E-mail: dmacgregor@postschell.com

Anthony D. Kanagy (Pa. Bar ID #85522)
Christopher T. Wright (Pa. Bar ID #203412)
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
Voice: 717.731.1970
Fax: 717.731.1985
E-mail: akanagy@postschell.com
E-mail: cwright@postschell.com

Attorneys for PPL Electric Utilities Corporation

Paul E. Russell (Pa. Bar I.D. #21643)
Associate General Counsel
PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101
Voice: 610.774.4254
Fax: 610.774.6726
E-mail: perussell@pplweb.com

Of Counsel:

Post & Schell, P.C.

Dated: May 4, 2012