



COMMONWEALTH OF PENNSYLVANIA

November 5, 2013

**E-FILED**

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

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**Re: Pennsylvania Public Utility Commission v. PPL Electric Utilities  
Corporation  
Docket No. C-2013-2367475**

Dear Secretary Chiavetta:

Enclosed for e-filing in the above-captioned matter is a Joint Petition for Settlement.

As evidenced by the enclosed certificate of service, copies of the Joint Petition are being served upon the presiding Administrative Law Judge and all active parties.

Sincerely,

A handwritten signature in cursive script that reads "Elizabeth Rose Triscari".

Elizabeth Rose Triscari  
Assistant Small Business Advocate  
Attorney ID No. 306921

Enclosure

cc: Parties of Record

Robert D. Knecht

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Pennsylvania Public Utility Commission** :  
v. : **Docket No. C-2013-2367475**  
**PPL Electric Utilities Corporation** :

**CERTIFICATE OF SERVICE**

I certify that I am serving two copies of the Joint Petition for Settlement, on behalf of the Office of Small Business Advocate, by e-filing, e-mail, and/or first-class mail (unless otherwise noted) upon the persons addressed below:

Hon. David Salapa  
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Pa. Public Utility Commission  
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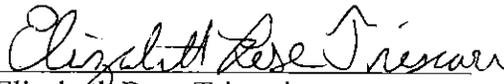
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Elizabeth Rose Triscari  
Assistant Small Business Advocate  
Attorney ID No. 306921

Date: November 5, 2013

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA OFFICE OF SMALL BUSINESS ADVOCATE</b>	:	
	:	
	:	
v.	:	<b>DOCKET NO. C-2013-2367475</b>
	:	
<b>PPL ELECTRIC UTILITIES CORPORATION</b>	:	

**JOINT PETITION FOR SETTLEMENT**

**TO THE HONORABLE DAVID A. SALAPA, ADMINISTRATIVE LAW JUDGE:**

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”), the Office of Small Business Advocate (“OSBA”), and the Office of Consumer Advocate (“OCA”) (collectively, the “Joint Petitioners”) respectfully submit this Joint Petition for Settlement (“Joint Petition”) and request that the Administrative Law Judge (“ALJ”): (1) approve the settlement of this proceeding as set forth in this Joint Petition (the “Settlement”) without modification; and (2) recommend that the Commission adopt the Settlement. The Joint Petitioners have agreed to a settlement that resolves all issues among the parties to the above-captioned proceeding, with respect to PPL Electric's Generation Supply Charge-1 (“GSC-1”).

In support of their request, the Joint Petitioners state as follows:

**I. BACKGROUND**

1. On May 17, 2013, PPL Electric filed the Generation Supply Charge-1 Reconciliation Report (“GSC-1 Reconciliation Report”) for the period May 1, 2012, through April 30, 2013, pursuant to the procedures set forth in PPL Electric’s Tariff – Electric Pa. P.U.C. No. 201. The GSC-1 Reconciliation Report was docketed at M-2013-2365092.

2. The OSBA filed a formal complaint on June 6, 2013, alleging that the GSC-1 reconciliation mechanism has resulted in high and unstable rates for Small Commercial and Industrial – Fixed (“Small C&I”) customers. The OSBA’s complaint was docketed at C-2013-2367475.

3. On June 24, 2013, the Office of Consumer Advocate (“OCA”) filed a Notice of Intervention.

4. Administrative Law Judge (“ALJ”) David A. Salapa entered a Prehearing Conference Order on June 28, 2013, scheduling a prehearing conference on this proceeding for July 9, 2013. A Prehearing Conference was held on July 9, 2013.<sup>1</sup> Prehearing conference memoranda were submitted by OSBA, OCA and PPL Electric. At the prehearing conference, the ALJ established the litigation schedule.

5. In accordance with the litigation schedule, on August 16, 2013, the OSBA submitted OSBA Statement No. 1, the Direct Testimony and Exhibits of Robert D. Knecht. On September 6, 2013, PPL Electric submitted PPL Electric Statement No. 1-R, the Rebuttal Testimony of Bethany Johnson and PPL Electric Statement No. 2-R, the Rebuttal Testimony of James M. Rouland. On October 1, 2013, the OSBA submitted OSBA Statement No. 2, the Surrebuttal Testimony and Exhibits of Robert D. Knecht.

6. A significant amount of information was supplied by PPL Electric both formally in response to interrogatories as well as informally throughout the procedural schedule. The

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<sup>1</sup> Immediately prior to the Prehearing Conference, an initial hearing was held on the related Docket No. M-2013-2365092. By Order entered on September 26, 2013, at Docket M-2013-2365092, the Commission accepted the GSC-1 Reconciliation Report. The Order stated that such acceptance is “expressly subject to such further review and revision as may be found necessary as the result of a subsequent Commission audit” and “shall not constitute approval of either the accuracy of the reported figures or the reasonableness of the underlying transactions.”

OSBA and PPL Electric engaged in extensive settlement discussions which led to a settlement of all issues.

7. At the request of the Joint Petitioners, the ALJ cancelled the evidentiary hearings scheduled for October 9-10, 2013.

8. The Joint Petitioners have stipulated to the authenticity of their respective statements and exhibits and are filing a motion for admission of such statements and exhibits into the record contemporaneously with the Joint Petition.

9. The Terms and Conditions of the Settlement are set forth in the following Section II.

**II. SETTLEMENT TERMS AND CONDITIONS**

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10. The following terms of this Settlement reflect a carefully balanced compromise of the interests of all the Joint Petitioners in this proceeding. The Joint Petitioners unanimously agree that the Settlement is in the public interest. The Joint Petitioners respectfully request that the Settlement be approved as specified below:

11. PPL Electric will review its Residential and Small C&I GSC-1 cost forecasting procedures and modify them as necessary so that the Company's GSC<sub>fp</sub> costs (as defined in PPL Electric Tariff) fully reflect the estimated costs associated with distribution line losses.

12. PPL Electric will confirm that it is crediting Small C&I net metering generation against the Company's Small C&I load obligation in its forecasting model, and that its actual Small C&I net metering generation properly offsets its actual Small C&I kWh purchases and costs.

13. PPL Electric will continue to monitor the operation of its GSC-1 and will continue to evaluate means to improve the operation of the GSC-1, as necessary to improve the accuracy of its forecasts.

14. PPL Electric will work with the OSBA and OCA to identify and provide information relative to the actual costs incurred by the Company and reflected in the Company's quarterly and/or annual GSC-1 filings to enable the OSBA and OCA to evaluate PPL Electric's cost forecast and the operation of the Company's GSC-1, including, where practical, the following:

a. Reconciliation Filings:

- 1) Actual monthly kWh purchased under full requirements contracts;
- 2) ~~Actual monthly costs incurred under full requirements contracts;~~
- 3) Any other costs included in the "Energy Procurement" line item in the report;
- 4) Actual monthly kWh obtained from net generation suppliers;
- 5) Accrued costs (if any) associated with kWh obtained from net generation suppliers;
- 6) Billed kWh, segregated if possible between kWh billed at prior quarter GSC-1 and current quarter GSC-1.

b. GSC-1 Quarterly Rate-setting Filings -- monthly detail for:

- 1) Forecast purchased kWh for full requirements contracts;
- 2) Forecast full requirements contract costs;
- 3) Forecast billing kWh;
- 4) Forecast net metered kWh purchases;
- 5) Forecast accrued costs for net metered purchases.

The Parties will monitor and assess the continuing need to provide this information.

### **III. PUBLIC INTEREST CONSIDERATIONS**

15. This Settlement reduces the administrative burdens on the Commission and avoids any extensive litigation expenditures because it resolves all of the issues in this proceeding without administrative adjudication.

16. The OSBA, OCA and PPL Electric are in full agreement and respectfully submit that expeditious Commission adoption of the Settlement is in the best interests of all parties and PPL Electric's customers.

17. The Joint Petitioners have each prepared, and attach to this Joint Petition, Statements in Support identified as Appendices A through C, respectively, setting forth the bases upon which they believe that the Settlement is fair, just, reasonable, non-discriminatory, lawful and in the public interest.

#### **IV. ADDITIONAL TERMS AND CONDITIONS**

18. This Settlement is proposed by the Joint Petitioners to settle the instant case and is made without any admission against, or prejudice to, any position which any Joint Petitioner might adopt during subsequent litigation, including further litigation of this case.

19. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission should disapprove the Settlement or modify the terms and conditions herein, this Settlement may be withdrawn upon written notice to the Commission and all active parties within three business days following entry of the Commission's Order by any of the Joint Petitioners and, in such event, shall be of no force and effect.

20. The Settlement is proposed by the Joint Petitioners to settle all issues in the instant proceeding. If the Commission disapproves the Settlement or the Company or any other Joint Petitioner elects to withdraw as provided above, the Joint Petitioners reserve their respective rights to fully litigate this case, including but not limited to presentation of witnesses, cross-examination and legal argument through submission of Briefs, Exceptions and Replies to Exceptions.

21. The Joint Petition does not establish precedent and neither the Joint Petition nor Commission approval of the Joint Petition shall be cited in other proceedings.

22. The Commission's approval of the Settlement shall not be construed to represent approval of any Joint Petitioner's position on any issue, except to the extent required to effectuate the terms and agreements of the Settlement in these and future proceedings involving PPL Electric.

23. If the ALJ, in his Recommended Decision, recommends that the Commission adopt the Settlement as herein proposed, the Joint Petitioners agree to waive the filing of Exceptions. However, the Joint Petitioners do not waive their rights to file Exceptions with respect to any modifications to the terms and conditions of this Settlement, or any additional matters proposed by the ALJ in his Recommended Decision. The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed.

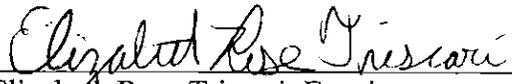
**V. CONCLUSION**

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

1. That the Commission approve this Settlement including all terms and conditions herein; and
2. That the Commission enter an Order consistent with this Settlement.

Respectfully submitted,

Dated: November 5, 2013

  
Elizabeth Rose Triscari, Esquire

*Counsel for Office of Small Business Advocate*

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Aron J. Beatty, Esquire

*Counsel for Office of Consumer Advocate*

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David B. MacGregor, Esquire

Andrew S. Tubbs, Esquire

Paul E. Russell, Esquire

*Counsel for PPL Electric Utilities Corporation*

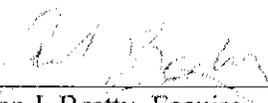
Respectfully submitted,

Dated: November 5, 2013

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Elizabeth Rose Triscari, Esquire

*Counsel for Office of Small Business Advocate*



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Aron J. Beatty, Esquire

*Counsel for Office of Consumer Advocate*

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David B. MacGregor, Esquire

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Andrew S. Tubbs, Esquire

Paul E. Russell, Esquire

*Counsel for PPL Electric Utilities Corporation*

Respectfully submitted,

Dated: November 5, 2013

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Elizabeth Rose Triscari, Esquire

*Counsel for Office of Small Business Advocate*

---

Aron J. Beatty, Esquire

*Counsel for Office of Consumer Advocate*

---



David B. MacGregor, Esquire

Andrew S. Tubbs, Esquire

Paul E. Russell, Esquire

*Counsel for PPL Electric Utilities Corporation*

## **APPENDIX A**

**Office of Small Business Advocate**

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**Statement in Support**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA OFFICE OF SMALL BUSINESS ADVOCATE</b>	:	
	:	
v.	:	<b>DOCKET NO. C-2013-2367475</b>
	:	
<b>PPL ELECTRIC UTILITIES CORPORATION</b>	:	
	:	

**STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE  
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

**I. INTRODUCTION**

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The Small Business Advocate is authorized and directed to represent the interests of small business consumers in proceedings before the Pennsylvania Public Utility Commission (“Commission”) under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50.

**II. PROCEDURAL BACKGROUND**

On May 17, 2013, PPL Electric filed the Generation Supply Charge-1 Reconciliation Report (“GSC-1 Reconciliation Report”) for the period May 1, 2012, through April 30, 2013, pursuant to the procedures set forth in PPL Electric’s Tariff – Electric Pa. P.U.C. No. 201. The GSC-1 Reconciliation Report was docketed at M-2013-2365092.

The Office of Small Business Advocate (“OSBA”) filed a formal Complaint on June 6, 2013, which was docketed at C-2013-2367475. The Complaint alleges that PPL Electric’s GSC-1 reconciliation mechanism has resulted in high and unstable rates for Small Commercial and Industrial – Fixed (“Small C&I”) customers that cannot be explained by the limited data provided in the GSC-1 Reconciliation Report. The Complaint requested the following relief: (1)

require PPL Electric to provide a detailed explanation as to why actual Small C&I costs so far exceeded expectations during the Reconciliation Period; (2) direct PPL Electric to evaluate its cost forecasting procedures to identify improvements that can be made to reduce the high error level related to Small C&I default service costs; (3) direct the Bureau of Audits to carefully evaluate whether PPL Electric's assignment of costs to Small C&I customers for the Reconciliation Period is reasonable, and if found to be unreasonable, order appropriate refunds; and (4) grant such other relief as may be necessary or appropriate.

On June 24, 2013, the Office of Consumer Advocate ("OCA") filed a Notice of Intervention.

Administrative Law Judge ("ALJ") David A. Salapa entered a Prehearing Conference Order on June 28, 2013, scheduling a prehearing conference on this proceeding for July 9, 2013. A Prehearing Conference was held on July 9, 2013.<sup>1</sup> Prehearing conference memoranda were submitted by OSBA, OCA and PPL Electric. At the prehearing conference, the ALJ established the litigation schedule.

In accordance with the litigation schedule, on August 16, 2013, the OSBA submitted OSBA Statement No. 1, the Direct Testimony and Exhibits of Robert D. Knecht. On September 6, 2013, PPL Electric submitted PPL Electric Statement No. 1-R, the Rebuttal Testimony of Bethany Johnson and PPL Electric Statement No. 2-R, the Rebuttal Testimony of James M. Rouland. On October 1, 2013, the OSBA submitted OSBA Statement No. 2, the Surrebuttal Testimony and Exhibits of Robert D. Knecht.

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<sup>1</sup> Immediately prior to the Prehearing Conference, an initial hearing was held on the related Docket No. M-2013-2365092. By Order entered on September 26, 2013, at Docket M-2013-2365092, the Commission accepted the GSC-1 Reconciliation Report. The Order stated that such acceptance is "expressly subject to such further review and revision as may be found necessary as the result of a subsequent Commission audit" and "shall not constitute approval of either the accuracy of the reported figures or the reasonableness of the underlying transactions."

A significant amount of information was supplied by PPL Electric both formally in response to interrogatories as well as informally throughout the procedural schedule. The OSBA, OCA, and PPL Electric engaged in extensive settlement discussions which led to a settlement of all issues (the "Settlement").

At the request of the Joint Petitioners, the ALJ cancelled the evidentiary hearings scheduled for October 9-10, 2013.

The Joint Petitioners have stipulated to the authenticity of their respective statements and exhibits and are filing a motion for admission of such statements and exhibits into the record contemporaneously with the Joint Petition.

The OSBA is a signatory to the Joint Petition for Settlement ("Joint Petition") and submits this statement in support of the Joint Petition.

### **III. STATEMENT IN SUPPORT**

PPL Electric purchases electric power and transmission services on behalf of its default service customers. The electric power costs are recovered from Residential and Small C&I customers through a reconcilable tariff mechanism called the Generation Supply Charge-1 or GSC-1.<sup>2</sup>

As OSBA witness Robert D. Knecht explains in his Direct Testimony, for each rate class, the GSC-1 charge is a flat per-kWh charge, consisting of a "C-Factor" component and an "E-Factor" component.<sup>3</sup> The C-Factor represents the Company's forecast for per-kWh electric

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<sup>2</sup> For 2010, the charge mechanism was denoted "GSC." For Residential and Small C&I customers, it is now called GSC-1. Large C&I default service customers are served under GSC-2.

<sup>3</sup> OSBA Statement No. 1 at 1. The GSC-1 also contains a small Merchant Function Charge ("MFC") component, designed to recover uncollectibles costs associated with the GSC-1, and all components of the GSC-1 are subject to Pennsylvania Gross Receipts Tax ("GRT").

power costs for the quarter to which the charge applies.<sup>4</sup> The E-Factor is the reconciliation component of the GSC-1, and it is designed to recover/refund net prior period under-/over-recoveries over a three-month period.<sup>5</sup> The E-Factor contains a one month lag. Thus, for example, the E-Factor for the June to August quarter is based on the net under- or over-recovery position at the end of April.<sup>6</sup>

PPL Electric has generally forecast that the cost to provide service to Residential Fixed (“Residential”) and Small C&I customers would be reasonably similar in magnitude, as well as being reasonably stable from quarter to quarter.<sup>7</sup> E-Factor charges for Residential customers have been relatively low and relatively stable over the past 2-½ years, with changes generally below 1 cent per kWh from quarter to quarter.<sup>8</sup> In contrast, however, the Small C&I E-Factor charge has varied widely from quarter to quarter, with swings of more than 3 cents per kWh.<sup>9</sup>

Moreover, the Small C&I E-Factor had generally been a substantial charge in that period, meaning that PPL Electric was generally under-recovering its reported costs with its C-Factor charge.<sup>10</sup> Between June 2012 and May 2013, the total E-Factor billings to Small C&I customers came to over \$21.8 million (before GRT), or 1.35 cents per kWh.<sup>11</sup> Thus, even with the E-Factor

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<sup>4</sup> OSBA Statement No. 1 at 1.

<sup>5</sup> *Id.* at 2.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

credit in the last quarter, the E-Factor represented, on average, a nearly 20 percent markup above the C-Factor charge revenues over the past 12 months.<sup>12</sup>

The OSBA commenced this proceeding in order to obtain an explanation for these high variances and consistent cost under-recoveries for the Small C&I customers, especially as compared to the relatively stable Residential E-Factor. Through testimony, informal and formal discovery, and settlement discussions, PPL Electric was able to offer additional information that provided a reasonable explanation for the E-Factor variability, as well as a significant amount of the under-recovery of costs.

Specifically, in Rebuttal Testimony the Company identified primary factors causing the variability of the E-Factor, including the effect of actual versus forecast sales, accounting treatment of net-metering customers, billing versus calendar month differences, the lag in calculating the E-Factor, pro-rations of bills (unbilled revenues), and quarterly reconciliation.<sup>13</sup>

However, the OSBA was not only concerned about the variability of the E-Factor. Its primary concern was the substantial and consistent under-recovery of forecast costs from Small C&I customers in the 2012-2013 period. Of the factors that PPL Electric identified as contributing to E-Factor volatility, only the accounting of purchases from netback generators could contribute to the large and consistent under-collection from Small C&I customers over this period.

Through subsequent discovery and discussions, PPL Electric identified certain additional factors that contributed to the cost under-forecast. In particular, it appears that PPL Electric's cost forecast did not include making an adjustment to wholesale power purchase prices for distribution losses. In addition, it appears that the spot market price forecasting variances also

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<sup>12</sup> OSBA Statement No. 1 at 2-3.

<sup>13</sup> PPL Electric Statement 1-R at 4.

contributed to the under-recoveries. The Settlement addresses these issues, as PPL Electric has committed to carefully evaluate its cost forecasting policies, and make corrections where necessary.

The OSBA determines that the Settlement is in the best interests of PPL Electric's Small C&I customers because this proceeding has satisfied the OSBA's goal of explaining the reasons for past under-recoveries. Identifying such factors allows for PPL Electric to review and modify its forecasting in connection with reconciliation of the GSC-1, such as fully reflecting the estimated costs associated with distribution line losses.<sup>14</sup> Any such modifications aim to decrease variability in the GSC-1 rates for Small C&I customers in the future. Other factors, such as spot market forecast errors are no longer a concern because PPL Electric's current procurement plan does not include spot market purchases for Small C&I customers. The Settlement also provides for additional monitoring and evaluation of the operation of the GSC-1 for accuracy of forecasts.<sup>15</sup> Furthermore, the Settlement provides for ongoing communication between PPL Electric and the statutory advocates with respect to reconciliation of the GSC-1.<sup>16</sup> The additional information agreed to be provided by the Company will allow the OSBA and other parties to better evaluate individual reconciliation submissions and more quickly identify anomalies of the type that contributed to the problems in 2012-2013.

Moreover, acceptance of the Settlement avoids the litigation of complex issues and saves the possibly significant costs of further administrative and appellate proceedings. Such costs are borne not only by the Joint Petitioners, but ultimately by the Company's customers as well. Avoiding further litigation of this matter will serve judicial efficiency, and will allow the OSBA

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<sup>14</sup> Joint Petition at 3, ¶11.

<sup>15</sup> Id. at 3, ¶13.

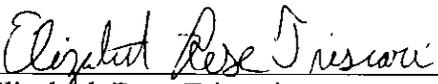
<sup>16</sup> Id. at 4, ¶14.

to more efficiently employ its resources in other areas. Therefore, the OSBA determines that the Settlement is in the best interest of PPL Electric's Small C&I customers.

**IV. CONCLUSION**

For the reasons set forth in the Joint Petition, as well as the additional factors enumerated in this statement, the OSBA supports the proposed Joint Petition and respectfully requests that ALJ Salapa and the Commission approve the Joint Petition in its entirety without modification.

Respectfully submitted,

  
Elizabeth Rose Triscari  
Assistant Small Business Advocate  
Attorney ID No. 306921

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For:  
John R. Evans  
Small Business Advocate

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

Dated: November 5, 2013

## **APPENDIX B**

**Office of Consumer Advocate**

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**Statement in Support**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Office of Small	:	
Business Advocate	:	
v.	:	C-2013-2367475
PPL Electric Utilities	:	
Corporation	:	

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STATEMENT IN SUPPORT OF SETTLEMENT  
OF THE OFFICE OF CONSUMER ADVOCATE

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The Office of Consumer Advocate (OCA), a signatory party to the Joint Petition for Settlement in the above-captioned proceeding, respectfully requests that the terms and conditions of the Settlement be approved by the Administrative Law Judge (ALJ) and the Pennsylvania Public Utility Commission (Commission). The OCA submits that the proposed Settlement is in the public interest and in the interests of the customers of PPL Electric Utilities Corporation (PPL or Company).

I. INTRODUCTION

This case arises from PPL's Generation Supply Charge-1 reconciliation filing on May 17, 2013 docketed at M-2013-2365092. The Office of Small Business Advocate (OSBA) filed a Formal Complaint on June 6, 2013, raising concerns that the GSC-1 had produced unreasonably volatile generation rates for small business customers. Of note to the OCA, the OSBA's complaint alleged that residential rates were not subject to the same volatility through the reconciliation process that had impacted small business customers.

The OCA filed a Notice of intervention in this proceeding on June 24, 2013. Administrative Law Judge (ALJ) David A. Salapa conducted a Prehearing Conference on July 9,

2013, at which time a litigation schedule was established. Testimony was submitted by both OSBA and PPL. The OSBA and PPL engaged in extensive settlement negotiations and reached a comprehensive settlement. Upon reviewing the agreement, the OCA entered into negotiations with the Company and OSBA to address provisions that impacted residential GSC-1 rates. The parties reached a unanimous settlement that, the OCA submits, is in the public interest.

## II. SETTLEMENT PROVISIONS

Under the Settlement, PPL will continue to monitor the operation of its GSC-1 and will continue to evaluate means to improve the operation of the GSC-1, as necessary, to improve the accuracy of its cost forecasts. Settlement at ¶13. More specifically, PPL will improve its GSC-1 cost projections as follows:

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11. PPL Electric will review its Residential and Small C&I GSC-1 cost forecasting procedures and modify them as necessary so that the Company's GSCfp costs (as defined in PPL Electric Tariff) fully reflect the estimated costs associated with distribution line losses.

Settlement at ¶11.

The OCA submits that the movement of distribution line loss costs into the projection of generation costs (rather than fully recovering those costs solely through future reconciliations) is an incremental improvement to setting default service generation rates. The OCA supports this change in cost forecasting to the extent that it improves the accuracy of default service rates for all customers.

In addition, the Settlement provides both the OCA and the OSBA with actual cost information that impacts the Company's GSC-1 filing. This information will, as described in Paragraph 14 of the Settlement, "enable the OSBA and OCA to evaluate PPL Electric's cost forecast and the operation of the Company's GSC-1." Settlement at ¶14. The OCA submits that

regular access to cost data will allow the parties greater opportunity to recognize and rectify areas where future improvements may be needed.

### III. CONCLUSION

The OCA submits that the Joint Petition for Settlement is in the public interest and in the best interest of PPL's residential ratepayers.

Respectfully Submitted,



Aron J. Beatty  
Assistant Consumer Advocate  
PA Attorney I.D. # 86625  
E-Mail: ABeatty@paoca.org

Counsel for:  
Tanya J. McCloskey  
Acting Consumer Advocate

Office of Consumer Advocate  
555 Walnut Street 5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152

November 1, 2013  
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## **APPENDIX C**

**PPL Electric Utilities Corporation**

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**Statement in Support**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Office of Small Business Advocate	:	
	:	
v.	:	Docket No. C-2013-2367475
	:	
PPL Electric Utilities Corporation	:	

**PPL ELECTRIC UTILITIES CORPORATION'S  
STATEMENT IN SUPPORT OF  
JOINT PETITION FOR SETTLEMENT**

TO THE HONORABLE ADMINISTRATIVE LAW JUDGE DAVID A. SALAPA:

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PPL Electric Utilities Corporation ("PPL Electric") hereby submits this Statement in Support of the Joint Petition for Settlement ("Settlement") entered into by PPL Electric, the Office of Small Business Advocate ("OSBA"), and the Office of Consumer Advocate ("OCA"), parties to the above-captioned proceeding (hereinafter collectively referred to as the "Joint Petitioners"). The Settlement, if approved, will resolve all issues raised by the Joint Petitioners in this proceeding, and reflects a fair and reasonable resolution of the issues raised by the OSBA complaint. For the reasons set forth below, the Settlement is just and reasonable and should be approved without modification.

**I. INTRODUCTION**

PPL Electric provides electric distribution, transmission and provider of last resort services to approximately 1.4 million customers in a certificated service territory that spans approximately 10,000 square miles in all or portions of 29 counties in eastern and central

Pennsylvania. PPL Electric is a “public utility” and an “electric distribution company” as those terms are defined under the Public Utility Code, 66 Pa. C.S. §§ 102 and 2803.

On May 17, 2013, pursuant to the procedures set forth in its Tariff – Electric Pa. No. 201, PPL Electric filed its Generation Supply Charge-1 Reconciliation Report (“GSC-1 Reconciliation Report”) for the Period May 1, 2012 through April 30, 2013. The Pennsylvania Public Utility Commission (the “Commission”) docketed the filing at Docket No. M-2013-2365092.

On June 6, 2013, the OSBA filed the above-captioned Complaint, alleging that PPL Electric’s GSC-1 reconciliation mechanism has resulted in high and volatile rates for Small Commercial and Industrial (“Small C&I”) customers, particularly as compared to the operation of the GSC-1 for residential customers. The OCA filed a Notice of Intervention on June 24, 2013.

On June 28, 2013, Administrative Law Judge (“ALJ”) David A. Salapa entered a Prehearing Conference Order, scheduling a prehearing conference for July 9, 2013. A Prehearing Conference was held on July 9, 2013, where the ALJ established a procedural schedule.<sup>1</sup>

In accordance with that procedural schedule, on August 16, 2013, the OSBA submitted the Direct Testimony and Exhibits of Robert D. Knecht, OSBA St. 1. On September 6, 2013, PPL Electric submitted the Rebuttal Testimony of Bethany L. Johnson (PPL Electric St. 1-R) and the Rebuttal Testimony of James M. Rouland. (PPL Electric St. 2-R) On October 1, 2013, the OSBA submitted the Surrebuttal Testimony and Exhibits of Robert D. Knecht. (OSBA St. 1-S)

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<sup>1</sup> Prior to the prehearing conference, an initial hearing was held relative the Company's GSC-1 Reconciliation Report. By Order entered on September 26, 2013, the Commission accepted the GSC-1 Reconciliation Report. *PPL Electric Utilities Corporation's Generation Supply Charge Reconciliation report for the Period May 1, 2012 through April 30, 2013*, Docket No. M-2013-2365092 (Order entered September 26, 2013).

The Joint Petitioners held several settlement conferences and exchanged settlement proposals and counter-proposals. These efforts resulted in a settlement in principle of all issues shortly before the start of evidentiary hearings.

As explained in detail below, the Settlement provides for certain modifications to the process for setting and reconciling GSC-1 rates and provides for ongoing monitoring of the GSC-1 ratesetting process.

## **II. COMMISSION POLICY FAVORS SETTLEMENT**

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and, at the same time, conserve administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401. In order to approve a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. P.U.C. v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. P.U.C. v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). For the reasons set forth in this Statement in Support of Settlement, PPL Electric believes that the Settlement is just, reasonable, and in the public interest, and therefore should be approved without modification.

## **III. THE SETTLEMENT IS IN THE PUBLIC INTEREST**

This Settlement was achieved by the Joint Petitioners after an extensive investigation of the operation of PPL Electric's GSC-1, including informal and formal discovery and the distribution of direct, rebuttal and surrebuttal testimony. The Settlement reflects a fair and reasonable compromise of the Joint Petitioners' interests in this proceeding. Approval of the Settlement is in the public interest because it addresses the concerns raised by the OSBA in its

complaint by implementing improved forecasting measures and establishing an ongoing process for the Joint Petitioners to review and potentially improve the operation of the Company's GSC-1. The fact that the Joint Petitioners have reached an agreement on the issues in this proceeding indicates that the Settlement is in the public interest and should be approved. Further, approval of this Settlement will reduce the administrative burdens on the Commission and avoid litigation expenditures because it resolves all of the issues in this proceeding without the need for a formal administrative adjudication.

#### **1. OSBA's GSC-1 Complaint**

PPL Electric's GSC-1 is a Section 1307 cost recovery mechanism that provides for annual reconciliation of any over or under collection of the Company's actual costs incurred to acquire generation supply on behalf of the Company's Residential and Small C&I customers who have not selected an alternate generation provider. (PPL Electric Statement 1-R, p. 2) The GSC-1 E-factor, like other Section 1307 cost recovery mechanisms, has two primary components. The first, the C-factor, is a projection of costs for the application period. The second, the E-factor, provides for the refund or recovery of prior period over/under collections. The GSC-1 is separately calculated for Residential and Small C&I customers. (PPL Electric Statement 1, p. 2)

The OSBA Complaint raised two concerns with the operation of the Company's GSC-1 relative to the Small C&I customer class: (1) the GSC-1 E-factor for the Small C&I class has varied widely from quarter to quarter, whereas the GSC-1 E-factor for the Residential class has been relatively stable (OSBA Statement 1, pp. 2-3); and (2) the actual costs per kWh in the Company's reconciliation filings appear to substantially exceed the forecasted costs per kWh in the GSC-1 rate-setting filings, resulting in substantial cost under-recoveries and higher E-factor charges. (OSBA Statement 1, p. 5)

In its rebuttal testimony, PPL Electric identified several factors that have contributed to volatility in the operation of the Company's GSC-1 during the June 2012-May 2013 application period, including: (1) the effect of actual versus forecast sales; (2) treatment of net metering; (3) billing vs. calendar month differences; (4) pro-ration of bills; (5) differences in actual versus spot market purchase prices; (6) unbilled revenues; and (7) quarterly rate changes and reconciliation of GSC-1. (PPL Electric Statement 1-R, pp. 4-7) Through its rebuttal testimony, PPL Electric detailed how these factors contributed to the volatility of the Company's GSC-1. (PPL Electric Statement 1-R, pp. 5-7; PPL Electric Statement 2-R, pp. 3-6)

In its surrebuttal testimony, the OSBA acknowledged that these factors could potentially impact the volatility the GSC-1 E-factor. (OSBA Statement 2, p. 1) However, the OSBA stated that, with the exception of net generation, these factors did not address its primary concern – the Company's under-recovery of costs in the 2012-2013 reconciliation period. (OSBA Statement 2, p. 2) As detailed below, the Settlement specifically addresses the experienced volatility of the GSC-1 E-factor associated with net metering and also adopts revisions relating to the forecast of distribution lines losses. As explained below, each of these revisions is designed to reduce the historic level of undercollections of GSC-1 costs.

## **2. Small C&I Net Generation**

As explained by PPL Electric witness Johnson, quarterly reconciliation of the GSC-1 will inevitably result in some variation in the GSC-1 E-factor. However, the Company's recent revision to the treatment of net metering costs, as affirmed by the Settlement, will reduce the level of variability prospectively. (PPL Electric Statement 1-R, p. 7)

PPL Electric, as an electric distribution company, is required to purchase excess generation from its net metering customers. The Company purchases the excess generation at the Company's Price To Compare ("PTC"). (PPL Electric Statement 1, p. 13) Net-metering

customers' account balances are adjusted monthly to reflect monthly usage and generation. PPL Electric pays net-metering customers annually (each May) for any net excess generation over the prior 12-month period. (PPL Electric Statement 1-R, p. 12) These payments are reflected as expense for the corresponding default service customer class, and the excess generation is credited against the amount of default service supply that otherwise would have been purchased for that group. (*Id.*)

Historically, PPL Electric reflected the net-metering cashout payments as a GSC-1 expense at the time payment was made, i.e., May/June annually. However, this approach resulted in an undercollection in the next quarterly reconciliation period. The impact of this approach has been exacerbated by an increase in the number of Small C&I net metering customers and the generally declining number of Small C&I default service customers. (PPL Electric Statement 1-R, p. 12) To address this issue, PPL Electric revised its procedures and, in September 2013, the Company began to accrue, on a quarterly basis, for the estimated cash out payments to its three largest net-metering customers, which contribute approximately 85% of all net-metering load in the Small C&I customer class. (PPL Electric Statement 1-R, p. 5) The OSBA acknowledged that this is "a sensible modification, in that it should better match the costs of these purchases with when the benefits are obtained." (OSBA Statement 1, p. 12, fn. 12) The Settlement reaffirms PPL Electric's treatment of net-metering cashouts going forward. (Settlement ¶ 12) As a result of this modification, GSC-1 revenues and expenses will be more closely matched and GSC-1 E-factor variability should be reduced.

### **3. GSC-1 Cost Forecasting**

In addition to addressing the issue of net-metering, the Settlement also modifies the Company's Residential and Small C&I GSC-1 forecasting procedures to more closely track actual costs. Specifically, through discovery and settlement discussions, it was determined that

PPL Electric's forecast of GSC-1 costs did not adjust wholesale power purchase prices for distribution losses. (OSBA Statement 2, p. 8) By not including the distribution loss factor in its forecasting, PPL Electric understated its forecasted GSC-1 costs, resulting in an undercollection of costs. The Settlement modifies the Company's GSC-1 cost forecasting to include estimated distribution line losses. (Settlement ¶ 11)

#### **4. Ongoing Monitoring and Evaluation**

In addition to the substantive revisions set forth above, the Settlement also provides that the Company will continue to monitor the GSC-1 filing process and evaluate means to improve the operation of the GSC-1. (Settlement ¶ 13) Further, the Settlement provides that the Company will identify and provide the OSBA and OCA with information relative to the actual costs incurred by the Company so they will be able to evaluate the operation of PPL Electric's GSC-1. (Settlement ¶ 14) By establishing an ongoing dialogue between PPL Electric, the OSBA and the OCA with respect to reconciliation of the GSC-1, the Settlement will enable the OSBA and OCA to continue to monitor and evaluate the operation of the Company's GSC-1.

#### **IV. CONCLUSION**

The Settlement is in the public interest for the following three reasons. First, it resolves all issues raised during this proceeding concerning reconciliation of the GSC-1 for the Small C&I customer class. Second, it establishes a process under which the OSBA and the OCA can review future reconciliation results for the GSC-1. Third, it avoids the expense and administrative burden of litigating these issues. For the reasons explained above, and those set

forth in the proposed findings in the Settlement, the resolution of this proceeding in accordance with the terms of the Settlement is in the public interest and the Settlement should be approved without modification.

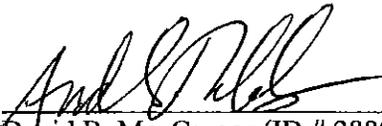
Respectfully submitted,

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Date: November 5, 2013

  
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