

ORIGINAL

PPL Electric Utilities Corporation
Docket No. R-00072155
Index of Direct Testimony

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<u>Witness</u>	<u>Nature of Testimony</u>	<u>Statement</u>	<u>Exhibits</u>
David G. DeCampi	<ul style="list-style-type: none">• Current Financial Condition• Management Effectiveness• Perspective on Filing	1	—
Joseph R. Schadt	<ul style="list-style-type: none">• 2007 Operating Budgets• 2006 Actual Results of Operations	2	JRS 1-4
Denise A. Cunningham	<ul style="list-style-type: none">• Rate Base Adjustments• Revenue Adjustments• Expense Adjustments	3	—
David R. Woodruff	<ul style="list-style-type: none">• Sales Forecast• Annualization of Sales and Revenue• Load Research	4	DRW 1
Douglas A. Krall	<ul style="list-style-type: none">• DSR Background• AMR/Other Capital• Strategic Rate Design	5	DAK 1
Joseph M. Kleha	<ul style="list-style-type: none">• Cost Allocation Studies• Cash Working Capital• Taxes• Expense Adjustments• Cost Recovery Mechanisms	6	JMK 1-3
Oliver G. Kasper	<ul style="list-style-type: none">• Specific Rate Design• Class Revenue Allocation• Tariff Rules• Proofs of Revenue• Pro Forma Revenue Adjustments	7	OGK 1-3

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Timothy R. Dahl	<ul style="list-style-type: none"> • Universal Service Programs • Sustainable Development Program 	8	TRD 1-3
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John J. Spanos	<ul style="list-style-type: none"> • Depreciation Service Life Studies 	10	JJS 1-2
Paul R. Moul	<ul style="list-style-type: none"> • Cost of Common Equity • Capital Structure • Embedded Cost of Capital • Fair Rate of Return 	11	PRM 1
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-00072155

PPL Electric Utilities Corporation

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SECRETARY'S BUREAU

Statement No. 1

Direct Testimony of David G. DeCampli

1 Q. Please state your full name and business address.

2 A. David G. DeCampli, Two North Ninth Street, Allentown, Pennsylvania 18101.

3

4 Q. By whom are you employed and in what capacity?

5 A. I am President of PPL Electric Utilities Corporation ("PPL Electric" or the
6 "Company") (effective April 1, 2007).

7

8 Q. What is your educational background?

9 A. I hold a bachelor's degree in electrical engineering from Drexel University and
10 a master's degree in organizational dynamics from the University of
11 Pennsylvania.

12

13 Q. How long have you been employed by PPL Electric and in what capacities?

14 A. I joined PPL Electric in December 2006, as senior vice president of
15 Transmission and Distribution Engineering and Operations. Prior to joining
16 PPL Electric, I was vice president of Asset Investment Strategy and
17 Development for Exelon Energy Delivery. In that position, I was responsible
18 for system capacity planning and the reliability and operational performance
19 investment strategies for both PECO Energy in Philadelphia and
20 Commonwealth Edison in Chicago.

21 I started my career at PECO Energy as a project engineer and held a
22 number of positions of increasing responsibility before being named director of
23 Customer Service and Business Process Reengineering in 1992. I was

1 named director of Transmission and Substations in 1995, the director of
2 Engineering and System Planning in 1998, and vice president of Gas and
3 Electric Operations in 1999.

4 Following PECO's merger with Commonwealth Edison in 2000, I
5 became vice president of Merger Implementation and Operations Strategy. I
6 later served as vice president of Regional Operations for Commonwealth
7 Edison and vice president and chief integration officer for Exelon Energy
8 Delivery.

9
10 Q. Mr. DeCampli, briefly describe the subject matter of your testimony in this
11 proceeding.

12 A. I will discuss the reasons why PPL Electric decided to file this case. I also will
13 describe the financial challenges facing the Company and the ways in which
14 management has responded to those challenges. Finally, I will assess the
15 effectiveness of management's responses and the implications for this
16 proceeding. In my direct testimony, I will present a high level perspective on
17 these issues; other PPL Electric witnesses will address the technical details.

18
19 Q. Are you sponsoring any exhibits in PPL Electric's filing?

20 A. I am co-sponsoring the Statement of Reasons, which is included as Section A
21 of Exhibit Future 1. I say that I am co-sponsoring the Statement of Reasons
22 recognizing that it summarizes all of the critical aspects of PPL Electric's filing
23 and, for that reason, it is being sponsored by all of the Company's witnesses.

1 Q. Why did PPL Electric decide to file this rate case?

2 A. This case provides PPL Electric with the opportunity to pursue four objectives.
3 First, the Company can request additional revenues necessary to maintain an
4 appropriate level of financial health, which will enable the Company to sustain
5 high quality service for its customers. Second, it can propose several new
6 energy efficiency and demand side management ("DSM") initiatives. Third,
7 the Company can request additional funding for its universal service and
8 community programs. Fourth, and finally, the Company can propose new rate
9 designs and revenue allocations to address changes in the electric utility
10 industry. The timing of the request reflects PPL Electric's intent to seek
11 smaller rate adjustments every few years as higher costs warrant, rather than
12 waiting for an extended period and seeking a much larger increase. This
13 approach aligns with customer preferences and provides them with more
14 current cost-of-service information.

15
16 Q. Please briefly describe PPL Electric's current financial condition as it relates to
17 the Company's first objective for this filing.

18 A. As I will discuss later in my testimony, PPL Electric has been highly effective in
19 managing its business and controlling its costs, but there are limits on what
20 this strategy can accomplish. The Company now is approaching those limits.
21 In its last distribution rate proceeding at Docket No. R-00049255, PPL Electric
22 was authorized to earn a return on equity of 10.70 percent. In calendar year
23 2006, the Company actually earned a return on equity of 7.32 percent, and

1 expects its return on equity to be even lower in 2007. Such returns are
2 inadequate by any standard and constitute one of the principal reasons that
3 PPL Electric now is requesting an increase in its retail distribution rates.

4
5 Q. Please elaborate on the second reason PPL Electric decided to file this case.

6 A. PPL Electric recognizes that, as the Customer Choice transition periods end
7 and Pennsylvania moves to fully competitive retail electricity markets,
8 customers will have more opportunities to make choices about their electricity
9 supply. As a result, they will need more information on energy issues. To
10 help meet this need, the Company is proposing in this filing three new
11 initiatives: (1) a Meter Data Management System ("MDMS"), which will
12 enhance the functionality of the Company's Automated Meter Reading
13 ("AMR") system; (2) five new energy efficiency and energy conservation
14 programs, and (3) additional consumer education regarding the wise use of
15 energy. Each of these initiatives is described in detail in the Statement of
16 Reasons. Together, these three initiatives will provide the Company's
17 customers with information and options that will enable them to manage their
18 use of energy and, ultimately, to better manage the cost of that energy.

19
20 Q. What initiatives is the Company proposing to meet its third objective regarding
21 universal service and community programs?

22 A. PPL Electric realizes that some of its customers simply are unable to pay their
23 electric utility bills and, to assist those customers, the Company currently

1 administers a family of universal service programs. The Company's current
2 programs include the following: OnTrack, WRAP, Operation HELP and
3 CARES. In general terms, OnTrack offers reduced payment plans and
4 arrearage forgiveness; WRAP provides free weatherization measures and
5 energy conservation education; Operation HELP pays for any type of home
6 heating bill; and CARES is an evaluation and referral service for customers
7 with temporary hardships. PPL Electric also aggressively promotes the
8 availability of LIHEAP, which provides energy assistance grants to low-income
9 households, i.e., at or below 150 percent of the federal poverty level. In this
10 filing, the Company requests permission to increase funding for these
11 programs by approximately \$7 million, or almost 36 percent. Specifically, PPL
12 Electric proposes to increase annual funding for OnTrack and WRAP by
13 \$5,800,000 and \$1,000,000, respectively, from the levels approved by the
14 Commission in the Company's previous distribution rate case at Docket No.
15 R-00049255. The Company will increase its annual corporate contribution to
16 Operation HELP by over 40 percent – from \$700,000 to \$1,000,000.
17 Donations from customers, employees and retirees may increase as the result
18 of PPL Electric's annual solicitation efforts. Finally, PPL Electric proposes to
19 slightly increase funding for CARES to reflect changes in wages for PPL
20 Electric personnel who work on the program.

21

22 Q. What program is the Company proposing to assist community development in
23 its service area?

1 A. PPL Electric proposes to implement a new program called the Sustainable
2 Development Program (“SDP”). The purpose of the SDP is to assist
3 community development organizations by: (1) providing grant funds to
4 encourage the construction of “green” buildings, (2) enhancing orderly
5 development through promotion of various downtown improvements, and
6 (3) leveraging state funding for regional marketing initiatives that will also
7 improve regional cooperation. The Company proposes funding the SDP at
8 \$1.25 million annually for a period of three years (2008 through 2010).

9

10 Q. *Finally, please discuss the fourth objective of this filing, which addresses*
11 *changes in rate design and revenue allocation.*

12 A. The Company is proposing to move its distribution rate design further toward a
13 flat monthly fee for electric delivery services, rather than continue to charge
14 rates based on consumption. PPL Electric’s rates for service to general
15 residential and small commercial customers currently include three usage
16 steps with declining prices per kWh as usage increases. These rate designs
17 do not accurately reflect how the Company incurs costs to provide service to
18 its retail customers. Because it is a distribution company, most of PPL
19 Electric’s costs are fixed and do not vary with customers’ consumption. The
20 Company believes that its rates should be modified over time to reflect this
21 pattern. In this filing, the Company is proposing to increase the Rate Schedule
22 RS customer charge to \$10, with a corresponding reduction in the tail block

1 commodity charge to 1.742¢/kWh. The Company also is proposing similar
2 rate design changes to Rate Schedule GS-1.

3

4 Q. How is the Company proposing to address revenue allocation issues?

5 A. The Company is proposing to allocate the revenue increase in a way that will
6 move the rate of return for each rate schedule toward the system average rate
7 of return. Specifically, the increase was allocated to customer classes based
8 on the results of a class cost of service study which was applied subject to the
9 following two conditions. First, the rate of return for each rate schedule must
10 move half-way from that rate schedule's return at present rates to the system
11 average rate of return. Second, calculated on a percentage basis, no rate
12 schedule can receive a distribution rate increase greater than twice the system
13 average distribution rate increase. PPL Electric will apply a similar approach
14 in future cases and plans to implement rates that are at or near full cost of
15 service in one or two additional rate cases. The Company believes that this
16 approach is appropriate under the long-established principles of cost of
17 service and gradualism, and is fully consistent with the Commonwealth Court
18 decision in *Lloyd v. Pa. Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwltth.
19 2006).

20

21 Q. What challenges do you face in managing an electric distribution company
22 such as PPL Electric?

1 A. The primary challenge is to manage costs while, at the same time, maintaining
2 high levels of customer service and customer satisfaction. The Company
3 owns a substantial number of facilities required to deliver electricity to its
4 customers, and the costs associated with these facilities continue to increase.
5 The Statement of Reasons provides several examples of these cost drivers.
6 Since the Company filed its last distribution rate increase request in March
7 2004, the cost of transformers has increased by about 80 percent. The cost of
8 wire used for power lines has increased by about 25 percent. Every year, the
9 Company must repair and replace those facilities as needed. PPL Electric has
10 invested more than \$450 million to maintain, improve or expand its distribution
11 system over the past three years. The Company expects to invest an
12 additional \$1.1 billion over the next five years. As detailed in the Statement of
13 Reasons, PPL Electric's operating expenses are substantial and also continue
14 to increase. The cost of labor, poles, wires, tools, vehicles and equipment has
15 increased since the Company's current rates became effective on January 1,
16 2005. Costs for employee health care, bucket trucks, fuel and other materials
17 have experienced double-digit percentage increases since 2004. The
18 Company expects these cost increases to continue for the foreseeable future.

19
20 Q. How has PPL Electric responded to these cost challenges?

21 A. To address the earnings implications of these capital and expense needs, PPL
22 Electric has pursued an aggressive program of cost-effective operations.
23 First, the Company has reduced its staffing levels while maintaining high

1 quality service. Since 1999, PPL Electric has reduced its back office, support
2 and management workforce by 1,600 positions, or 42% percent, through a
3 variety of effectiveness and efficiency improvements. The elimination of these
4 positions, however, did not reduce the Company's field workforce. Since
5 2004, the Company has hired more than 250 employees to replace linemen,
6 ground-hands, electricians and engineers who retired. In fact, today the
7 Company has the same number of front-line forces performing lineman and
8 electrical work as it had in 1990. Second, the Company utilizes new
9 technology to manage its costs. As described in more detail in the Statement
10 of Reasons, PPL Electric has completed implementation of the Work
11 Management System ("WMS") to manage workflow more effectively; it is
12 installing a Meter Data Management System ("MDMS") to leverage AMR data
13 beyond monthly billing; it is upgrading computer software to enhance its
14 substation and transmission maintenance management system; it is installing
15 a new Outage Management System; it is installing mobile dispatch terminals in
16 all construction vehicles; and it is expanding the use of automation. Third,
17 PPL Electric reviews and, where appropriate, modifies business processes to
18 manage costs. The Company implemented a maintenance priority system to
19 rank and eliminate lower priority work. It also is taking advantage of improved
20 data availability and analytical techniques to increase the utilization of the
21 existing infrastructure and defer discretionary equipment upgrades

22
23 Q. In your opinion, have these management initiatives been effective?

1 A. Yes. These efforts to control costs through effective management, use of
2 improved business processes and application of new technology have been
3 highly successful. PPL Electric's residential electric rates are less than the
4 average in both Pennsylvania and the Northeast and are expected to remain
5 that way, even if the Commission grants this requested increase in full.
6

7 Q. Has PPL Electric been able to manage its costs without adversely affecting the
8 quality of service to its customers?

9 A. Yes. PPL Electric's customers consistently rank the Company as one of the
10 best electric utilities in the country for quality and service. Over the past nine
11 years, PPL Electric has won numerous industry awards for quality of service
12 and customer satisfaction. This year, for the sixth time in eight years, PPL
13 Electric has ranked highest among electric utilities in the eastern United States
14 in J.D. Power and Associates' annual study of business customer satisfaction.
15 The Company also won this award in 2000, 2001, and 2003-2005. In its 2007
16 study of business customer satisfaction, J.D. Power and Associates
17 interviewed nearly 13,000 businesses served by the 58 largest electric utilities
18 in the nation, based on the number of businesses served. In the study, PPL
19 Electric ranked first in the East among 15 utilities and fourth in the country.
20 The award is the Company's thirteenth overall – more than any other utility in
21 the country – since J.D. Power and Associates began studying utility customer
22 satisfaction. In addition to its six business customer satisfaction awards, PPL
23 Electric has earned the top honor for residential customer satisfaction in the

1 East seven out of eight years. The Company won the residential award in
2 1999 and 2001-2006. We are very proud of these accomplishments.

3

4 Q. How should the Commission reflect this management effectiveness in
5 consideration of the Company's request for a distribution rate increase?

6 A. The Company's rate of return expert, Paul R. Moul, recommends that the
7 Company be allowed an opportunity to earn a rate of return on equity of
8 11.50 percent. This recommendation is at the mid-point of the range of equity
9 returns developed in his study. In my opinion, PPL Electric's management
10 effectiveness is one of several considerations that support Mr. Moul's
11 recommended rate of return on equity of 11.50 percent.

12

13 Q. Does this conclude your direct testimony?

14 A. Yes, it does.

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Docket No. R-00072155

PPL Electric Utilities Corporation

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Statement No. 2

Direct Testimony of Joseph R. Schadt

1 **Direct Testimony of Joseph R. Schadt**

2 Q. Please state your name and business address.

3 A. Joseph R. Schadt, Two North Ninth Street, Allentown, Pennsylvania 18101.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the PPL Services Corporation ("PPL Services") as Senior
7 Director-Financial Planning.

8

9 Q. What are your responsibilities as Senior Director-Financial Planning?

10 A. I am responsible for compiling the corporate operating budget, administering
11 the functional group (responsibility center) budget control system, and
12 preparing financial forecasts and various special studies which require
13 projections of corporate financial performance.

14

15 Q. What is your educational background?

16 A. I received a Bachelor's Degree in Accounting from Wake Forest University in
17 May 1979. Upon graduation, I worked for Duke Power Company for two years
18 in the Accounting Systems and Forecasting departments. In July 1981, I began
19 working for Pennsylvania Power & Light Company, the predecessor of PPL
20 Electric Utilities Corporation ("PPL Electric").

21

22 Q. How long have you been employed by PPL Corporation ("PPL"), the parent of
23 PPL Electric, or a subsidiary of PPL, and in what capacities?

1 A. I began my employment with Pennsylvania Power & Light Company ("PP&L")
2 as an Accountant in the General Accounting Department and remained there
3 for four years, progressing to the position of Senior Accountant. In General
4 Accounting, I participated in the maintenance and closing of PP&L's books and
5 records and had primary responsibility for the calculation of the actual cost
6 components of the Energy Cost Rate, unbilled revenues and the miscellaneous
7 billing function. Subsequently, I transferred to the Financial Reporting
8 Department where I remained for nine years. I was promoted to Accounting
9 Analyst in Financial Reporting and my responsibilities included the completion
10 and filing of the Annual Report to Shareowners, Forms 10-K and 10-Q for the
11 Securities and Exchange Commission and the FERC Form 1. Through my
12 experience in the General Accounting and Financial Reporting Departments, I
13 developed a thorough knowledge of accounting and reporting concepts
14 applicable to the electric utility industry in general and PPL Electric in particular.
15 In November 1994, I was promoted to the position of Supervisor-Accounting
16 Research. In this position, I had responsibility for developing the PP&L's
17 policies regarding open accounting issues applicable to the industry. In
18 addition, I was significantly involved in special projects, such as transmission
19 access, stranded costs, and other deregulation issues. In February 1996, I was
20 promoted to Manager-Financial Support Services; in January 2000, I was
21 promoted to Director-Financial Support Services; and in January 2006, I was
22 promoted to Senior Director-Financial Planning, my current position. In this
23 position, I have primary responsibility for PPL Corporation and its subsidiaries'

1 (including PPL Electric) financial forecasting, budgeting and business planning
2 functions.

3
4 Q. Are you active in any professional organizations?

5 A. I am a past chairman and a current member of the Accounting Standards
6 Committee of the Edison Electric Institute.

7
8 Q. What is the purpose of your testimony?

9 A. My testimony will describe the derivation of data used to calculate financial
10 results for the historic test year ended December 31, 2006 and to project the
11 financial results for the future test year ending December 31, 2007.

12
13 Q. PPL Electric is requesting an increase in electric distribution rates of
14 approximately \$83.6 million annually. Is this requested increase supported by
15 data for a future or experienced test year?

16 A. PPL Electric will rely primarily on data for a future test year ending
17 December 31, 2007. These data are included in Exhibit Future 1. The
18 Commission's regulations require that a public utility that uses a future test year
19 also must submit data for a historic year, consisting of the twelve months
20 immediately preceding the future test year. As a result, PPL Electric also has
21 submitted data for the 12 months ended December 31, 2006. These data are
22 set forth in Exhibit Historic 1.

1 Q. You have stated that the data in Exhibit Future 1 are for the 12 months ending
2 December 31, 2007. This is obviously a projection of future data. Will you
3 please explain the source of this future data?

4 A. The basic data in Exhibit Future 1 was derived from PPL Electric's budget and
5 forecast figures for the 12 months ending December 31, 2007. I will explain the
6 procedures followed in preparing the Operating Budget later in my testimony.
7 Mr. Krall explains the procedures followed in preparing the Capital Budget in his
8 direct testimony. In effect, the budget figures take the place of PPL Electric's
9 actual book figures which serve as the basis for the December 31, 2006 data in
10 Exhibit Historic 1.

11
12 Q. Mr. Schadt, are you sponsoring any exhibits in this proceeding?

13 A. Yes, I am sponsoring Exhibits JRS 1 through JRS 4. I also am sponsoring
14 portions of Exhibit Regs., Part I-General Information, Part II-Primary
15 Statements of Rate Base and Operating Income, Part III-Rate of Return and
16 Part VI-Unadjusted Comparative Balance Sheets and Operating Income
17 Statements.

18
19 Exhibits Historic 1 and Future 1

20 Q. Are you sponsoring any schedules in Exhibits Historic 1 and Future 1?

21 A. Yes. I am sponsoring the following: Schedules B-1, B-2, B-3, B-4, B-6, B-7, B-
22 8 and B-9 of Exhibits Historic 1 and Future 1.

1 Q. Mr. Schadt, would you describe the material presented on Schedules B-1
2 through B-9 of Exhibits Historic 1 and Future 1?

3 A. Schedules B-1 show the balance sheets of PPL Electric, excluding all its non-
4 regulated subsidiaries, at December 31, 2006 and December 31, 2007, which
5 include the assets and liabilities related to the electric utility operations and
6 investments in non-utility property.

7 Schedules B-2 are statements of electric utility operations showing the
8 operating revenues and expenses and income for the year ended
9 December 31, 2006 and the year ending December 31, 2007. Electric
10 operating revenues shown on these schedules are set forth by source in
11 Schedules B-3.

12 Schedules B-4 provide the operation and maintenance expenses of the
13 electric utility operations by detailed accounts, including the major categories of
14 expense: power production, transmission, regional market, distribution,
15 customer accounts, customer service and informational, sales, and
16 administrative and general. The expenses in the power production category
17 represent the cost of purchased power and include, among other items,
18 purchases to meet Provider of Last Resort ("POLR") requirements, nuclear
19 decommissioning costs and purchases from non-utility generation companies.
20 Power production costs are not germane to the determination of distribution
21 revenue requirements in this filing. Later in my testimony, I will explain certain
22 allocations that were used to arrive at projections of operation and maintenance
23 expenses in the categories shown on both Schedules B-2 and B-4 of Exhibit
24 Future 1.

1 Schedules B-5, which are sponsored by Mr. Kleha, set forth the details
2 of taxes applicable to the electric utility operations. The embedded cost of debt
3 and preferred and preference capital at December 31, 2006 and
4 December 31, 2007 is shown on Schedules B-6 and B-7, respectively. PPL
5 Electric's capital structure from 2002 through December 31, 2007 is shown on
6 Schedules B-8.

7
8 Schedules B-9 set forth the claimed composite rate of return as of
9 December 31, 2006 and December 31, 2007. In each instance, the
10 capitalization ratios at the end of the respective year, as shown on Schedule B-
11 8, were used. The composite cost rate for long-term debt (Schedule B-6) and
12 the composite cost rate for preferred and preference (Schedule B-7) are
13 reflected as embedded costs. As to common equity, the claimed rate of return
14 on common equity is 11.5%. PPL Electric's rate of return expert, Mr. Moul, is
15 recommending, and his studies support, a fair rate of return on common equity
16 at this level. The overall rate of return reflected on Schedule C-1 in Exhibit
17 Future 1 will produce a return on common equity of 11.5%.

18
19 All the data shown in Schedules B-1 through B-9 were taken either from
20 the books and records of PPL Electric, excluding all its non-regulated
21 subsidiaries, for the 12 months ended December 31, 2006 and prior, or were
22 derived from operating and construction budget data for the 12 months ending
23 December 31, 2007.

1 Q. Please describe the source and method used to establish the book cost of plant
2 shown in the accounts of PPL Electric.

3 A. The accounts of PPL Electric are kept in accordance with the Uniform System
4 of Accounts prescribed by the PUC and the Federal Energy Regulatory
5 Commission ("FERC") for Electric Utilities and Licensees. By several orders at
6 Docket No. E.O.C. 34, the last dated December 30, 1947, the PUC determined
7 the original cost of PPL Electric's plant as of November 30, 1947. Since that
8 time, PPL Electric has recorded its plant transactions in accordance with the
9 Commission's required system of accounts. PPL Electric's books, therefore,
10 reflect the original cost of its plant at December 31, 2006.

11
12 Q. Are these accounts audited?

13 A. They are audited annually by an independent certified public accounting firm.
14 In addition, the FERC and PUC audit staffs conduct periodic audits.

15
16 Q. How do you determine that all property reflected in Account 101, Plant in
17 Service, as shown on Page 1 of Schedules B-1, is actually in service?

18 A. The Asset Management & Benefit Accounting Section of PPL Services
19 maintains Fixed Asset Records for PPL Electric, which set forth the detail of all
20 property in service. The dollar value total of the Continuing Property Records is
21 the same as the balance shown in Account 101 at December 31, 2006.

22 The Uniform System of Accounts requires that utilities record all
23 construction and retirements of electric plant by means of work orders or job
24 orders. In addition, the work order system must show the nature of each

1 addition to, or retirement from, electric plant, the total cost thereof, and the
2 plant account or accounts affected.

3 PPL Electric has maintained such a work order system since the
4 establishment of its Continuing Property Records system. Under this system,
5 an authorized capital work order is used for all work performed.

6 When any unit of property is taken out of service permanently, PPL
7 Electric personnel record the removal under a work order and transmit that
8 information to the Asset Management & Benefit Accounting Section, where the
9 necessary retirement accounting entry is made. Because many retirements
10 can occur in connection with capital improvement projects, the retirement work
11 is part of a construction authorization.

12 Costs of new construction are reported by work order number and Asset
13 Management accumulates, by work order, all costs associated with a specific
14 job, as well as the appropriate retirement unit and utility account. At the
15 completion of the job, Asset Management receives reports from construction
16 forces which show the date the project was placed in service and a complete
17 inventory of property constructed. Based on this information and the costs
18 accumulated under the work order, the property constructed is recorded in
19 appropriate detail on PPL Electric's Continuing Property Records. With this
20 system and its supporting detail, the costs comprising the total value of any
21 item recorded as Plant in Service can be fully supported and verified.

22
23 Q. Mr. Schadt, can you provide any background on how the future test year
24 financial statements were prepared?

1 A. The future test year financial statements and data are based on information
2 which PPL Electric used to prepare its 2007 Operating and Capital Budgets.
3 Generally, this unadjusted projected data has been utilized in responding to the
4 Commission's filing regulations.

5
6 Q. Would you please explain how the operating budget process is carried out by
7 PPL Electric?

8 A. Yes. In explaining the budget process, I will be referring to certain exhibits
9 (JRS 1 to JRS 4) which accompany my direct testimony. I was responsible for
10 preparing these exhibits. During the summer of each year, PPL Corporation's
11 Business Planning Group begins preparing a detailed operating budget for the
12 succeeding calendar year. Information used in compiling the operating budget
13 generally can be categorized into three major groups: (1) that which is of a
14 specialized nature (e.g., depreciation and amortization, financing, taxes) and is
15 generally supplied by a PPL Services' staff group having the expertise in
16 forecasting this information; (2) that which comes directly from PPL Electric
17 (e.g., employee levels and other operating costs, such as materials, contract
18 work, postage, rents); and (3) service group support costs, which are directly
19 assigned and/or allocated to PPL Corporation subsidiaries, including PPL
20 Electric.

21 In developing specialized information provided by PPL Services' staff
22 groups, each of the staff groups develops its specific phase of the budget
23 based on its specific experience and expertise. Specialized data from each
24 PPL Services' staff group is coordinated with other staff groups requiring this

1 information in order to complete this phase of the budgeting process. For
2 example, depreciation and interest expense information is needed for the tax
3 budget to be completed.

4 PPL Electric's Business Planning Group is responsible for coordinating
5 detailed budget information supplied directly to it from departments and
6 responsibility centers within PPL Electric. Budgeted sales and capital
7 expenditure information are significant pieces of information that PPL Electric's
8 departmental personnel supply to the Business Planning Group. Additionally,
9 each of PPL Electric's responsibility centers develops its own operation and
10 maintenance budget and forwards it to the PPL Electric's Business Planning
11 Group, which then summarizes the budgets in the Corporate Budget System
12 and presents them for review and approval by PPL Electric's executive
13 management.

14 After executive management approves the budget, the data is released
15 to my functional group, Financial Planning, where the data is incorporated into
16 the overall PPL Electric operating budget.

17 In developing service group support costs for PPL Electric, each Service
18 Group computes the level and expected cost of providing identifiable services
19 (direct costs) to PPL Electric based on discussions of required services
20 between the Support Group and PPL Electric personnel. The Service Groups
21 enter these direct support costs into the Corporate Budget System.

22 Additionally, the Service Groups identify and enter into the Corporate Budget
23 System budgeted costs that are not directly identifiable and chargeable to a
24 specific PPL Corporation subsidiary, but instead benefit various PPL

1 Corporation subsidiaries (indirect costs). Financial Planning has developed and
2 incorporated into the Corporate Budget System an allocation methodology, as
3 recommended by the Commission in its 2002 Focused Management and
4 Operations Audit, to distribute these indirect support costs to PPL Electric and
5 other PPL Corporation subsidiaries. The Corporate Budget System
6 accumulates and incorporates all the direct and indirect support costs into PPL
7 Electric's Operating Budget.

8 After the final pieces of the budget are received from all three groups
9 discussed above and approvals have been obtained, a tentative operating
10 budget is prepared for PPL Electric. The tentative budget is reviewed with
11 management with particular emphasis on key operational and financial
12 indicators. After this review, the final budget is prepared and reviewed with the
13 President and Board of Directors of PPL Electric. This budget is the key tool
14 used by PPL Electric and senior management to establish an operating plan for
15 the upcoming year and for measuring actual results against this plan.

16
17 Q. You stated that certain specialized data for the budget are provided by PPL
18 Services' staff groups. Could you tell us specifically what data are provided,
19 and who provides this data?

20 A. Yes. Exhibit JRS 1 lists the specialized information used in completing the
21 operating budget and identifies the specific PPL Services' staff groups
22 responsible for providing that data.

1 Q. You also stated that the remaining data for the operating budget comes from
2 responsibility centers. What are responsibility centers, and how many
3 responsibility centers does PPL Electric have?

4 A. The PPL Electric organization is broken down into five major business units.
5 Each business unit is subdivided into functional groups referred to as
6 responsibility centers. Each responsibility center has an assigned manager
7 who is responsible for all costs incurred by that responsibility center. Each
8 employee is assigned to a particular responsibility center. PPL Electric has 87
9 active responsibility centers. Exhibit JRS 2 contains a list of the responsibility
10 centers providing data for the 2007 Operating Budget.

11
12 Q. What type of data do they provide?

13 A. Each responsibility center provides a projection of its employee levels for the
14 year that becomes the basis for projecting total wages. The responsibility
15 centers also provide a budget of their other operating costs.

16
17 Q. Could you explain how the budget for wages is determined?

18 A. Yes. Early in the summer, Financial Planning notifies the affiliates of the "Date
19 of Estimate", which is the starting point date at which the Corporate Budget
20 System determines the number of employees, and their associated wages, in
21 each responsibility center. Any changes from the Date of Estimate starting
22 point, including new hires, decreases due to work force reductions or
23 retirements and changes in salary levels, must be identified. Employee levels
24 are reviewed and approved in conjunction with the overall budget review.

1 The Corporate Budget System automatically calculates a budget for
2 wages based on the starting level of employees and their actual earnings and
3 the employee changes input. The System then applies assumed management
4 and bargaining unit wage changes.

5 As business units budget for their employee levels, they generally
6 allocate their available manpower by functional activity. As part of this process,
7 they designate the applicable accounting to be charged- to capital or expense.
8 Wages identified as expense ultimately appear on Schedule B-2 of Exhibit
9 Future 1, PPL Electric's income statement, as an O&M expense.

10
11 Q. You mentioned the budget for other operating costs. What costs fall into this
12 category?

13 A. The Corporate Budget System requires budgeting by category of expenditure
14 referred to as budget items. Exhibit JRS 3 is a list of PPL Electric's various
15 budget items.

16
17 Q. How are these budget items estimated?

18 A. Non-payroll requirements, such as rents, materials and contractors, generally
19 are entered by budget item and functional activity, and in the month or months
20 the expenses are anticipated to occur. Budgets for payroll and non-payroll
21 budget items are summarized by department for review by the department vice-
22 presidents and president.

1 Q. As part of the future test year data in the present rate filing, budget
2 expenditures have been provided by account. Do the departments also budget
3 by account?

4 A. No. The budget is created by category of expenditure (budget items listed in
5 Exhibit JRS 3) and sometimes by functional activity. PPL Corporation believes
6 that it is more meaningful to budget and monitor expenditures by category of
7 expense (e.g., payroll, employee expenses, material and supplies) than by
8 FERC accounts. However, to satisfy the requirements for this rate filing, PPL
9 Electric has allocated expenditures into FERC accounts. This was
10 accomplished by first allocating operation and maintenance costs budgeted by
11 category of expenditures to FERC accounts where the budget classification
12 was specifically identifiable to those accounts. For those budget classifications
13 not identifiable to a specific FERC account, the total remaining budgeted
14 expenditures were allocated to FERC accounts based on the same relationship
15 to the total as the actual costs shown for the operation and maintenance
16 expenditures incurred in the historic test year ended December 31, 2006, which
17 are reported by both budget classification and FERC account.

18
19 Q. How was the operating budget used in this rate filing?

20 A. The operating budget was used as the basis for forecasting PPL Electric's
21 Operating Income for the test year ending December 31, 2007. See the
22 response to Question II-E-1 of Exhibit Regs., § 53.53, Part II, Primary
23 Statements of Rate Base and Operating Income ("Question II-E-1"). The
24 forecasted data shown in the response to Question II-E-1 was reformatted to

1 correspond to FERC account classifications and is shown in Schedule B-2 of
2 Exhibit Future 1 and throughout PPL Electric's responses to the Commission's
3 filing regulations.
4

5 Q. Are you aware of the requirement that a comparison of actual to budget data is
6 to be supplied quarterly when a utility utilizes a future test year?

7 A. Yes. In preparation for complying with this requirement, Exhibit JRS 4 has
8 been provided. This exhibit shows a breakdown of revenues and expenses for
9 electric operations for the future test year into calendar quarters beginning in
10 January of 2007 and ending December of 2007. PPL Electric will provide
11 quarterly comparisons of actual results to the budget as shown in Exhibit JRS 4
12 as the actual data becomes available.

13
14 Q. Does this conclude your direct testimony?

15 A. Yes, it does.

PPL Electric Utilities Corporation

Exhibit JRS 1

Docket No. R-00072155

**PPL ELECTRIC UTILITIES CORPORATION
SPECIALIZED INFORMATION USED IN COMPILING THE OPERATING BUDGET**

1. DEPRECIATION AND AMORTIZATION – Information is supplied by PPL Services Corporation's Asset Management and Analysis Section of the Financial Department.
2. FINANCING – Information is supplied by PPL Services Corporation's Finance and Treasury Section of the Financial Department.
3. TAXES – Information is supplied by PPL Services Corporation's Tax Section of the Financial Department.

PPL Electric Utilities Corporation

Exhibit JRS 2

Docket No. R-00072155

**PPL Electric Utilities Corporation
2007 Responsibility Centers**

<u>Business Line</u>	<u>Section</u>	<u>Responsibility Center</u>	<u>Description</u>	<u>Responsibility Center Head</u>	
Electric Utilities:	Electric Utilities	21	Electric Utilities	Spence, William H	
Asset Management:	Administration	900	SR VP PPL Electric Utilities	DeCampi, David G	
	Business Planning	808	Business Planning	Dreisbach, Anthony F	
		807	Utility Business Services	Sepich, Christina R	
		813	Operations Planning	Correll, Lorraine L	
		924	Regulatory Strategy	Krall, Douglas A	
	Regulatory Strategy	919	Asset Financial Evaluation	Kramer, Joann J	
	Asset Financial Evaluation	909	Load Analysis	Woodruff, David R	
		925	Pricing & Contract Administration	Kasper, Oliver G	
		602	Interconnection Affairs	Laczo, Gabriel	
	Interconnection Affairs	670	Utilities Business Consulting	Mezlo, Joseph J	
Transmission & Distribution	Transmission & Distribution	880	Engineering & Design	Schleicher, David E	
	Asset Operations	603	Attachment & Telecom Business	Rotz, Alan C	
		661	T&D Operations	Grover, Robert D	
	Asset Operations Evaluation	601	Asset Operations Evaluation	Smith, Gregory J	
		663	Distribution Asset Management	Smith, Gregory J	
		870	Asset Maintenance & Reliability	Weber Jr, Philip F	
		878	System Maint Engrg-Trans & Sub	Lally, Robert J	
		883	Substation Design	Bast, Gary J	
	Design Engineering	881	T&D Design	Faisetty, John D	
		665	Relay Test	Diehl, Gerald	
		876	Standards	Zemyan, Nicholas A	
	Resource Management:	Resource Management	526	Resource Management	Lapos, Mark J
			530	Field Resource Management West	Simon, Jon F
			540	Field Resource Management East	Biduck, James M
Transportation Services		590	Transportation Services	Keller, Wesley C	
		591	Transportation East Region	Shemanski, Stanley J	
		595	Transportation West Region	Jones, Scott T	

**PPL Electric Utilities Corporation
2007 Responsibility Centers**

<u>Business Line</u>	<u>Section</u>	<u>Responsibility Center</u>	<u>Description</u>	<u>Responsibility Center Head</u>	
Customer Services:	Customer Services	705	Customer Services	Geneczko,Robert M	
	Regulatory Prog & Business Svcs	701	Regulatory Programs & Bus Services	Dahl,Timothy R	
	Customer Contact Operations	707	Customer Contact Operations	Ling,David A	
		708	On Track Arrearage	Ling,David A	
	Automated Meter Reading	709	AMR Project	Bujnowski,Bernard J	
	Revenue Protection	736	Revenue Protection	Molchany,Bernard J	
Field Services:	Field Services	400	Vice President	Fogarty,John A	
	Field Services Administration	405	Field Services West	McGinley,Michael R	
	Field Services Administration	440	Field Services East	Kosydar,Alan M	
	Metering Support	733	Metering Support	Santarelli,Paul D	
	System Shops	872	Systems Shops	Santarelli,Paul D	
	Lancaster Region		410	Field Services Lancaster	Cook,Robert J
			411	Field Services Lancaster Design	Preziosi,Darryl P
			413	Field Services Lancaster T/D	Cook,Robert J
			414	Field Services Lancaster M/E	Cook,Robert J
			416	Field Services Lancaster East Design	Oswandel,Dennis G
			417	Field Services Lancaster East Metering	Kulikowski Jr,Bernard T
			418	Field Services Lancaster East T/D	Cook,Robert J
			419	Field Services Lancaster East M/E	Cook,Robert J
			420	Field Services Susquehanna	Gaida,Francis J
	Susquehanna Region		421	Field Services Susquehanna Design	Koslap,Robert M
			422	Field Services Susquehanna Metering	Booth,Thomas W
			423	Field Services Susquehanna T/D	Gaida,Francis J
			424	Field Services Susquehanna M/E	Gaida,Francis J
			436	Field Services Sunbury Design	Weston,Robert E
			438	Field Services Sunbury T/D	Gaida,Francis J
		439	Field Services Sunbury M/E	Gaida,Francis J	

**PPL Electric Utilities Corporation
2007 Responsibility Centers**

<u>Business Line</u>	<u>Section</u>	<u>Responsibility Center</u>	<u>Description</u>	<u>Responsibility Center Head</u>
	Harrisburg Region	430	Field Services Harrisburg	Howell, Timothy R
		426	Field Services Harrisburg Design	Seip, Sheldon S
		427	Field Services Harrisburg Metering	Melenchek, Lawrence S
		428	Field Services Harrisburg T/D	Howell, Timothy R
		429	Field Services Harrisburg M/E	Howell, Timothy R
		431	Field Services West Shore Design	Judd, Sugirtha D
		433	Field Services West Shore T/D	Howell, Timothy R
		434	Field Services West Shore M/E	Howell, Timothy R
	Lehigh Region	445	Field Services Lehigh	Reed, Denis E
		446	Field Services Lehigh Design	Moyer, Brian D
		447	Field Services Lehigh Metering	Bicking, Donald
		448	Field Services Lehigh T/D	Reed, Denis E
		449	Field Services Lehigh M/E	Reed, Denis E
		461	Field Services Bethlehem/Buxmont Design	Leonard, Bruce E
		463	Field Services Bethlehem T/D	Reed, Denis E
		464	Field Services Bethlehem M/E	Reed, Denis E
	Central Region	455	Field Services Central	Gibbons, James M
		456	Field Services Central/WB Design	Lehman, Dennis R
		458	Field Services Central/WB T/D	Gibbons, James M
		459	Field Services Central/WB M/E	Gibbons, James M
		466	Field Services Central Design	Krushin, Joseph L
		467	Field Services Central Metering	Smaniotto, Angelo
		468	Field Services Central T/D	Gibbons, James M
		469	Field Services Central M/E	Gibbons, James M
	Northeast Region	470	Field Services Northeast	Compierchio, Joseph M
		451	Field Services NE/Scranton Design	Baumgardner, T L
		452	Field Services NE/Scranton Metering	Laudig, Thomas G
		453	Field Services NE/Scranton T/D	Compierchio, Joseph M
		454	Field Services NE/Scranton M/E	Compierchio, Joseph M
		471	Field Services NE/Pocono Design	Sucheski, Michael A
		473	Field Services NE/Pocono T/D	Compierchio, Joseph M
		474	Field Services NE/Pocono M/E	Compierchio, Joseph M

PPL Electric Utilities Corporation

Exhibit JRS 3

Docket No. R-00072155

PPL ELECTRIC UTILITIES CORPORATION
BUDGET ITEMS USED TO MONITOR EXPENDITURES

Wages and Employee Benefits
Employee Expenses
Vehicles & Equipment Use
Materials & Supplies
Printing & Office Supplies
Tree Trimming
Work by Outsiders
Services
Postage
Telephone & Leased Wires
Rents
Advertising
Uncollectible Accounts
Miscellaneous

PPL Electric Utilities Corporation

Exhibit JRS 4

Docket No. R-00072155

PPL ELECTRIC UTILITIES CORPORATION

Budget-2007
(Thousands of Dollars)

	<u>1st Q</u>	<u>2nd Q</u>	<u>3rd Q</u>	<u>4th Q</u>	<u>Total</u>
Operating Revenues					
Electric Operations	\$ 741,287	\$ 656,822	\$ 696,213	\$ 735,599	\$ 2,829,921
Wholesale & Energy Trading	750	600	300	300	1,950
Intercompany Sales	37,115	36,725	34,324	37,570	145,734
Total Operating Revenues	779,152	694,147	730,837	773,469	2,977,605
Operating Expenses					
Energy Purchases - External	52,349	51,022	49,306	52,498	205,175
Energy Purchases - Internal	465,917	408,733	435,156	453,412	1,763,218
Other Operating Expenses - Direct	70,437	74,221	75,328	73,687	293,673
Other Operating Expenses - Intercompany	21,235	19,548	19,433	20,347	80,563
Total O&M Expense	91,672	93,769	94,761	94,034	374,236
Amort. of Deferred Debits/Credits	412	348	381	360	1,501
Depreciation	32,299	32,753	33,244	33,766	132,062
Taxes other than income	52,143	45,379	48,614	46,712	192,848
Total Operating Expenses	694,792	632,004	661,462	680,782	2,669,040
Income from Operations	84,360	62,143	69,375	92,687	308,565
Other Income and (Deductions)	3,120	1,170	2,246	1,297	7,833
Interest expense					
Long Term Debt	20,204	20,212	21,029	19,669	81,114
Short Term Debt & Other	693	746	804	835	3,078
Intercompany Interest	3,938	3,866	3,843	3,848	15,495
AFUDC & Capitalized Interest	(894)	(881)	(857)	(745)	(3,377)
Total Interest Expense	23,941	23,943	24,819	23,607	96,310
Income before Income Taxes	63,539	39,370	46,802	70,377	220,088
Income Taxes					
Provision-Federal	17,651	10,689	13,293	21,175	62,808
-State	5,663	3,508	4,171	6,274	19,616
Deferred Income Taxes	1,453	1,378	1,226	1,089	5,148
Total Income Taxes	24,767	15,575	18,690	28,538	87,570
Minority Interest					
Income Before Extraordinary Item	38,772	23,795	28,112	41,839	132,518
Extraordinary Item, net of income taxes					
Net Income	38,772	23,795	28,112	41,839	132,518
Preferred Stock Dividend Requirements	4,518	4,518	4,518	4,516	18,070
Earnings Available for Common Stock	\$ 34,254	\$ 19,277	\$ 23,594	\$ 37,323	\$ 114,448

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-00072155

PPL Electric Utilities Corporation

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Statement No. 3

Direct Testimony of Denise A. Cunningham

Direct Testimony of Denise A. Cunningham

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- Q. Please state your name and business address.
- A. Denise A. Cunningham, Two North Ninth Street, Allentown, Pennsylvania 18101.
- Q. By whom are you employed and in what capacity?
- A. I am employed by the PPL Services Corporation ("PPL Services") as a Special Projects Leader in the Financial Planning Department.
- Q. What are your responsibilities as Special Projects Leader?
- A. I lead Financial Department activities in support of regulatory filings and other special projects, as well as represent Financial Planning on high profile inter-departmental teams throughout PPL Corporation ("PPL").
- Q. What is your educational background?
- A. I received a Bachelor's Degree in Accounting from Bloomsburg State College in May 1975 and a Master's Degree in Business Administration from Lehigh University in May 1985. I also am a Certified Public Accountant. Before starting with Pennsylvania Power & Light Company, the predecessor of PPL Electric Utilities Corporation ("PPL Electric"), in December 1978, I worked in public accounting.
- Q. How long have you been employed by PPL, the parent of PPL Electric, or a subsidiary of PPL, and in what capacities?

1 A. I have worked for PPL or its affiliates for 28 years. I began my employment as
2 an Auditor in the Internal Audit Department performing various financial and
3 operational audits. I remained there for six years. I then transferred to the
4 Financial Planning Department as a Senior Accountant. This department was
5 responsible for the development of the corporate operating budget. Initially, I
6 was responsible for the preparation of corporate payroll, and operation and
7 maintenance expense (O&M) budgets. While there, I was promoted to
8 Accounting Analyst and assumed responsibility for the development of the
9 other line items of the corporate operating budget, including sales, the Energy
10 Cost Rate, unbilled revenues, etc. I also was involved in the corporate long-
11 range planning function. I worked in Financial Planning for almost 10 years. In
12 November 1994, I was promoted to Supervisor - Financial Accounting
13 responsible for the maintenance and closing of the corporate books and
14 records, as well as the completion and filing of the Annual Report to
15 Shareowners, Forms 10-K and 10-Q for the Securities and Exchange
16 Commission and the FERC Form 1. Through my experience in Financial
17 Planning and Financial Accounting, I developed a thorough knowledge of
18 accounting and reporting concepts applicable to the regulated electricity
19 industry. In September 1996, I transferred to the position of Project Manager -
20 Business Management Information System responsible for the implementation
21 of a new general ledger and reporting system that became operational in
22 November 1998. In 2000, I took the position of Manager - Competitive
23 Marketing and Derivative Accounting responsible for implementation of
24 Statement of Financial Accounting Standard No. 133, Accounting for Derivative

1 Instruments and Hedging Activities ("SFAS 133"), and the accounting and
2 settlement activities of the energy marketing group. In mid-2002, I became a
3 Special Projects Leader and have been involved in many diverse projects which
4 provide the opportunity to draw on my previous experience. I coordinated the
5 Financial Department's activities in the preparation of PPL Electric's 2004
6 distribution base rate case.

7
8 Q. What is the purpose of your testimony?

9 A. My testimony will describe and support PPL Electric's calculation of certain
10 ratemaking adjustments to retail rate base, operating revenues and operating
11 expenses for the historic and future test years.

12
13 Q. Ms. Cunningham, are you sponsoring any exhibits in this proceeding?

14 A. Yes, I am sponsoring portions of Exhibit Regs., Part I-General Information, Part
15 II-Primary Statements of Rate Base and Operating Income, Part V-Plant and
16 Depreciation Supporting Data, Including Related Depreciation Study Report
17 and Part VI-Unadjusted Comparative Balance Sheets and Operating Income
18 Statements.

19
20 Exhibits Historic 1 and Future 1

21 Q. Are you sponsoring any schedules in Exhibits Historic 1 and Future 1?

22 A. Yes. I am sponsoring the following: Schedules C-1, C-2, C-5, D-1, D-2, D-3,
23 D-4, D-5, D-6, D-7, D-9, D-10, and D-11 of Exhibits Historic 1 and Future 1.

1 Q. Ms. Cunningham, would you explain Schedules C-2, Electric Plant in Service –
2 Original Cost in Exhibits Historic 1 and Future 1?

3 A Schedule C-2 of Exhibit Historic 1 represents electric plant in service and the
4 reserve for depreciation at December 31, 2006, which were taken from PPL
5 Electric's fixed asset records, as explained in the testimony of Mr. Schadt.
6 Schedule C-2 of Exhibit Future 1 represents the projected electric plant in
7 service and reserve for depreciation at December 31, 2007. The projected
8 electric plant in service at December 31, 2007 is determined by adjusting the
9 December 31, 2006 balance for projects expected to be placed in service and
10 projected retirements during 2007. The reserve for depreciation at
11 December 31, 2007 was determined by adjusting the December 31, 2006
12 balance for the 2007 provision for depreciation and amortization, and projected
13 retirements.

14
15 Q. Ms. Cunningham, would you explain Schedules C-5, "Plant Materials and
16 Operating Supplies"?

17 A. Schedules C-5 set forth the investment in the materials and supplies stored at
18 service area storerooms to supply line crews. Schedule C-5 in Exhibit Historic
19 1 shows the average dollars invested by PPL Electric in materials and operating
20 supplies for the thirteen months ended December 31, 2006, and the stores
21 expense applicable to this inventory balance. Projected monthly balances of
22 materials and operating supplies, and the applicable stores expense, for the 13
23 months ending December 31, 2007 are shown on Schedule C-5 of Exhibit
24 Future 1.

1

2 Q. Please explain the adjustment on Schedules D-5 "Adjustment to Wages and
3 Benefits".

4 A. The number of employees that PPL Electric employs can fluctuate throughout
5 any given year. This, in turn, impacts the wages and benefits incurred or
6 projected for that period. Schedules D-5 annualize transmission and
7 distribution wages, taxes and benefits based on the number of transmission
8 and distribution (T&D) related employees to be employed at the end of each
9 test year and the corresponding average monthly T&D-related wages to
10 expense per employee.

11

12 Q. Ms. Cunningham, please explain Schedules D-9 "Adjustment for Deferred
13 Costs for 2005 Ice and Snow Storms".

14 A. In January 2005, a series of severe ice storms affected PPL Electric's service
15 territory. The total cost to restore service to customers, excluding capitalized
16 costs and regular payroll expenses, was approximately \$16 million. On
17 February 11, 2005, PPL Electric filed a petition with the PUC for authority to
18 defer and amortize for regulatory accounting and reporting purposes these
19 storm costs. On August 26, 2005, the PUC issued an order granting PPL
20 Electric's petition subject to certain conditions, including: (1) the PUC's
21 authorization of deferred accounting is not an assurance of future rate recovery
22 of the storm costs, (2) PPL Electric must request recovery of the deferred
23 storm costs in its next distribution base rate case, and (3) PPL Electric must

1 begin immediately to expense the deferred storm costs on a 10-year
2 amortization schedule for regulatory accounting and reporting purposes.

3 As a result of the PUC Order and in accordance with SFAS 71,
4 "Accounting for the Effects of Certain Types of Regulation", in the third quarter
5 of 2005, PPL Electric deferred approximately \$12.3 million of these previously
6 expensed storm expenses. The deferral was based on the projected timing of
7 the Company's next distribution base rate case. The difference between the
8 \$16 million of expense incurred and the \$12.3 million deferred approximates
9 the amortization expense from August 2005 through December 2007.

10 The annual adjustment of \$1,611,000 reflected on Schedules D-9 of
11 Exhibit Historic 1 and Exhibit Future 1 reflects the annual amortization that
12 would have been incurred in each of these years had not the Company taken
13 the immediate write-off of those amounts in 2005.

14
15 Q. Please explain Schedules D-10 "Adjustment for Storm Insurance".

16 A. As Mr. Krall explains in his testimony, PPL Electric purchased storm insurance
17 for its transmission and distribution system in June 2006. The adjustments
18 reflected on Schedule D-10 of Exhibit Historic 1 annualizes transmission and
19 distribution expense to reflect a full year of storm insurance expense. Because
20 PPL Electric already included the insurance premium in its 2007 budget, there
21 is no adjustment proposed on Schedule D-10 of Exhibit Future 1. The
22 adjustment shown on Schedule D-10 of Exhibit Historic 1 represents the
23 difference between the full annual premium and the actual portion of that
24 premium recorded by PPL Electric in 2006.

1

2 Q. Does this conclude your direct testimony?

3 A. Yes, it does.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-00072155

PPL Electric Utilities Corporation

Statement No. 4

Direct Testimony of David R. Woodruff

2007 MAR 29 PM 12:54
SECRETARY'S BUREAU

REC'D

1 **Direct Testimony of David R. Woodruff**

2 Q. Please state your full name and business address.

3 A. David R. Woodruff, Two North Ninth Street, Allentown, Pennsylvania 18101.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by PPL Electric Utilities Corporation ("PPL Electric" or the
7 "Company") in the Asset Management Department as Manager Load Analysis.

8

9 Q. What are your duties as Manager–Load Analysis?

10 A. I am responsible for the overall direction of the functions of the Load Analysis
11 section within the Asset Financial Evaluation section of the Asset Management
12 Department. In this capacity, I direct the forecasting of customer energy sales,
13 revenues, and peak demands. In addition, I oversee the collection of load
14 research data and the development of historical and forecasted customer and
15 rate class hourly demands. This includes the forecasting of hourly demands for
16 the PPL System within PJM, and the Provider of Last Resort ("POLR") function,
17 which are used for scheduling PPL Electric's daily load requirements.

18

19 Q. What is your education background?

20 A. I graduated from The Pennsylvania State University in 1980 with a Bachelor of
21 Science in Civil Engineering; and from Drexel University in 1998 with a Master of
22 Science in Engineering Management. I am a licensed Professional Engineer in
23 the State of Pennsylvania.

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Q. Please describe your professional experience.

A. I was employed by PPL Electric's predecessor, Pennsylvania Power & Light Company, in 1980 as an Engineer in the Power Plant Engineering Department. My responsibilities were to design modifications to the Company's fossil and hydro power plants. In 1988, I assumed the position of Project Engineer in the Fuel Planning Section of the Fossil Fuels Department. My responsibilities included fuel price forecasting and analytical support for Fuel Operations. In 1995, I assumed the position of Fuel Procurement Agent within the Fuel Procurement Section of the Fossil Fuels Department. My responsibilities included the procurement of fuel (anthracite coal, bituminous coal, petroleum coke) for the fossil power plants. In 1996, I assumed the position of Senior Consultant in the IS Consulting Section of the Information Services Department. My responsibilities included the negotiation of computer hardware contracts, and procurement of computer equipment. In 1998, I was named acting Supervisor within the Consulting Section. In 1998, I assumed the position of Senior Forecaster in the Load Analysis Section. My responsibilities included the development and implementation of new hourly forecasting models to meet the POLR requirements of PPL Electric, the implementation of new monthly sales forecasting models, and forecasting of Alternative Supplier loads. In 2001, I assumed my current position.

Q. Mr. Woodruff, what is the purpose of your testimony?

- 1 A. The purpose of my testimony is as follows:
- 2 • To explain the development of the Company's forecast of customer sales,
 - 3 revenues, and peak demands;
 - 4 • To sponsor and explain the annualization of sales and base rate revenues as
 - 5 summarized on Schedules D-3 of Exhibit Historic 1 and Exhibit Future 1; and
 - 6 • To explain the derivation of customer load data used to develop the demand
 - 7 allocators employed by Mr. Kleha in his cost allocation studies.
- 8

9 Q. Have you prepared any exhibits to accompany your direct testimony?

10 A. Yes. I am sponsoring Exhibit DRW 1 which consists of 6 pages. The first page
11 sets forth the Company's actual annual sales by customer class for the historical
12 period 2005 and 2006, and the forecast of annual sales for the 2007 future test
13 year. Page 2 of Exhibit DRW 1 provides aggregate peak load data for the same
14 periods. Pages 3 and 4 of Exhibit DRW 1 show the 2006 Annualization by rate
15 schedule of distribution and transmission revenues, and pages 5 and 6 of Exhibit
16 DRW 1 show the 2007 Annualization details for the future test year.

17

18 Q. Please describe the development of the sales forecast set forth in Exhibit
19 DRW 1.

20 A. The sales forecast is developed for the Residential, Commercial, Industrial and
21 Other customer classes. The Residential customer class is segmented into
22 Electrically Heated Home (EHH) and General Residential Service (GRS); the
23 Industrial customer class is segmented by industry. These customer class

1 forecasts were developed from models using regression analyses of historical
2 sales data, economic data, and weather data. Historical and forecasted
3 economic data for the Commonwealth of Pennsylvania are obtained from
4 Economy.com. The weather data are obtained from the following airports:
5 Lehigh Valley International, Harrisburg (Middletown), Wilkes-Barre/Scranton
6 (Avoca), and Williamsport. Because PPL Electric does not bill customers on a
7 calendar-month basis (bills are rendered based on meter reads throughout the
8 month), billing-month heating degree-days (HDDs) and cooling degree-days
9 (CDDs) are calculated for each billing-month, based on the meter read schedule
10 for each billing-month. Forecasted weather is determined by calculating normal
11 billing-month weather on a HDD and CDD basis for the past 20 years. The
12 models use these inputs to generate a monthly sales forecast for each customer
13 class.

14
15 Q. How was the sales forecast set forth in Exhibit DRW 1 used in this rate filing?

16 A. The sales forecast was used to develop projected future test year sales and
17 revenues.

18
19 Q. How did you develop the peak load forecast set forth on page 2 of Exhibit
20 DRW 1?

21 A. The peak load forecast shown on page 2 of Exhibit DRW 1 is a function of
22 historical weather-normalized peaks. Each year, PPL Electric determines its
23 weather-normalized summer and winter peaks. These peaks are based on a

1 regression of actual daily unrestricted peaks against the corresponding weather
2 conditions for the respective season. The point on the regression line
3 corresponding to the 20-year normal weather is the weather-normalized peak for
4 that season. For the summer season, a 20-year rolling average of the
5 Temperature-Humidity Index (THI) is used to determine normal weather,
6 consistent with the weather normalization process approved by PJM in *PJM*
7 *Manual 19: Load Data Systems*. For the winter season, a Winter Weather
8 Parameter is used, comprised of temperature and wind, consistent with *PJM*
9 *Manual 19*.

10 The forecasted peaks are developed for both the summer and winter
11 season using two separate regression models. These models estimate the
12 relationship between the historical seasonal peaks to annual energy sales and
13 various economic drivers. This analysis uses 20 years of history, which results in
14 the forecasted seasonal peaks for the subsequent years. The other months of
15 the year are then estimated, using the historical percentage of the seasonal peak
16 for the appropriate month.

17
18 Q. Please describe the development of the revenue forecast used in Schedule D-3
19 of Exhibit Future 1.

20 A. The first step in this process is converting the forecast of sales by customer class
21 to a forecast of sales by rate schedule. This conversion is accomplished by
22 applying historic billing factors which allocate the customer class sales to the

1 various rate schedules. These factors are annual factors based on revenue-
2 month billing data from the most recent revenue-year. The revenue forecast is
3 developed by applying the forecast of sales by rate to the appropriate rate
4 schedule pricing as detailed in PPL Electric's Tariff—Electric PA P.U.C. No. 201.

5
6 Q. Schedules D-3 of Exhibit Historic 1 and Future 1 reflect the annualization of sales
7 and base rate revenues for the historic and future test years. Please explain how
8 those adjustments were developed.

9 A. The annualization adjustment of sales and base rate revenues for the historic
10 year ended December 31, 2006 has two components. One accounts for
11 changes in the number of customers over the test year, and the second accounts
12 for changes in customer usage. The adjustment for the change in the number of
13 customers as reported for the year by rate class was determined as follows. The
14 change in the number of customers from December 31, 2005 to December 31,
15 2006 was computed for each rate class. One-half of that change was assigned
16 on a class-by-class basis and then multiplied by the average annual KWH usage
17 per customer to obtain the sales adjustment associated with new customers
18 entering the rate class. The average unit base rate for each rate class was
19 applied to the resulting KWH sales levels to obtain the base rate revenue
20 adjustments for all rate components.

21 The second adjustment recognizes changing KWH usage levels by
22 existing customers and was determined as follows. The average change over
23 the past three years in average annual usage for each class was computed.

1 One-half of the change in average use was multiplied by the year-end number of
2 customers for each rate class to obtain the KWH sales adjustment. The
3 incremental base rate for each rate class was applied to this sales adjustment to
4 obtain the base rate revenue adjustment. Details of the 2006 Annualization are
5 shown on pages 3 and 4 of Exhibit DRW 1. The annualization of future test year
6 sales and revenues consisted of similar adjustments for changes in the numbers
7 of customers and customer usage. The details of the future test year
8 annualization are shown on pages 5 and 6 of Exhibit DRW 1.

9
10 Q. Please explain the source of the customer load data used to develop the
11 customer class demand allocators employed in the Company's cost allocation
12 studies.

13 A. PPL Electric continuously collects load data in 15-minute intervals through
14 recording demand meters on sample locations for customers in the residential,
15 GS-1, GS-3, LP-4, and GH classes, and for all customers on Rate Schedules LP-
16 5, LP-6, IS-P, IS-T, and all FERC jurisdictional customers. For the rate classes
17 represented by samples of load data, the sample data are extrapolated to
18 determine hourly demands for the entire rate class. These rate class hourly
19 demands are used to determine the annual rate class maximum demands. The
20 hourly demands are used to determine the contribution of each rate class to each
21 of the twelve (12) monthly peaks during the historic test year. These are
22 averaged to calculate the coincident peak demands for that class.

1 For the future test year, the rate class average demand coincident to the
2 monthly system peak demand and the annual rate class maximum demands
3 were projected by analyzing total rate class demand data from 1996 through
4 2006. The respective rate class historical values were analyzed using a Box-
5 Jenkins modeling technique (also known as ARIMA modeling).

6

7 Q. Does this conclude your testimony?

8 A. Yes it does.

9

PPL ELECTRIC UTILITIES CORPORATION

Exhibit DRW 1

Annual Retail Sales by Customer Class
Annual Net Energy, Seasonal Peaks, and Load Factor
2006 Annualization of Distribution Revenues
2006 Annualization of Transmission Revenues
2007 Annualization of Distribution Revenues
2007 Annualization of Transmission Revenues

Witness: David R. Woodruff

PPL Electric Utilities Corporation
Annual Retail Sales by Customer Class

Excludes Company Use

Sales (millions of kwh)	2005	2006	2007
Residential Electric Heat (EHH)	6,551.0	6,163.2	6,468.6
Residential General Service (GRS)	7,667.4	7,551.1	7,711.1
Residential	14,218.4	13,714.2	14,179.8
Commercial	13,196.2	13,173.6	13,222.5
Industrial	9,783.5	9,637.8	9,964.6
Other	166.9	157.2	169.2
Total	37,365.0	36,682.9	37,536.0

Year-To-Year Change (millions of kwh)		
Residential Electric Heat (EHH)	(387.8)	305.4
Residential General Service (GRS)	(116.4)	160.1
Residential	(504.2)	465.5
Commercial	(22.6)	48.8
Industrial	(145.7)	326.8
Other	(9.7)	12.0
Total	(682.2)	853.1

Year-To-Year Change (%)		
Residential Electric Heat (EHH)	-5.92%	4.96%
Residential General Service (GRS)	-1.52%	2.12%
Residential	-3.55%	3.39%
Commercial	-0.17%	0.37%
Industrial	-1.49%	3.39%
Other	-5.79%	7.64%
Total	-1.83%	2.33%

Note: Sales values for 2005 and 2006 are actual. Sales for 2007 are forecast.

PPL Electric Utilities Corporation
Retail Load¹
Annual Net Energy, Seasonal Peaks, and Load Factor

<u>Year</u>	<u>Net Energy for Load²</u> (GWH)	<u>Peaks</u>		<u>Load Factor</u> (%)
		<u>Summer</u> (MW)	<u>Winter</u> (MW)	
2007	40,631	6,909	7,002	66%

1. Retail Load excludes wholesale deliveries to FERC jurisdictional customers.
2. Reflects load at the generation level, including all losses.

PPL Electric Utilities Corporation
2006 Annualization

Distribution Only

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
			(2) / (3)		(4) * (5)			(7) * (8)	(5) + (8)	(6) + (9)
Rate	Revenue \$	Sales kWh	Average Price \$/kWh	Sales Adjustment - Customer Usage kWh	Customer Usage Revenue \$	Incremental Price \$/kWh	Sales Adjustment - Customer Growth kWh	Customer Growth Revenue \$	Total Sales Adjustment kWh	Total Revenue Adjustment \$
RS	\$ 376,941,156	13,339,389,613	\$ 0.0283	(5,354,910)	\$ (151,318)	\$ 0.0188	64,087,476	\$ 1,202,144	58,732,566	\$ 1,050,826
RTS	\$ 3,743,951	363,491,518	\$ 0.0103	(7,872,507)	\$ (81,087)	\$ 0.0009	(1,368,862)	\$ (1,216)	(9,241,369)	\$ (82,303)
RTD	\$ 134,549	4,755,628	\$ 0.0283	(76,089)	\$ (2,153)	\$ 0.0175	(26,919)	\$ (472)	(103,008)	\$ (2,625)
GS-1	\$ 75,555,853	1,934,890,488	\$ 0.0390	(11,249,672)	\$ (439,290)	\$ 0.0222	4,967,789	\$ 110,182	(6,281,883)	\$ (329,109)
GS-3	\$ 115,379,588	8,600,812,525	\$ 0.0134	(2,249,756)	\$ (30,180)	\$ 0.0072	9,633,527	\$ 69,309	7,383,771	\$ 39,128
LP-4	\$ 31,755,199	5,849,944,666	\$ 0.0054	6,058,765	\$ 32,889	\$ 0.0041	72,114,702	\$ 296,834	78,173,468	\$ 329,722
ISP	\$ 1,824,688	319,477,861	\$ 0.0057	(2,525,683)	\$ (14,425)	\$ 0.0073	(5,704,962)	\$ (41,792)	(8,230,645)	\$ (56,217)
LP-5	\$ 1,972,435	3,053,220,058	\$ 0.0006	(68,310,685)	\$ (44,130)	\$ 0.0004	-	\$ -	(68,310,685)	\$ (44,130)
IST	\$ 1,335,424	1,880,611,188	\$ 0.0007	22,827,062	\$ 16,210	\$ 0.0018	-	\$ -	22,827,062	\$ 16,210
L5S	\$ 49,133	4,639,000	\$ 0.0106	(221,548)	\$ (2,346)	\$ 0.0001	-	\$ -	(221,548)	\$ (2,346)
LP-6	\$ 177,316	427,174,000	\$ 0.0004	(2,063,333)	\$ (856)	\$ 0.0003	53,396,750	\$ 17,243	51,333,417	\$ 16,387
LPEP	\$ 463,457	62,010,000	\$ 0.0075	348,017	\$ 2,601	\$ 0.0015	-	\$ -	348,017	\$ 2,601
ISM	\$ 575,878	438,159,287	\$ 0.0013	37,171,450	\$ 48,855	\$ (0.0000)	-	\$ -	37,171,450	\$ 48,855
IS-1	\$ 30,600	1,664,560	\$ 0.0184	61,799	\$ 1,136	\$ -	-	\$ -	61,799	\$ 1,136
BL	\$ 269,184	6,164,221	\$ 0.0437	(105,860)	\$ (4,623)	\$ 0.0430	1,052,428	\$ 45,219	946,568	\$ 40,597
SA	\$ 3,472,345	23,106,960	\$ 0.1503	-	\$ -	\$ 0.1503	-	\$ -	-	\$ -
SM	\$ 711,868	4,562,798	\$ 0.1560	(17,790)	\$ (2,776)	\$ 0.1560	(114,070)	\$ (17,797)	(131,860)	\$ (20,572)
SHS	\$ 11,769,365	49,912,208	\$ 0.2358	(2,992,205)	\$ (705,566)	\$ 0.2358	845,253	\$ 199,312	(2,146,952)	\$ (506,254)
SE	\$ 1,567,703	34,721,839	\$ 0.0452	2,088,910	\$ 94,315	\$ 0.0452	763,117	\$ 34,455	2,852,027	\$ 128,770
TS	\$ 22,725	319,584	\$ 0.0711	(10,084)	\$ (717)	\$ 0.0711	-	\$ -	(10,084)	\$ (717)
SI-1	\$ 15,456	82,588	\$ 0.1871	(1,867)	\$ (349)	\$ 0.1871	-	\$ -	(1,867)	\$ (349)
GH-1	\$ 5,713,453	293,404,603	\$ 0.0195	9,923,746	\$ 193,245	\$ 0.0163	(2,968,417)	\$ (48,286)	6,955,329	\$ 144,959
GH-2	\$ 1,338,154	62,283,729	\$ 0.0215	(1,273,752)	\$ (27,366)	\$ 0.0133	(423,263)	\$ (5,625)	(1,697,014)	\$ (32,991)
Total	\$ 634,819,480	36,754,798,922		(25,845,992)	\$ (1,117,933)		196,254,550	\$ 1,859,510	170,408,558	\$ 741,577

Note: Excludes Company Use

**PPL Electric Utilities Corporation
2006 Annualization**

Transmission Only

(1)	(2)	(3)	(4) (2) / (3)	(5)	(6) (4) * (5)	(7)	(8)	(9) (7) * (8)	(10) (5) + (8)	(11) (6) + (9)
Rate	Revenue \$	Sales kWh	Average Price \$/kWh	Sales Adjustment - Customer Usage kWh	Customer Usage Revenue \$	Incremental Price \$/kWh	Sales Adjustment - Customer Growth kWh	Customer Growth Revenue \$	Total Sales Adjustment kWh	Total Revenue Adjustment \$
RS	\$ 80,313,980	13,339,389,613	\$ 0.0060	(5,354,910)	\$ (32,241)	\$ 0.0057	64,087,476	\$ 368,060	58,732,566	\$ 335,819
RTS	\$ 2,186,776	363,491,518	\$ 0.0060	(7,872,507)	\$ (47,361)	\$ 0.0058	(1,368,862)	\$ (7,992)	(9,241,369)	\$ (55,353)
RTD	\$ 28,620	4,755,628	\$ 0.0060	(76,089)	\$ (458)	\$ 0.0058	(26,919)	\$ (156)	(103,008)	\$ (614)
GS-1	\$ 11,559,296	1,934,890,488	\$ 0.0060	(11,249,672)	\$ (67,207)	\$ 0.0057	4,967,789	\$ 28,196	(6,281,883)	\$ (39,011)
GS-3	\$ 51,232,323	8,600,812,525	\$ 0.0060	(2,249,756)	\$ (13,401)	\$ 0.0059	9,633,527	\$ 57,314	7,383,771	\$ 43,913
LP-4	\$ 35,013,869	5,849,944,666	\$ 0.0060	6,058,765	\$ 36,264	\$ 0.0063	72,114,702	\$ 455,850	78,173,468	\$ 492,114
ISP	\$ 1,942,369	319,477,861	\$ 0.0061	(2,525,683)	\$ (15,356)	\$ 0.0064	(5,704,962)	\$ (36,353)	(8,230,645)	\$ (51,708)
LP-5	\$ 18,384,691	3,053,220,058	\$ 0.0060	(68,310,685)	\$ (411,327)	\$ 0.0059	-	\$ -	(68,310,685)	\$ (411,327)
IST	\$ 11,508,407	1,880,611,188	\$ 0.0061	22,827,062	\$ 139,690	\$ 0.0060	-	\$ -	22,827,062	\$ 139,690
L5S	\$ 27,983	4,639,000	\$ 0.0060	(221,548)	\$ (1,336)	\$ 0.0060	-	\$ -	(221,548)	\$ (1,336)
LP-6	\$ 2,583,908	427,174,000	\$ 0.0060	(2,063,333)	\$ (12,481)	\$ 0.0061	53,396,750	\$ 323,765	51,333,417	\$ 311,284
LPEP	\$ 374,634	62,010,000	\$ 0.0060	348,017	\$ 2,103	\$ 1.1914	-	\$ -	348,017	\$ 2,103
ISM	\$ 1,673,027	438,159,287	\$ 0.0038	37,171,450	\$ 141,932	\$ (39.8788)	-	\$ -	37,171,450	\$ 141,932
IS-1	\$ 10,005	1,664,560	\$ 0.0060	61,799	\$ 371	\$ 0.0059	-	\$ -	61,799	\$ 371
BL	\$ 37,573	6,164,221	\$ 0.0061	(105,860)	\$ (645)	\$ 0.1414	1,052,428	\$ 148,802	946,568	\$ 148,157
SA	\$ 139,828	23,106,960	\$ 0.0061	-	\$ -	\$ 0.0061	-	\$ -	-	\$ -
SM	\$ 27,048	4,562,798	\$ 0.0059	(17,790)	\$ (105)	\$ 0.0059	(114,070)	\$ (676)	(131,860)	\$ (782)
SHS	\$ 297,410	49,912,208	\$ 0.0060	(2,992,205)	\$ (17,830)	\$ 0.0060	845,253	\$ 5,037	(2,146,952)	\$ (12,793)
SE	\$ 208,831	34,721,839	\$ 0.0060	2,088,910	\$ 12,564	\$ 0.0060	763,117	\$ 4,590	2,852,027	\$ 17,153
TS	\$ 1,934	319,584	\$ 0.0061	(10,084)	\$ (61)	\$ 0.0061	-	\$ -	(10,084)	\$ (61)
SI-1	\$ 521	82,588	\$ 0.0063	(1,867)	\$ (12)	\$ 0.0063	-	\$ -	(1,867)	\$ (12)
GH-1	\$ 1,637,354	293,404,603	\$ 0.0056	9,923,746	\$ 55,380	\$ 0.0054	(2,968,417)	\$ (16,151)	6,955,329	\$ 39,229
GH-2	\$ 372,221	62,283,729	\$ 0.0060	(1,273,752)	\$ (7,612)	\$ 0.0059	(423,263)	\$ (2,481)	(1,697,014)	\$ (10,093)
Total	\$ 219,562,605	36,754,798,922		(25,845,992)	\$ (239,130)		196,254,550	\$ 1,327,805	170,408,558	\$ 1,088,675

Note: Excludes Company Use

**PPL Electric Utilities Corporation
2007 Annualization**

Distribution Only

(1)	(2)	(3)	(4) (2) / (3)	(5)	(6) (4) * (5)	(7)	(8)	(9) (7) * (8)	(10) (5) + (8)	(11) (6) + (9)
Rate	Revenue \$	Sales kWh	Average Price \$/kWh	Sales Adjustment - Customer Usage kWh	Customer Usage Revenue \$	Incremental Price \$/kWh	Sales Adjustment - Customer Growth kWh	Customer Growth Revenue \$	Total Sales Adjustment kWh	Total Revenue Adjustment \$
RS	\$ 389,428,996	13,782,978,000	\$ 0.0283	67,235,347	\$ 1,899,691	\$ 0.0175	26,060,986	\$ 455,277	93,296,333	\$ 2,354,967
RTS	\$ 3,704,805	385,602,000	\$ 0.0096	(1,618,994)	\$ (15,555)	\$ (0.0004)	6,450,338	\$ (2,534)	4,831,344	\$ (18,090)
RTD	\$ 137,526	5,013,000	\$ 0.0274	(6,614)	\$ (181)	\$ 0.0162	129,967	\$ 2,102	123,352	\$ 1,921
GS-1	\$ 75,277,490	1,968,887,000	\$ 0.0382	(1,815,655)	\$ (69,419)	\$ 0.0105	(1,278,340)	\$ (13,382)	(3,093,995)	\$ (82,801)
GS-3	\$ 116,047,630	8,734,385,000	\$ 0.0133	18,346,183	\$ 243,753	\$ 0.0048	29,231,543	\$ 141,511	47,577,725	\$ 385,264
LP-4	\$ 30,559,230	5,868,659,000	\$ 0.0052	11,068,426	\$ 57,635	\$ 0.0044	(81,347,749)	\$ (356,055)	(70,279,322)	\$ (298,419)
ISP	\$ 1,817,693	343,821,000	\$ 0.0053	(927,449)	\$ (4,903)	\$ 0.0044	17,783,845	\$ 78,494	16,856,396	\$ 73,591
LP-5	\$ 1,719,341	3,194,563,000	\$ 0.0005	(39,572,701)	\$ (21,298)	\$ 0.0007	(45,206,080)	\$ (30,086)	(84,778,781)	\$ (51,384)
IST	\$ 739,078	1,980,277,000	\$ 0.0004	33,374,210	\$ 12,456	\$ (0.0002)	-	\$ -	33,374,210	\$ 12,456
L5S	\$ 45,370	6,581,000	\$ 0.0069	80,743	\$ 557	\$ 0.0071	(1,974,300)	\$ (13,983)	(1,893,557)	\$ (13,427)
LP-6	\$ 139,013	363,650,000	\$ 0.0004	(32,428,067)	\$ (12,396)	\$ 0.0004	72,730,000	\$ 28,047	40,301,933	\$ 15,651
LPEP	\$ 331,971	72,000,000	\$ 0.0046	620,000	\$ 2,859	\$ -	-	\$ -	620,000	\$ 2,859
ISM	\$ 537,964	426,000,000	\$ 0.0013	28,543,136	\$ 36,045	\$ -	-	\$ -	28,543,136	\$ 36,045
IS-1	\$ 31,633	1,447,000	\$ 0.0219	26,327	\$ 576	\$ 0.0219	-	\$ -	26,327	\$ 576
BL	\$ 281,756	6,468,000	\$ 0.0436	(208,210)	\$ (9,070)	\$ -	(1,054,565)	\$ -	(1,262,775)	\$ (9,070)
SA	\$ 3,393,093	23,015,000	\$ 0.1474	-	\$ -	\$ 0.1474	-	\$ -	-	\$ -
SM	\$ 890,277	5,733,000	\$ 0.1553	152,432	\$ 23,671	\$ 0.1553	110,250	\$ 17,121	262,682	\$ 40,792
SHS	\$ 10,988,709	48,806,000	\$ 0.2252	(2,917,674)	\$ (656,916)	\$ 0.2252	(356,401)	\$ (80,244)	(3,274,075)	\$ (737,160)
SE	\$ 1,399,587	35,699,000	\$ 0.0392	2,440,356	\$ 95,675	\$ 0.0392	(608,506)	\$ (23,857)	1,831,851	\$ 71,818
TS	\$ 20,787	334,000	\$ 0.0622	(2,745)	\$ (171)	\$ 0.0622	-	\$ -	(2,745)	\$ (171)
SI-1	\$ 14,599	87,000	\$ 0.1678	(556)	\$ (93)	\$ 0.1678	-	\$ -	(556)	\$ (93)
GH-1	\$ 5,750,873	299,775,000	\$ 0.0192	(4,044,455)	\$ (77,589)	\$ 0.0042	6,891,379	\$ 28,984	2,846,924	\$ (48,605)
GH-2	\$ 1,357,692	64,845,000	\$ 0.0209	(504,136)	\$ (10,555)	\$ (0.0013)	1,594,978	\$ (2,043)	1,090,842	\$ (12,598)
Total	\$ 644,615,113	37,618,625,000		77,839,903	\$ 1,494,769		29,157,344	\$ 229,352	106,997,248	\$ 1,724,120

Note: Excludes Company Use

PPL Electric Utilities Corporation
2007 Annualization

Transmission Only

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
			(2) / (3)		(4) * (5)			(7) * (8)	(5) + (8)	(6) + (9)
Rate	Revenue \$	Sales kWh	Average Price \$/kWh	Sales Adjustment - Customer Usage kWh	Customer Usage Revenue \$	Incremental Price \$/kWh	Sales Adjustment - Customer Growth kWh	Customer Growth Revenue \$	Total Sales Adjustment kWh	Total Revenue Adjustment \$
RS	\$ 77,978,133	13,782,978,000	\$ 0.0057	67,235,347	\$ 380,389	\$ 0.0059	26,060,986	\$ 154,049	93,296,333	\$ 534,438
RTS	\$ 2,183,290	385,602,000	\$ 0.0057	(1,618,994)	\$ (9,167)	\$ 0.0058	6,450,338	\$ 37,375	4,831,344	\$ 28,208
RTD	\$ 28,378	5,013,000	\$ 0.0057	(6,614)	\$ (37)	\$ 0.0058	129,967	\$ 757	123,352	\$ 720
GS-1	\$ 11,019,603	1,968,887,000	\$ 0.0056	(1,815,655)	\$ (10,162)	\$ 0.0062	(1,278,340)	\$ (7,887)	(3,093,995)	\$ (18,049)
GS-3	\$ 49,129,868	8,734,385,000	\$ 0.0056	18,346,183	\$ 103,195	\$ 0.0062	29,231,543	\$ 181,179	47,577,725	\$ 284,374
LP-4	\$ 33,140,323	5,868,659,000	\$ 0.0056	11,068,426	\$ 62,503	\$ 0.0060	(81,347,749)	\$ (485,430)	(70,279,322)	\$ (422,927)
ISP	\$ 1,942,791	343,821,000	\$ 0.0057	(927,449)	\$ (5,241)	\$ 0.0048	17,783,845	\$ 86,168	16,856,396	\$ 80,927
LP-5	\$ 18,021,425	3,194,563,000	\$ 0.0056	(39,572,701)	\$ (223,241)	\$ 0.0054	(45,206,080)	\$ (242,122)	(84,778,781)	\$ (465,363)
IST	\$ 11,176,214	1,980,277,000	\$ 0.0056	33,374,210	\$ 188,356	\$ 0.0047	-	\$ -	33,374,210	\$ 188,356
L5S	\$ 37,197	6,581,000	\$ 0.0057	80,743	\$ 456	\$ 0.0062	(1,974,300)	\$ (12,244)	(1,893,557)	\$ (11,788)
LP-6	\$ 2,055,141	363,650,000	\$ 0.0057	(32,428,067)	\$ (183,265)	\$ 0.0060	72,730,000	\$ 434,218	40,301,933	\$ 250,953
LPEP	\$ 406,884	72,000,000	\$ 0.0057	620,000	\$ 3,504	\$ 3.3280	-	\$ -	620,000	\$ 3,504
ISM	\$ 1,491,906	426,000,000	\$ 0.0035	28,543,136	\$ 99,962	\$ 2.7779	-	\$ -	28,543,136	\$ 99,962
IS-1	\$ 8,179	1,447,000	\$ 0.0057	26,327	\$ 149	\$ 0.0062	-	\$ -	26,327	\$ 149
BL	\$ 36,556	6,468,000	\$ 0.0057	(208,210)	\$ (1,177)	\$ 3.5000	(1,054,565)	\$ (3,690,978)	(1,262,775)	\$ (3,692,155)
SA	\$ 129,397	23,015,000	\$ 0.0056	-	\$ -	\$ 0.0056	-	\$ -	-	\$ -
SM	\$ 32,236	5,733,000	\$ 0.0056	152,432	\$ 857	\$ 0.0056	110,250	\$ 620	262,682	\$ 1,477
SHS	\$ 274,327	48,806,000	\$ 0.0056	(2,917,674)	\$ (16,400)	\$ 0.0056	(356,401)	\$ (2,003)	(3,274,075)	\$ (18,403)
SE	\$ 201,942	35,699,000	\$ 0.0057	2,440,356	\$ 13,805	\$ 0.0057	(608,506)	\$ (3,442)	1,831,851	\$ 10,362
TS	\$ 1,889	334,000	\$ 0.0057	(2,745)	\$ (16)	\$ 0.0057	-	\$ -	(2,745)	\$ (16)
SI-1	\$ 492	87,000	\$ 0.0057	(556)	\$ (3)	\$ 0.0057	-	\$ -	(556)	\$ (3)
GH-1	\$ 1,570,988	299,775,000	\$ 0.0052	(4,044,455)	\$ (21,195)	\$ 0.0053	6,891,379	\$ 36,313	2,846,924	\$ 15,118
GH-2	\$ 363,742	64,845,000	\$ 0.0056	(504,136)	\$ (2,828)	\$ 0.0062	1,594,978	\$ 9,855	1,090,842	\$ 7,027
Total	\$ 211,230,901	37,618,625,000		77,839,903	\$ 380,445		29,157,344	\$ (3,503,572)	106,997,248	\$ (3,123,127)

Note: Excludes Company Use

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SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-00072155

PPL Electric Utilities Corporation

Statement No. 5

Direct Testimony of Douglas A. Krall

1 Q. Please state your full name and business address.

2 A. My name is Douglas A. Krall. My business address is Two North Ninth Street,
3 Allentown, Pennsylvania, 18101.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by PPL Electric Utilities Corporation ("PPL Electric" or the
7 "Company"), a subsidiary of PPL Corporation. I work in the Asset Management
8 Department of PPL Electric and my title is Manager – Regulatory Strategy.

9

10 Q. Please describe your primary responsibilities in that position.

11 A. As Manager – Regulatory Strategy, I am responsible for assisting in the
12 development of long-term strategy, goals and objectives; providing regulatory
13 insights into the development and implementation of business strategies; and
14 leading the development of responses to legislative, regulatory, and political
15 issues.

16

17 Q. What is your educational background?

18 A. I graduated from Stevens Institute of Technology in Hoboken, New Jersey in
19 1973 with a Bachelor of Engineering degree in Mechanical Engineering. I have
20 completed courses in Business Administration at Muhlenberg College in
21 Allentown, Pennsylvania.

22

23 Q. Are you a registered Professional Engineer?

1 A. Yes. I have been a registered Professional Engineer in the Commonwealth of
2 Pennsylvania since 1977. My registration number is PE-026733-E.

3

4 Q. Please describe your professional experience.

5 A. I joined the Mechanical Engineering Department of PPL Electric's predecessor,
6 Pennsylvania Power and Light ("PP&L"), in 1973 as an Engineer-Level I working
7 on studies related to PP&L's generating plants. In 1974, the engineering
8 functions were restructured and I became a member of the Power Plant
9 Engineering Department. In 1975, I was promoted to the position of Engineer-
10 Level II and, in 1978, to the position of Project Engineer within that department.
11 Later in 1978, I transferred to the System Planning Department and, in 1981, I
12 was promoted to the position of Senior Project Engineer. In both of those
13 positions I was responsible for the development of plans related to maintaining
14 and upgrading PP&L's existing fossil and hydro generating plants. In 1984, I was
15 promoted to the position of Manager-Generation Development Planning within
16 the System Planning Department with responsibility for the portion of PP&L's
17 capital budget related to existing fossil and hydro generating plants as well as
18 overall administrative responsibility for PP&L's capital budget. I also was, in that
19 position, PP&L's coordinator for activities related to compliance with the 1990
20 Federal Clean Air Act Amendments. In December 1994, my title changed to
21 Manager-Integrated Resource Planning, but the duties remained relatively the
22 same. In April 1996, I became the Manager-Resource Planning and Pricing. In
23 that capacity, I supervised the development of integrated resource plans, the

1 administration of PP&L's responsibilities regarding non-utility generation, the
2 development of PP&L's capital budget, and the development and administration
3 of PP&L's tariff for electric service. When the Competition Act was passed in
4 Pennsylvania in late 1996 and the pace of industry restructuring accelerated, my
5 duties in this position changed rapidly. The generation and capital budgeting
6 functions were moved to other organizations and, ultimately, to different affiliates.
7 In their place, I took on new duties related to load analysis and coordination of
8 activities within the regulated distribution entity to implement customer choice.
9 In August 2001, I assumed my current position.

10
11 Q. Have you previously testified as a witness before the Pennsylvania Public Utility
12 Commission ("PUC") or the Federal Energy Regulatory Commission ("FERC")?

13 A. Yes. I have testified before the PUC on numerous occasions including the
14 Company's restructuring proceeding (Docket No. R-00973954), two base rate
15 proceedings (Docket Nos. R-00943271 and R-00049255), the Company's 2006
16 filing which requested approval of a plan to provide default service at the end of
17 the generation rate cap (Docket No. P-00062227), proceedings regarding non-
18 utility generators, and proceedings arising from customer complaints.

19 At the FERC, I have testified in regard to PP&L's compliance plans under
20 the 1990 Clean Air Act Amendments (Docket No. ER95-1267), and in regard to
21 PP&L's investment in generating plants to serve its wholesale customers (Docket
22 No. SC97-1-000).

23

1 Q. What is the purpose of your testimony in this proceeding?

2 A. My testimony addresses the following:

3 1. The Company's construction budget which provides the basis for estimates of
4 electric plant additions and retirements reflected in the future test year.

5 2. The Company's response to Question II-B-1 of Exhibit Regs., § 53.53, Part II,
6 Primary Statements of Rate Base and Operating Income ("Question II-B-1")
7 and the Company's claim for land held for future use.

8 3. The Company's proposal to implement energy conservation, energy
9 efficiency, demand-side response, and consumer education programs for its
10 customers.

11 4. The Company's request to recover from customers costs associated with an
12 ice storm that occurred in January 2005.

13 5. The Company's purchase of insurance to recover costs associated with
14 storm-related damage.

15 6. Concerns raised by the Governor's Energy Independence Strategy.

16 7. The allocation of the revenue increase.

17

18 Q. What exhibits are you sponsoring in this proceeding?

19 A. I am sponsoring Exhibit DAK 1. I am also responsible for portions of the
20 information supplied in Schedule D-2 of Exhibit Future-1. In addition, I am
21 responsible for and will sponsor the Company's response to Question II-B-1.

22

1 **Additions to Rate Base**

2 Q. Please describe Exhibit DAK 1.

3 A. Exhibit DAK 1 is a table that summarizes portions of PPL Corporation's 2007-
4 2011 Capital Budget which relate to the capital spending needs of PPL Electric.
5 At PPL Corporation, a capital budget is prepared annually to identify the capital
6 requirements of the corporation and to establish a basis for financial and
7 manpower planning. Each of the corporation's business lines is responsible for
8 identifying, evaluating, and approving projects for inclusion in its capital budget,
9 and then forwarding all of that data to the Financial Department where the
10 Capital Budget for PPL Corporation is reviewed and consolidated.

11
12 Q. Please describe the major headings listed on Exhibit DAK 1.

13 A. The major headings on Exhibit DAK 1 are "Electric Utilities" and "Facilities
14 Management". The section headed "Electric Utilities" summarizes capital
15 requirements related to the distribution and transmission systems. The section
16 headed "Facilities Management" summarizes capital requirements related to
17 service centers, crew quarters, and office buildings. Supporting the annual
18 amounts shown on Exhibit DAK 1 are lists of projects, schedules for projects, and
19 estimates of project costs. Those lists, schedules, and estimates provide the
20 detailed information that is the basis of the estimates of property additions and
21 retirements that appear in the Company's response to Question V-A-3 of Exhibit
22 Regs., § 53.53, Part II, Primary Statements of Rate Base and Operating Income
23 ("Question V-A-3").

- 1 Q. Please describe the categories of expenditures listed in the section of Exhibit
2 DAK 1 headed "Electric Utilities".
- 3 A. The categories listed in this section and a description of each is as follows:
- 4 1. "Provide Electric Service" includes projects to install new service for
5 residential, commercial, and industrial customers (including service upgrades
6 for existing customers to serve additional load), street lighting additions and
7 modernization, and purchases of distribution transformers. Work in this
8 category is a function of customer requests. Forecasts of capital
9 requirements are based on forecasted economic conditions and projected
10 numbers of new customers.
- 11 2. "Upgrade System Facilities" includes specific projects required to ensure and
12 enhance system capacity and reliability. Projects are driven by forecasts of
13 load growth and identified as a result of engineering studies that simulate
14 system loadings under a variety of conditions. Also included in this category
15 are funds for relocations due to highway improvements or other rights-of-way
16 interferences. Forecasts of capital requirements for these last two items are
17 based on recent spending history.
- 18 3. "Assure System Reliability" includes funding for the replacement of
19 deteriorated, obsolete, or failed equipment. Work in this category is a
20 function of identifying a need as the result of inspection, testing, scheduled
21 replacement, or failure. Forecasts of capital requirements reflect inspection
22 and testing plans, the age of equipment, and previously observed conditions.

- 1 4. "Revenue Cycle Service" includes electric meters for new services.
2 Forecasts of capital requirements are based on the forecast of new
3 customers.
- 4 5. "Information Technologies" includes large projects involving the installation of
5 computer software and/or hardware. Forecasts of capital requirements reflect
6 specific identified projects and, also, an allocation based on historical
7 spending levels. The meter data management system described later in my
8 testimony is included here as a specific project.
- 9 6. "Vehicles" includes the cost of cars, trucks, and mobile equipment. Forecasts
10 of capital requirements reflect the age of the existing fleet and, also, historical
11 spending levels.
- 12 7. "Other" reflects miscellaneous items such as office furniture, tools and
13 equipment, and site acquisitions. Forecasts of capital requirements reflect
14 recent history.
- 15 8. "Respond To Customer" includes small projects to resolve customer concerns
16 related to outages, voltage complaints, street and area lighting problems,
17 property damage, flickering lights, and other concerns. Forecasts of capital
18 requirements are based on recent history.

19
20 Q. Please describe the categories of expenditures listed in the section of Exhibit
21 DAK 1 headed "Facilities Management".

22 A. The categories listed in this section and a description of each is as follows:

- 1 1. "Replacement" includes projects to replace equipment that can no longer be
2 maintained and is required for the continued operation of the building.
- 3 2. "Working Conditions/Safety" includes projects required to provide employees
4 a safe and acceptable work environment.
- 5 3. "Environmental" includes projects required to meet state and local
6 environmental regulations.

7 Forecasts of capital requirements in each category are based both on lists of
8 specific identified needs and on recent history.

9
10 Q. Do the capital requirements set forth in Exhibit DAK 1 and the associated
11 property additions and retirements that appear in the Company's response to
12 Question V-A-3 represent, in your opinion, a necessary investment in facilities by
13 PPL Electric?

14 A. Yes. The capital requirements set forth in Exhibit DAK 1 and the associated
15 property additions and retirements that appear in the Company's response to
16 Question V-A-3 are the result of careful engineering studies extending over many
17 months, and of inspection and testing programs designed to monitor the
18 condition of equipment and to anticipate the need to replace or upgrade it. This
19 forecast of capital requirements reflects PPL Electric's best estimate of the
20 facilities needed to provide reliable and economic delivery service both now and
21 in the future. This forecast also considers the need to provide new and upgraded
22 facilities which are necessary to maintain and, where appropriate, improve the

1 efficiency of operating personnel. I believe that this forecast is reasonable and
2 represents a prudent level of investment.

3
4 **Land Held for Future Use**

5 Q. Please explain PPL Electric's response to Question II-B-1.

6 A. PPL Electric's response to Question II-B-1 provides a table of sites and rights-of-
7 way that the Company has acquired in anticipation of the construction of
8 substations and lines. The response includes sites and rights-of-way for both
9 transmission and distribution projects, however, the Company is seeking
10 approval to include in rate base only those sites and rights-of-way associated
11 with distribution projects. The total request associated with distribution land is
12 \$2,212,678 which consists of \$1,916,265 for distribution substations, \$30,075 for
13 distribution lines, and \$266,338 for the installation of manholes and conduit for
14 distribution lines. The response to Questions II-B-1 lists 14 individual sites and
15 rights-of-way, a description of the project each supports, the original date each
16 was acquired, and the expected date of use for each.

17 In this proceeding, PPL Electric is making a claim for the \$2,212,678
18 related to distribution land held for future use. If this claim is not approved by the
19 Commission, PPL Electric, in the alternative, is requesting approval to accrue a
20 return equivalent to the applicable AFUDC rate on these investments and to
21 include the accrued amount as part of its distribution plant in-service at the time
22 such plant is placed into service.

23

1 Q. Why has PPL Electric acquired these sites and rights-of-way?

2 A. This land has been acquired because it was prudent to do so in support of the
3 construction of distribution lines and substations that will be necessary to
4 maintain reliability and accommodate new customers in the coming years.

5 The conditions that produce growth in electrical demand also will result in
6 expansion of land occupancy. Residential, commercial, and other construction in
7 an area may render it more costly or disruptive to the community to purchase
8 land at the last possible moment. When a need can be identified, it is in the
9 community interest to purchase land well in advance and record the land or right-
10 of-way purchase. This provides the community with an awareness of PPL
11 Electric's plans for the area.

12 Another consideration is that the necessary land or right-of-way may not
13 be available when needed in the future, which may require significant changes in
14 the overall plan for development of the distribution system; potentially making
15 necessary development more costly to customers.

16 Allowance must be made for local planning discussions, for negotiations,
17 for siting approval by the Commission and for possible condemnation
18 proceedings. Needs must, therefore, be anticipated as far in advance as
19 possible and the necessary steps taken to acquire essential land and easements.

20
21 **Demand-Side Management and Conservation/Efficiency Infrastructure**

22 Q. Please describe efforts that PPL Electric has underway to provide demand-side
23 management and consumer education programs to customers.

1 A. PPL Electric's generation rate caps will expire on December 31, 2009, in
2 accordance with the Commission-approved settlement of its restructuring case.
3 PPL Electric has initiated a number of activities to provide its customers with the
4 resources they will need to make wise choices regarding how they use electricity
5 when prices are more reflective of market conditions. The following specific
6 efforts are reflected in this filing:

- 7 • Installation of a Meter Data Management System ("MDMS") which will
8 enhance the Company's Advanced Meter Reading ("AMR") system with the
9 functionality of an Advanced Metering Infrastructure ("AMI") system.
- 10 • Five new energy efficiency and energy conservation programs.
- 11 • Consumer education regarding the wise use of energy.

12
13 Q. Please briefly describe PPL Electric's AMR system.

14 A. PPL Electric's AMR system consists of meters, communications infrastructure,
15 computer servers, and applications that enable the Company to remotely read
16 the meters of all of its 1.4 million customers. Logic built into the meters causes
17 them to record readings at appropriate times; i.e., hourly, daily, or monthly. The
18 meters send their data in response to prompts from various sources including the
19 billing system (in the case of billing reads), another meter information need (such
20 as load research), or an individual user such as a Customer Service
21 Representative ("CSR").

22
23 Q. Please describe how the AMR installation is benefiting customers.

1 A. The following are the most significant economic benefits that accrue to
2 customers:

- 3 • The manual reading of meters for billing is discontinued and the meter
4 reading workforce can, over time, be eliminated.
- 5 • With AMR, the need for and number of estimated reads will be reduced and
6 customer calls regarding estimated meter readings and access to meters are
7 virtually eliminated. In addition, the time required to handle telephone calls
8 regarding high usage/high bills will be greatly reduced because the CSRs
9 have available to them actual daily usage information for each account. The
10 reduction in call volume and duration translates into fewer CSR positions.
- 11 • The ability to obtain meter reads remotely also will greatly reduce the need to
12 send servicemen to obtain special reads in circumstances such as a final
13 read (when an account is closed) and for high usage/high bill investigations.

14
15 Q. Please describe what PPL Electric is doing to transform the existing AMR system
16 to an AMI system.

17 A. Although the AMR system is capable of querying meters on demand and,
18 thereby, capable of acquiring data to support hourly or time-of-use billing and
19 data presentment to customers, the AMR system is only capable of storing
20 limited amounts of data and includes no functionality to present that data to
21 customers. In addition, PPL Electric's existing customer billing and information
22 system has only limited capability to bill customers based on hourly quantities or

1 to perform time-of-use billing. In order to transform its AMR system into an AMI
2 system, the Company is installing a MDMS that includes the following:

- 3 • A customer interface that will permit customers to analyze and better
4 understand their electricity usage and bills,
- 5 • A data repository capable of storing two years of hourly reads from all of its
6 customers,
- 7 • A complex billing engine that will be capable of billing customers using hourly
8 data, and
- 9 • An energy settlement system that will permit electric generation suppliers to
10 serve customers' actual hourly usage rather than usage determined by a load
11 profile that reflects the average usage of a broad population of customers.

12 The Company has included a \$1.5 million capital addition in the historic test year
13 rate base and a \$1.7 million capital addition in the future test year rate base to
14 reflect MDMS components that were placed in service in late-2006 and additional
15 components that will be placed in service during 2007.

16
17 Q. How, specifically, will this functionality support demand-side management and
18 consumer education?

19 A. This functionality will support demand-side management and consumer
20 education:

- 21 • The installation of these additional capabilities will provide PPL Electric's
22 customers with understanding and tools that will permit them to manage their
23 consumption of electricity and their electric bills in a market environment.

1 Customers will be able to understand how their usage varies, how hourly
2 prices vary, and identify ways that they may reduce or shift their usage for
3 their own economic benefit.

- 4 • AMI capabilities support the development of new rate options that will permit
5 customers to achieve significant savings. As an example, participants in PPL
6 Electric's Demand-Side Response Pilot – Residential have demonstrated the
7 ability to save on the generation portion of their bill. A full scale program will
8 be possible with the development of a system to manage the collection of
9 hourly meter data and the manipulation of that data into billing quantities.
- 10 • At the end of the generation rate cap, data obtained through the AMI system
11 will support generation purchases and pricing for default service loads. This
12 more detailed data may enhance load scheduling and reconciliation leading to
13 a reduction in wholesale procurement risk and a commensurate reduction in
14 wholesale prices.
- 15 • The Company expects that the availability of hourly data for those customers
16 who are interested in shopping, coupled with the opportunity for suppliers to
17 serve the customers' actual load, rather than a load profile, will result in more
18 competitive offers, more opportunities for customers to save money, and an
19 increase in shopping.
- 20 • With better data and an opportunity to serve actual usage, the Company
21 expects that suppliers will be better able to offer customers a variety of
22 demand-side programs.

23

1 **Demand-Side Management and Conservation/Efficiency Programs**

2 Q. What specific demand-side management and consumer education programs
3 does the Company propose to offer to customers?

4 A. As described above, the Company already has in place demand response pilot
5 programs for residential and non-residential customers for which, in the context
6 of other proceedings, the Company has proposed extensions and expansions. In
7 this proceeding, the Company is proposing five new programs related to
8 demand-side management education. The Company is seeking approval to
9 pursue development and implementation of these programs, and approval to
10 recover the costs associated with the programs. It is the Company's intent to
11 initiate development in 2007 and fully test implementation details and customer
12 acceptance during 2008 so that the programs can be made available to
13 customers in 2009; i.e., prior to the expiration of the generation rate caps and the
14 introduction of pricing that is more reflective of the market. The Company also is
15 proposing, in this proceeding, a cost recovery mechanism that will allow
16 programs to be revised and new programs to be added in a timely manner with
17 appropriate Commission review and approval, but without the need for a base
18 rate proceeding. Each of these programs and the cost recovery mechanism are
19 described in more detail in the direct testimony of Mr. Homa.

20
21 Q. Are the programs proposed by Mr. Homa the only programs aimed at the wise
22 use of energy that the Company is undertaking?

1 A. No, they are not. The Company already has pending before the Commission a
2 consumer education program focused on the specific elements of its 2010 default
3 service plan. The Company's proposal in that proceeding is to expend remaining
4 choice education dollars totaling \$875,000 during the years 2007, 2008, and
5 2009 for the purpose of educating customers on the changes that they will
6 experience as a result of the implementation of the proposed 2010 plan.
7 Because the choice education monies were established pursuant to the
8 settlement of the Company's restructuring case in 1998 and were set aside at
9 that time, that program has no impact on current or proposed rates in this
10 proceeding. The Company also has included in its 2007 operating budget, and in
11 the future test year in this proceeding, about \$4.4 million to begin to introduce
12 customers to the customer interface being installed as part of the meter data
13 management system that will permit customers to better understand their
14 electricity usage and bills, and to pursue energy efficiency and conservation
15 measures.

16
17 Q. Please describe the activities that are included in the \$4.4 million related to the
18 MDMS functionality for 2007.

19 A. As described above, the MDMS that the Company is installing consists of several
20 separate components, including a customer interface that will permit customers
21 to analyze and better understand their electricity usage and bills. Customers will
22 be able to access the interface through the Company's internet site. Once there,
23 customers will be able, among other things, to:

- 1 • Review their bills and bill histories.
- 2 • Compare their billed usage from one period to another.
- 3 • Complete a home energy use survey which will provide an individual analysis
- 4 of their energy usage, comparisons to similar residences in their area, and
- 5 suggestions on how to reduce consumption and bills.
- 6 • Estimate the value of various energy efficiency and conservation measures.
- 7 • Access a library and web links to obtain energy tips and detailed information
- 8 on energy-related topics.

9 The interface will be available for the first time to customers in June, 2007. At
10 that time, all non-residential customers and certain groups of residential
11 customers also will be able to view hourly usage data. By 2008, all customers
12 should be able to view hourly data. Once enough hourly data has been collected
13 for all customers, the energy analysis functions will begin using individual
14 customer usage histories, instead of group profiles, and, thereby, provide
15 customers individualized analyses. Ultimately, the Company will add
16 functionality to permit customers to assess the value of different rate options and
17 to assess opportunities to shift load from on-peak to off-peak periods.

18 The Company also is developing materials to be delivered by television,
19 print media, and bill inserts that are intended to make customers aware of the
20 new interface and of its potential value to them. This effort is planned to support
21 making the interface available to customers in June, 2007. In addition, the
22 Company is working on modifications to its website to make it consistent with the

1 messages being delivered through the media channels, and coordinate this new
2 self-service functionality with other existing self-service functionality.

3
4 Q. What sorts of consumer education needs does the Company anticipate will
5 require funding beyond 2007?

6 A. The following are some needs that the Company has identified which will require
7 funding in the years following 2007:

- 8 • As described above, continuation of the programs proposed by Mr. Homa. It
9 also is likely that his efforts will result in the development of additional
10 programs that presently are not included within his budget.
- 11 • It is likely that additional state and federal programs promoting energy
12 efficiency and conservation will be created in coming years and the Company
13 anticipates the need to educate its customers on the existence of such
14 programs and how customers can avail themselves of the benefits of such
15 programs.
- 16 • Follow-up and reinforcement of efforts begun in 2007 regarding the
17 functionality available through the customer interface, as well as the
18 development of options for customers who do not have access to computers.
- 19 • The customer interface described above is designed primarily around the
20 needs of small customers. Efforts will be required to identify enhancements
21 and associated consumer education materials that may be appropriate to
22 address needs specific to large customers.

- 1 • The Company currently plans to proactively provide accumulated hourly data
2 to customer groups likely to be exposed to hourly default service pricing in
3 order to make them aware of decisions that will be available to them and to
4 provide data to support those decisions. Delivery channels and collateral
5 consumer education materials must be developed and put in place.
- 6 • The Company expects to expand its existing support for industrial and
7 commercial customers in order to address a likely increase in inquiries
8 regarding default service pricing and competitive options.

9

10 **Amortization of Costs Associated with the January 2005 Ice Storm**

11 Q. Please explain PPL Electric's request for recovery of the amortized costs
12 associated with the January 2005 ice storms.

13 A. On February 11, 2005, PPL Electric requested Commission authority to defer, for
14 accounting and financial reporting purposes, losses arising from severe damage
15 caused by ice storms that occurred across the Company's service territory in
16 January 2005 and to amortize those losses and seek recovery from customers in
17 a future base rate proceeding. The ice storms struck PPL Electric's service
18 territory commencing on January 5, 2005 and continuing through January 11,
19 2005. The losses which PPL Electric requested permission to defer were
20 increases in operation and maintenance, customer, and general administrative
21 expenses incurred by PPL Electric in preparing to respond to the damage from
22 the storm, restoring service to customers, assisting customers during the service
23 interruptions, and repairing facilities damaged by the storm. The Company

1 specifically excluded from its request those costs related to regular payroll costs
2 for hours when employees normally work and capital expenses such as new
3 poles, wires, and transformers. In its petition, PPL Electric specifically
4 acknowledged that it was not requesting that the Commission decide, at that
5 time, whether its deferred losses were recoverable from customers. PPL Electric
6 stated in its petition that approval to recover such losses as well as the length of
7 the amortization would be determined in such future rate base proceeding. The
8 Commission granted PPL Electric's request to defer storm-related losses for
9 accounting and financial reporting purposes in an order entered on August 26,
10 2005 at Docket No. P-00052148. The Commission also directed the Company to
11 amortize the losses over a 10-year period and to begin immediately to expense
12 the amortized amounts. In the instant proceeding, PPL Electric is requesting
13 approval to recover in rates \$1.61 million per year related to the amortization of
14 ice storm losses over the remaining 8 years of the 10-year amortization period.
15 This request is included as an adjustment to Operation and Maintenance
16 Expenses in the future test year and, accordingly, is included in Schedule D-2 of
17 Exhibit Future 1.

18
19 Q. Please describe the damage that PPL Electric and its customers experienced as
20 a result of the ice storms.

21 A. The ice storms that struck the Company's service territory in January, 2005
22 unquestionably constitute an extraordinary event. The ice storms began to affect
23 PPL Electric's service territory on January 5, 2005, with the first service

1 interruption reported in the early morning of January 6. Through the following
2 days, temperatures remained below freezing which prevented ice on trees and
3 wires from melting and allowed additional ice to accumulate as each storm hit the
4 area in succession. Ice build-up on trees and wires reached a thickness of 1 inch
5 or more in many areas. The succession of storms affected customers principally
6 in four (4) of the Company's operating areas: Lehigh, Northern, Central, and
7 Susquehanna. The Pocono, Wilkes-Barre, White Haven, Hazelton, Panther
8 Valley, Frackville, and Sunbury areas were hit hardest. More than 90 percent of
9 the service interruptions were caused by the weight of the accumulated ice
10 exacerbated by wind and breaking branches that fell on wires and poles. More
11 than 70 percent of the tree-related service interruptions were caused by
12 vegetation outside of PPL Electric's rights-of-way. The accumulated ice loading
13 had a delayed effect on many trees, resulting in continued tree falls for more than
14 a week afterwards. As a result, PPL Electric experienced damage to its wires
15 and service interruptions even after the storms abated. This coupled with the
16 fact that the areas which were affected contain vacation homes resulted in
17 certain service interruptions not being reported to PPL Electric until January 15.
18 All service was restored by January 16, 2005. Ultimately, these storms caused
19 service interruptions for varying periods to 238,154 customers, or about 18% of
20 the Company's customer base.

21 This series of storms caused more damage and service interruptions than
22 any other winter storm or series of storms in the Company's recorded history. In

1 addition, the costs incurred by PPL Electric in responding to these storms
2 exceeded the cost incurred for any storm of any kind in the Company's history.

3
4 Q. Can you provide some additional facts that help place the severity of this event in
5 context?

6 A. Yes. I believe the following information will provide some appreciation for the
7 magnitude of the storm and the scope of PPL Electric's efforts to respond to it:

- 8 • PPL Electric generally considers a storm to be large if it causes more than
9 1,000 individual cases of system repairs. This series of storms caused 1,895
10 individual cases of system repairs.
- 11 • About 2,096 people were involved in the restoration and customer support
12 including about 1,398 employees from PPL Electric and PPL Services; and
13 about 698 people from other utilities and contractors. Electric utilities that
14 provided line crews included Conectiv, PECO, Orange & Rockland, PEPCO,
15 and PSE&G. Electrical and tree service contractors assisting in service
16 restoration efforts included Asplundh, Dincher & Dincher, Everhart and
17 Hoover, Henkels & McCoy, Jaflo, K.T. Power, Kocher's Tree Service, C. W.
18 Wright, Carr & Duff, G&G Electric, Four Seasons, Utility Line, Utility Alliance,
19 New River Electric, Lombardo & Lipe, and M. J. Electric.
- 20 • PPL Electric activated its Customer Outreach Program to notify customers
21 expected to be out of service for more than twenty-four (24) hours. Customer
22 Outreach began on January 6 in the late afternoon and continued daily
23 through January 15. As part of this effort, PPL Electric made more than

1 51,000 telephone calls to inform customers of available emergency services
2 and the location of stores distributing ice, dry ice and drinking water at no
3 charge to affected customers. PPL Electric purchased advertising on several
4 local radio stations to notify customers of restoration progress and to remind
5 customers how to report service interruptions and to avoid downed lines.

- 6 • PPL Electric, as a result of consultation with local Emergency Management
7 officials, arranged for catered meals for five (5) emergency shelters and
8 delivered hot meals and groceries to some homebound customers.
- 9 • PPL Electric went door-to-door in three (3) of the hardest hit residential
10 developments to contact customers and to provide them with the status of
11 restoration efforts, to distribute emergency supplies, to inform them of the
12 availability of food at community centers, and to identify and take care of any
13 special needs.

14
15 Q. Please describe the costs that PPL Electric incurred in restoring service to its
16 customers and that it is requesting in this proceeding be recovered from
17 customers.

18 A. PPL Electric incurred a total of \$20.3 million in costs associated with the January,
19 2005 ice storms. Of that total, \$2.8 million is for capital and \$17.5 million is for
20 expense-related items. Capital items are reflected in PPL Electric's rate base as
21 property additions that occurred in 2005. Of the expense total, \$1.4 million is
22 associated with regular pay and benefits. In its petition at Docket No. P-
23 00052148, the Company requested deferral for the purposes of accounting and

1 financial reporting of an amount estimated to be \$17 million. As stated in the
2 petition, this figure represented the Company's estimate, made on February 11,
3 2005 and prior to all invoices being processed, of storm-related losses, excluding
4 capital and regular pay and benefits. Based on final accounting, that figure
5 turned out to be \$16.1 million and includes expenditures for the following;

- 6 • Overtime wages
- 7 • Expenses for outside crews
- 8 • Expenses for vehicles and equipment
- 9 • Expenses for customer outreach
- 10 • Equipment charges.

11 In accordance with the Commission's August 26, 2005 Order, the Company has
12 established an amortization of the \$16.1 million over a 10-year period
13 commencing in August, 2005 and extending through July, 2015. In this
14 proceeding, the Company is requesting Commission approval to recover through
15 rates \$1.61 million per year through the end of the amortization period.

16
17 Q. Does PPL Electric anticipate storms in the context of its budgeting?

18 A. Yes, PPL Electric historically has included costs in its budget in anticipation that
19 storms will occur. In its 2005 budget, PPL Electric budgeted about \$7 million for
20 storm-related costs for the entire year based on the expectation of "normal" storm
21 activity. Normal activity has been defined for budgeting purposes as five (5)
22 PUC-reportable storms with a restoration requirement of about 6,000 manhours
23 each and one major storm requiring 20,000 manhours and the involvement of

1 outside crews. Clearly, the costs associated with storms of the magnitude of
2 the January, 2005 ice storms have not been reflected in the budgets of PPL
3 Electric. Consequently, those costs have not been reflected in the rates that the
4 Company charges its customers, even though incurring those costs is wholly
5 consistent with PPL Electric's obligation to provide reliable electric service to its
6 customers.

7
8 Q. Why hasn't PPL Electric budgeted more money for storm-related costs and
9 sought the recovery of such costs in rates?

10 A. PPL Electric recognizes the difficulty in forecasting storm events and the issues
11 that creates from a ratemaking perspective. In its Opinion and Order entered
12 January 11, 2007 at Docket No. R-00061366, the Commission denied a request
13 by Metropolitan Edison Company and Pennsylvania Electric Company to institute
14 a "storm damage rider" to recover storm-related expenses above an amount
15 recovered in base rates. In denying the request, the Commission stated, "...the
16 Companies can file a petition with the Commission for deferred accounting and
17 seek recovery of the expense in its next base rate filing." That is exactly the
18 approach that PPL Electric has pursued with regard to the losses incurred as a
19 result of the January, 2005 ice storms.

20
21 **Storm Insurance**

22 Q. Please describe how the Company proposes to address storm costs in the
23 future.

1 A. In June, 2006, the Company was able to obtain insurance against a portion of the
2 damage resulting from storms. An adjustment is included to historic test year
3 expenses to reflect that portion of the insurance premium that was applicable to
4 six-months of coverage during 2006 for damage to the distribution system as the
5 result of storms. The future test year budget reflects the payment of the
6 insurance premium for a full twelve months of coverage for the distribution
7 system. Under the policy, PPL Electric is responsible for a deductible amount
8 equivalent to its "normal" storm expenses. Accordingly, the Company has
9 included \$7.5 million in its test year budgets to reflect the normal storm
10 experience described above at today's cost.

11
12 Q. Please describe the insurance coverage in more detail.

13 A. PPL Electric's investigation into insurance products determined that, particularly
14 in the wake of the large, devastating hurricanes of the last several years, the
15 primary property insurance market does not offer any coverage applicable to
16 utility distribution systems. The coverage that PPL Electric has obtained consists
17 of two parts: primary coverage through its affiliate, PPL Power Insurance Ltd.
18 ("PPL Power"), and secondary coverage through the re-insurance market. Under
19 the coverage, PPL Electric is responsible for a total of \$7.5 million for all storms
20 during a one-year period with a maximum exposure of \$5 million per storm within
21 the \$7.5 million total. Once these deductible amounts are satisfied, PPL Power's
22 coverage provides up to \$15 million per storm within a total of \$20 million for all
23 storms during the one-year period. Beyond PPL Power's coverage, the re-

1 insurance coverage provides up to \$10 million per storm within a total of \$10
2 million for all storms during the one-year period subject to an additional \$15
3 million deductible. Coverage does not include regular pay and benefits, nor does
4 it include capital costs. The premium for this coverage during the period June 5,
5 2006 through June 5, 2007 is \$7,560,000 with \$5,749,000 of this amount
6 reflected in the test year as being associated with coverage for damage
7 sustained by distribution property. The future test year also includes amounts for
8 coverage the Company expects to obtain for distribution property for the period
9 June 5, 2007 through June 5, 2008. These amounts assume the same premium
10 as the existing coverage.

11
12 Q. Please describe how this coverage would have provided benefits to customers in
13 the circumstance of the January 2005 ice storms.

14 A. During 2005, the Company incurred \$23.8 million in storm-related costs with the
15 largest single storm being the ice storm event at \$20.3 million. Assuming, for the
16 purposes of this illustration, that the coverage was in place from January 1, 2005
17 to January 1, 2006, the ice storm would have been the first event and would have
18 satisfied the single occurrence deductible of \$5 million. Primary coverage would
19 then have provided \$11.1 million (or \$15.3 million less the \$4.2 million associated
20 with capital and regular pay and benefits). The remaining \$3.5 million in storm-
21 related costs reflects several small storms. The Company would have been
22 responsible for the first \$2.5 million under the annual deductible. The remaining
23 \$1 million, less capital and regular wages and benefits, would have been covered

1 by PPL Power. In this example, there would have been no need for the
2 Company to petition the Commission for approval to defer for accounting
3 purposes or to pursue recovery of extraordinary costs. Customers would have
4 paid a \$5.7 million premium and, in exchange, received \$12.1 million in storm
5 restoration benefits.

6
7 Q. What has the Company's experience been under the coverage now in force?

8 A. Since June 5, 2006 and through February 28, 2007, the Company has incurred
9 about \$10.4 million in storm-related damage with the largest single occurrence a
10 wind and rain storm that occurred on December 1, 2006 and resulted in about
11 \$3.7 million in losses. Through the first nine months of the coverage, the
12 Company's deductible has been satisfied and it appears that it may be able to
13 make a claim for \$2.9 million under the coverage.

14
15 **Concerns raised by the Governor's Energy Independence Strategy**

16 Q. Have you reviewed the Governor's Energy Independence Strategy ("Strategy")
17 with regard to changes to the Public Utility Code relating to electricity service?

18 A. Yes. I am a member of an internal team reviewing the Strategy to develop
19 appropriate Company responses. That team's work is not complete and I am not
20 testifying on the merits of specific provisions in the Strategy. However, I can say
21 that several provisions of the Strategy, if enacted into law, could increase the risk
22 of revenue loss for PPL Electric in several critical areas.

23 Q. What is the first area of concern?

1 A. The first concern is the provision relative to micro-grids. The Strategy defines a
2 micro-grid as a small power generation and distribution network directly serving
3 multiple consumers with an electric generating facility located near or on the
4 same site as the consumer. Further, the Strategy provides that micro-grids may
5 be interconnected to the transmission and distribution system, but must operate
6 independently. If enacted, this proposal would expressly exempt a micro-grid
7 from the definition of a "public utility" in Pennsylvania if it provides service to four
8 or fewer customers. It also would permit the Commission to exempt micro-grids
9 serving more than four customers from regulation if the Commission determines
10 that the micro-grid is providing a private, rather than a public service. The
11 provision limits Commission jurisdiction over qualifying micro-grids to the setting
12 of fees for interconnection, standby power and other services related to reliable
13 and safe functioning of micro-grids.

14

15 Q. Why are these provisions of concern to the Company?

16 A. These provisions create a significant risk that PPL Electric may lose customers,
17 particularly high load factor customers that use its distribution system efficiently.
18 In addition to the loss of customers and revenues, the Company also could face
19 a decreasing load factor on its system, making its operations and investments
20 less efficient. This risk is increased by the provision permitting the Commission
21 to exempt micro-grids serving large numbers of customers on a "case-by-case"
22 basis, because larger micro-grids could be developed to attract PPL Electric's
23 high load factor customers away from its distribution system.

1 In addition, the Strategy places new requirements on PPL Electric to sell
2 standby power and other services to micro-grids at the “lowest cost necessary to
3 ensure adequate system reliability and safety”. This requirement is not defined,
4 thus creating significant uncertainty as to how PPL Electric will be compensated
5 for services it may be required to offer interconnected micro-grids. Further, the
6 Company’s distribution facilities may be required to provide access for the micro-
7 grids to sell power back to the electric transmission and distribution system.
8 Although the Strategy provides that the micro-grids may sell power back to the
9 grid, it does not provide clear guidance as to the role and/or obligations which
10 may be imposed upon PPL Electric in such circumstances. In summary, there is
11 significant uncertainty surrounding the provision related to micro-grids inasmuch
12 as that provision may impact PPL Electric’s service obligations and may
13 negatively impact the Company’s distribution revenues.

14
15 Q. Are there other provisions of the Strategy that concern the Company?

16 A. Yes. The Strategy also includes proposals that will require PPL Electric to
17 acquire a “portfolio of resources” to serve its default service load at “the lowest
18 reasonable rates on a long term basis and shall reflect a diversity of supply side
19 and demand side resources, a diversity of fuel types and a prudent mix of long
20 term, short term and spot market purchases.” In addition, the Commission’s
21 February 9, 2007 Advanced Notice of Final Rulemaking Order re: Electric
22 Distribution Companies’ Obligation to Serve Retail Customers at the Conclusion
23 of the Transition Period Pursuant to 66 Pa. C.S. §2807(e)(2) (“Default Service

1 Regulations") also includes a requirement that PPL Electric's default service
2 procurement plan must meet the default service obligations at the "lowest
3 reasonable long-term costs." In my opinion, these provisions raise several
4 concerns because neither the Commission's Default Service regulations nor the
5 Strategy include definitions of "lowest reasonable rates" or "lowest reasonable
6 long-term costs." Further, to evaluate whether these provisions have been
7 satisfied would likely require an after-the-fact-review of PPL Electric's
8 procurement plan which could create significant uncertainty as default service
9 plans are developed and implemented
10

11 Q. Do the Commission's proposed regulations create uncertainty in other areas?

12 A. Yes. Draft Default Service regulations also state that a default service provider
13 ("DSP") must acquire generation supply through a competitive bid solicitation
14 process, spot market energy purchases, or a combination of both. However, the
15 draft regulations provide that the Commission will "not certify or otherwise
16 approve or disapprove" a DSP's spot market energy purchases as part of a
17 procurement plan. This provision could create significant uncertainty as DSPs
18 develop procurement plans and could discourage DSPs from buying on the spot
19 market.

20 The Commission's Default Service regulations also state that it may
21 initiate an investigation "regarding the DSP's implementation of its default service
22 program" and order lawful and appropriate remedies. However, the scope of
23 such investigations is undefined. If the proceeding goes beyond whether the

1 DSP properly implemented its approved plan, the investigation could amount to
2 an after-the-fact prudence review. PPL Electric is concerned that such a review
3 could lead to a disallowance of costs that were incurred pursuant to an approved
4 plan, but which were higher than originally anticipated. Further, any after-the-fact
5 prudence review would move PPL Electric away from a market based acquisition
6 structure back to a prudence review of purchasing strategy. Implementation of a
7 prudence review as a condition for recovery of costs would raise significant
8 concerns that PPL Electric could face risks of cost disallowances.

9
10 Q. Returning to the Governor's Strategy, please discuss your remaining concerns
11 with that Strategy as it relates to the Company.

12 A. The Governor's Strategy also would require PPL Electric to offer to customers
13 time of use rates, first on a pilot basis, and subsequently for all customers on a
14 voluntary basis. While PPL Electric has been and continues to make
15 investments to provide customers with more information about their usage, the
16 additional investments that may be required to offer such programs and the
17 manner in which such costs will be collected is undetermined.

18 Finally, the Governor's Strategy requires that Electric Distribution
19 Companies ("EDCs"), like PPL Electric, offer customers a phase-in period of up
20 to three years for any generation rate increases resulting at the end of the
21 existing generation rate caps. Again, this provision raises significant uncertainty
22 for PPL Electric going forward as the proposal raises the possibility of under-
23 recovery of costs. Specifically, the Strategy does not address whether PPL

1 Electric will be permitted to recover deferred costs associated with customers
2 leaving PPL Electric's system during the phase-in period. Further, the Strategy
3 does not address how, or even if, the recovery of carrying costs on any deferred
4 payments will be permitted.

5
6 Q. Are you suggesting that these provisions of the Governor's Strategy will be
7 enacted into law?

8 A. I cannot predict what will be enacted. The point that I am making is that
9 concerns about micro-grids create uncertainty regarding the Company's future
10 revenues and the possibility of revenue erosion. Similarly, concerns about
11 increasing electric prices and undefined rules relating to the procurement of
12 energy to serve default service customers create uncertainty regarding PPL
13 Electric's ability to recover its default service costs on a full and current basis.

14
15 Q. How are these additional risks you have identified relevant to this proceeding?

16 A. These risks are relevant to the Commission's deliberations regarding an
17 appropriate return on equity that should be allowed in this case. Both Mr. Moul
18 and Ms. Cannell testify that the risks a utility faces and the investment
19 community's perception of those risks should be considered by the Commission
20 when it reviews rate of return issues. In this portion of my testimony, I am simply
21 identifying risks and uncertainties facing PPL Electric that the Commission might
22 not otherwise appreciate.

1 **Allocation of the Revenue Increase**

2 Q. Are there general principles PPL Electric has followed in allocating the
3 distribution rate increase for this case?

4 A. Yes. The revenue increase was allocated based on two primary principles: cost
5 of service and gradualism. In addition, the proposed increase was significantly
6 influenced by the Commonwealth Court's decision in the Lloyd case, where the
7 Court reviewed and vacated the distribution rate increase allocation approved by
8 the Commission in the Company's most recent rate proceeding.

9 By way of background, PPL Electric historically has allocated revenue
10 increases based on the results of a class cost of service study, with a goal of
11 moving the return of each rate schedule toward the system average return on a
12 relative rate of return basis. These allocations always were subject to the
13 principle of gradualism in order to avoid disparate increases to particular rate
14 schedules. In its 2004 rate case, PPL Electric allocated the proposed revenue
15 increase in a way that moved each rate schedule toward the system average
16 return, with the constraint that no rate schedule receive an increase of more than
17 10% on a total bill basis, i.e., generation, transmission, CTC, ITC and distribution
18 rates. The Commission approved this approach, but it was rejected by the
19 Commonwealth Court. Specifically, the Court held that it was not appropriate to
20 consider total bill impact in allocating a distribution rate increase, and that the
21 Company had incorrectly allowed the principle of gradualism to "trump" all other
22 considerations, particularly cost of service, which the Court described as the
23 "polestar" for rate design issues. The Court then remanded the case to the

1 Commission for further consideration. That matter is now pending before the
2 Commission, as I will describe in more detail below.

3

4 Q. How has the Company reflected the Court's decision in this proceeding?

5 A. The Company has reflected that decision in two ways. First, the Company has
6 not relied on total bill impacts in allocating the revenue increase. Second, it has
7 not used gradualism to "trump" all other considerations, including cost of service.
8 Rather, the Company has developed a revenue allocation proposal that reflects
9 an appropriate consideration and balancing of both cost of service and
10 gradualism, and is part of an overall plan to move all rate schedules to cost of
11 service over a specified and reasonable period of time.

12

13 Q. Please describe how the Company proposes to allocate the distribution rate
14 increase in this proceeding.

15 A. PPL Electric has allocated the increase in a way that is designed to move each
16 rate schedule one-half of the way to full cost of service, with the constraint that
17 no rate schedule would receive a distribution rate increase of more than twice the
18 system average distribution increase, determined on a percentage basis. In its
19 next rate case, the Company will attempt to move all rate schedules to full cost of
20 service, with the caveat that it may take somewhat longer for certain rate
21 schedules to reach full cost of service. The Company believes that this approach
22 is fully consistent with the Lloyd decision, because it has not relied on total bill

1 impacts and because it has a specific plan to move all rate schedules to cost of
2 service over a reasonable period of time.

3
4 Q. Can you identify the impact of this proposed approach on each of the Company's
5 rate schedules?

6 A. Mr. Kasper discusses the specific customer impacts in his direct testimony and
7 attaches a schedule to his testimony that sets forth those impacts in detail.

8
9 Q. What is the relationship of the revenue allocation in this case with the remand
10 proceeding in the Company's 2004 rate case?

11 A. As I explained above, the 2004 case was remanded to the Commission for
12 further proceedings. A pre-hearing conference has been held and a schedule
13 has been established under which the Company will file a remand plan with the
14 Administrative Law Judge on April 13. Other parties will have an opportunity to
15 respond and hearings will be held on the Company's plan. A Commission
16 decision is anticipated before the end of 2007.

17 The Company has used the rates as established in the 2004 proceeding,
18 excluding the cost of Hurricane Isabel, which was rejected by the Court, as a
19 starting point to measure the movement toward cost of service. If the
20 Commission disagrees and revises the revenue allocation from the 2004 case,
21 the starting point for analysis in this case obviously would be changed. Under
22 those circumstances, PPL Electric would seek to apply the same principles to the
23 new starting point, i.e., establish a revenue allocation that moves rate classes

1 one-half of the way toward system average return, with the constraint that no rate
2 schedule receive a distribution rate increase greater than two times the system
3 average distribution increase.

4 Similarly, in the 2004 rate proceeding, the Commission did not specifically
5 adopt the Company's or any other parties' proposed cost of service study. The
6 revenue allocations proposed in this case are based on the Company's cost of
7 service study. If the Commission adopts a different cost of service study, this
8 also would change the starting point for the analysis and could change the
9 revenue allocation as well.

10

11 Q. Did PPL Electric examine the movement toward cost of service that was
12 accomplished in the compliance filing in the 2004 rate case?

13 A. Yes. PPL Electric has examined the compliance filing distribution rates approved
14 by the Commission and has determined that, in general, the rates approved by
15 the Commission moved all rate classes at least one-third of the way toward full
16 cost of service on a relative rate of return basis. Mr. Kasper discusses these
17 findings in his direct testimony and attaches a schedule to his testimony that sets
18 forth these impacts in detail.

19

20 Q. Do you have any concluding remarks on this subject?

21 A. Yes. I believe that it is important for the parties, the Administrative Law Judge
22 and the Commission to keep the following points in mind when reviewing PPL
23 Electric's revenue allocation proposals. First, as this Commission has often

1 recognized, cost of service studies are not an exact science. They are more
2 appropriately characterized as "engineering art". There is no one "right" way to
3 do these studies, and as a result, there is no one definitive cost of service which
4 would allow us to say with precision that rates are or are not exactly set at "cost
5 of service." Second, and very importantly, PPL Electric's rates have not been
6 based on cost of service in the past. For many years, individual rates have been
7 below and above cost of service. This has extended continuously at least back
8 to 1980. Given that rates have not reflected cost of service for almost 30 years, it
9 is clearly reasonable to move them to cost of service over a period of time. The
10 Company has moved all major rate schedules half-way to cost of service in this
11 case and believes that it can move most, if not all, rate schedules to full cost of
12 service either in its next rate case or one more case thereafter. This is clearly
13 reasonable given the historic facts outlined above.

14

15 Q. Does this conclude your direct testimony?

16 A. Yes, it does.

2007-2011 Capital Budget
Electric Utilities and Facilities Management

	Millions of Dollars					Total for 2007-11
	2007	2008	2009	2010	2011	
<u>Electric Utilities</u>						
Provide Electric Service	\$89.2	\$92.7	\$96.6	\$102.0	\$108.5	\$489.0
Upgrade System Facilities	13.2	13.5	18.7	20.2	21.0	86.6
Assure System Reliability	43.1	42.4	42.9	44.8	47.0	220.2
Revenue Cycle Service	5.9	5.0	5.1	5.2	5.3	26.5
Information Technologies	11.3	5.9	4.0	4.0	4.0	29.2
Vehicles	17.3	18.4	19.8	21.4	23.2	100.1
Other	4.0	3.5	3.5	6.0	8.5	25.5
Respond to Customer	12.0	13.0	13.0	13.5	14.3	65.8
<u>Total Electric Utilities</u>	\$196.0	\$194.4	\$203.6	\$217.1	\$231.8	\$1042.9
<u>Facilities Management</u>	\$14.8	\$10.5	\$8.1	\$7.8	\$12.4	\$53.6
<u>TOTAL</u>	\$210.8	\$204.9	\$211.7	\$224.9	\$244.2	\$1096.5

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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Docket No. R-00072155

PPL Electric Utilities Corporation

Statement No. 6

Direct Testimony of Joseph M. Kleha

1 **Direct Testimony of Joseph M. Kleha**

2 Q. Please state your full name and business address.

3 A. Joseph M. Kleha, Two North Ninth Street, Allentown, Pennsylvania, 18101.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by PPL Services Corporation ("PPL Services"), a subsidiary of
7 PPL Corporation, in the Office of General Counsel as Manager - Regulatory
8 Projects.

9

10 Q. What are your duties as Manager - Regulatory Projects?

11 A. I am responsible for overseeing corporate projects involving regulatory
12 agencies on behalf of PPL Corporation's subsidiaries, including PPL Electric
13 Utilities Corporation ("PPL Electric"); PPL Gas Utilities Corporation ("PPL
14 Gas"); PPL EnergyPlus, LLC ("PPL EnergyPlus"); and the PPL Generation
15 family of companies. As part of this function, I review and provide technical
16 oversight and guidance on the development, content and structure of cost
17 allocation and revenue requirements studies. I also prepare and present
18 expert testimony regarding these studies.

19

20 Q. What is your educational background?

21 A. I graduated from The Pennsylvania State University in May 1974 with a
22 Bachelor of Science Degree in Accounting. Since that time, I have taken

1 specialized courses dealing with public utility accounting, depreciation and rate
2 design. In addition, I attended the NARUC Regulatory Studies Program.

3

4 Q. Please describe your professional experience.

5 A. I was employed by the Pennsylvania Department of Public Welfare as Field
6 Auditor and Institutional Collections Officer from 1974 to 1977. In 1977, I
7 joined the technical staff of the Pennsylvania Public Utility Commission
8 ("PUC") as a Utility Rate Analyst in its Bureau of Rates and Research. In this
9 position, my responsibilities included review of proposed retail electric rate
10 filings, and the preparation and presentation of testimony in formal rate
11 proceedings. This testimony primarily dealt with the allowable levels and
12 jurisdictional allocations of claimed operating revenues, operating expenses,
13 and rate base. In 1981, I joined PPL Electric as a Senior Accountant with
14 responsibility for assembling financial data and preparing revenue requirement
15 studies to support its retail and wholesale rate filings. I was named Manager -
16 Regulatory Projects in PPL Electric's Office of General Counsel in 1990. In
17 2000, as part of a corporate realignment, I became an employee of PPL
18 Services along with the other employees in the Office of General Counsel.

19

20 Q. Have you previously testified as a witness on cost-of-service and ratemaking-
21 related issues?

22 A. Yes, I have testified in numerous proceedings regarding cost-of-service and
23 ratemaking-related issues. See Appendix A for a list of those proceedings.

1

2 Q. Mr. Kleha, briefly describe the subject matter of your testimony in this
3 proceeding.

4 A. My testimony and accompanying exhibits describe and support PPL Electric's
5 calculation of certain ratemaking adjustments to the historic test year and
6 future test year retail rate base, operating revenues and operating expenses;
7 the development of the cost allocation studies which form the basis for
8 proposed retail rates; the determination of jurisdictional investment and
9 expense (capital and operating costs) and revenue requirements, and the
10 derivation of the retail cost of providing distribution service by customer rate
11 class.

12

13 Q. Mr. Kleha, are you sponsoring any exhibits in this proceeding?

14 A. I am sponsoring Exhibits JMK 1, JMK 2 and JMK 3. I also am sponsoring
15 portions of Exhibit Regs., Part 1-General Information, Part II-Primary
16 Statements of Rate Base and Operating Income, Part IV-Rate Structure and
17 Cost Allocation, and Part V-Plant and Depreciation Supporting Data, Including
18 Related Depreciation Study Report.

19

20 Exhibits Historic 1 and Future 1

21 Q. Are you sponsoring any schedules in Exhibits Historic 1 and Future 1?

22 A. Yes. I am sponsoring the following: Schedules C-1, C-4, C-6, D-1, D-2, D-6,
23 D-12, D-13, D-14 and D-15 of Exhibits Historic 1 and Future 1.

1

2 Q. Schedules C-4 of Exhibits Historic 1 and Future 1 show details of PPL
3 Electric's claim for cash working capital. Would you explain these schedules?

4 A. Schedules C-4 of Exhibits Historic 1 and Future 1 are computations of PPL
5 Electric's average investment in cash working capital. There are five major
6 components in this computation: cash working capital required for operation
7 and maintenance expenses; funds invested in prepayments; an adjustment for
8 accrued taxes; an adjustment for interest payments; and an adjustment for
9 preferred dividend payments.

10

11 Q. Would you explain these five components?

12 A. Page 2 of Schedules C-4 shows the first component, which is cash working
13 capital required for operation and maintenance expenses. PPL Electric bills all
14 of its customers once every month, but the due date for payment varies
15 between 15 and 30 days from the billing date. On this basis, there is a
16 considerable span of days between the time electricity is furnished to a
17 customer and the time the customer pays for such electricity. This span
18 averages 34 days for customers with 15-day due dates, 57 days for customers
19 with 20-day due dates, and 38 days for customers with 30-day due dates. The
20 average lag in receipt of revenues from all these sources is 45.2 days on a
21 dollar-weighted basis.

22 In most instances, PPL Electric must pay its bills for payroll, employee
23 benefits, support group costs and other operating expenses prior to the time it

1 is able to collect the amount due for the service giving rise to these expenses.
2 PPL Electric has examined its records to determine, as to the major categories
3 of expense, the average span of days between the time an expense is
4 incurred and the time it must be paid. On page 2 of Schedule C-4 of Exhibit
5 Historic 1, the average span of days for major categories of expense is shown.
6 This lag ranges from 12 days to 40 days for various types of costs. The
7 overall average for all expenses is 34.5 days. Thus, the average net lag
8 between the payment of expenses and the receipt of the related revenue is
9 10.7 days (45.2 days less 34.5 days). To cover its expenses and continue to
10 conduct its business during this time lag, PPL Electric must provide a cash
11 investment.

12 The second major component of cash working capital is made up of
13 funds which are invested in prepayments. This amount is shown on page 3 of
14 Schedules C-4. In conducting its electric business, PPL Electric must pay
15 certain costs prior to the time such items are properly charged to expense for
16 accounting and ratemaking purposes. For example, the PUC's annual
17 assessment must be prepaid, but is expensed monthly over the period to
18 which it applies. Costs of this nature initially are charged to FERC Account
19 165, Prepayments, and subsequently are charged to expense from this
20 account.

21 The claim for prepaid expenses is based on the 13-month average of
22 the various items included in Account 165. This amount has been claimed as

1 a component of cash working capital for both the historic test year and future
2 test year.

3 The third major component of cash working capital is the adjustment for
4 accrued taxes, which is shown in detail on page 4 of Schedules C-4. In the
5 case of Federal income tax, estimated payments must be made on April, June,
6 September and December 15 of the year to which the tax is applicable.
7 Because revenues are collected from customers monthly, there are funds
8 temporarily available for payment of other costs. PPL Electric's computations
9 indicate that funds available from this source average 3.82% of the federal
10 income tax due.

11 Presently, the Pennsylvania income tax and Pennsylvania Capital Stock
12 Tax have the following pattern of required estimated payments:

- 13 • 25% on March 15
- 14 • 25% on June 15
- 15 • 25% on September 15
- 16 • 25% on December 15

17 PPL Electric's computations indicate that the funds available from these taxes
18 average 1.74% of the tax due.

19 The Pennsylvania gross receipts tax must be paid on an estimated
20 basis by March 15 of the year to which the tax is applicable. Because revenue
21 is collected from customers monthly, funds must be provided by investors to
22 pay these taxes prior to the collection revenues from customers. PPL
23 Electric's computations indicate that the funds which must be provided for this

1 purpose average 35.76% of the tax due. This adjustment is based on the total
2 Pennsylvania gross receipts tax which must be paid at the 59 mill rate actually
3 in effect.

4 The Pennsylvania Public Utility Realty Tax must be paid on an
5 estimated basis by May 1 of the year to which the tax is applicable. Because
6 revenue is collected from customers monthly, funds must be provided by
7 investors to pay these taxes prior to the collection from customers. PPL
8 Electric's computations indicate that funds which must be provided for this
9 purpose average 23.26% of the tax due.

10 The net effect of these various accrued tax adjustments is an increase
11 in PPL Electric's cash working capital requirement as shown on page 4 of
12 Schedules C-4.

13 The fourth and fifth components of cash working capital are offsetting
14 adjustments for the funds applicable to debt interest payments and preferred
15 stock dividend payments, which are shown on pages 5 and 6 of Schedules
16 C-4. PPL Electric "theoretically" has unrestricted use of these funds from the
17 time of the monthly collection from customers until the payment of interest and
18 dividends on a semi-annual or quarterly basis. PPL Electric does not agree
19 with the appropriateness of such a reduction to the Measures of Value.
20 However, this adjustment has been made in order to facilitate the adjudication
21 of this filing and in compliance with the Commission's current policy.

22
23 Q. What is shown on Schedules C-6 of Exhibits Historic 1 and Future 1?

1 A. Schedules C-6 of Exhibits Historic 1 and Future 1 reflect the balances in
2 deferred taxes at the end of the respective test years, including the tax
3 deferrals related to the Accelerated Cost Recovery System ("ACRS"). This
4 legislation provides for mandatory normalization of tax benefits on post-1980
5 property. PPL Electric has claimed only federal income tax normalization in
6 this filing.

7
8 Q. Why aren't Accumulated Deferred Investment Tax Credits (FERC Account
9 255) reflected in the computation of the Measures of Value?

10 A. Under provisions of the Revenue Act of 1971, public utilities were afforded the
11 option of treating the investment tax credit in rate proceedings by reducing
12 taxes over the life of the property and not deducting the accumulated amount
13 of the credit from the Measures of Value.

14 On March 8, 1972, PPL Electric made this election as provided for
15 under the Internal Revenue Code, Section 46(e), Paragraph (2), and, in
16 compliance therewith, has not reduced the Measures of Value for the purpose
17 of these proceedings. Such credits are, however, being amortized as a credit
18 to operating expense over the life of the related property.
19

20 Q. Please explain the "Adjustment to Taxes Other Than Income Taxes" shown on
21 Schedules D-12 for both the historic and future test years.

22 A. In order to derive the current level of Pennsylvania Capital Stock Tax, the
23 valuation method used by the Pennsylvania Department of Revenue was
24 utilized. This results in an estimated valuation at December 31, 2006 and

1 December 31, 2007. The 4.89 mill tax rate is applied to the valuation to derive
2 the total capital stock tax liability at December 31, 2006 under present rates.
3 *The 3.89 mill tax rate is applied to the valuation to derive the total capital stock*
4 *tax liability at December 31, 2007 under present rates. This portion of the*
5 *computation is set forth on Schedules D-12, page 2. From this amount is*
6 *deducted the capital stock tax expense per books for the 12 months ended*
7 *December 31, 2006, and the expense per budget for the 12 months ending*
8 *December 31, 2007. This adjustment reflects both the current taxable*
9 *valuation and the applicable tax rates.*

10
11 Q. Please explain the Pennsylvania Gross Receipts Tax shown on Schedules
12 D-12.

13 A. The adjustment to Pennsylvania Gross Receipts Tax is shown on Schedules
14 D-12, page 3. This adjustment reflects the gross receipts tax liability changes
15 which will result from base rate revenues generated by the annualization of
16 sales under present rates.

17
18 Q. Please explain the adjustment for Pennsylvania Public Utility Realty Tax.

19 A. The Pennsylvania Public Utility Realty Tax is developed under present rates
20 based on the plant in service at December 31, 2006 and projected to be in
21 service at December 31, 2007. From this amount is deducted the tax expense
22 per books for the 12 months ended December 31, 2006, and the tax expense
23 per budget for the 12 months ending December 31, 2007.

1
2 Q. Please explain the adjustment of federal and state income taxes, shown on
3 Schedules D-13 for both test years.

4 A. Schedules D-13 show, in column 1, the tax computation as recorded for the 12
5 months ended December 31, 2006, and as budgeted for the 12 months ending
6 December 31, 2007. Column 2 shows adjustments required to exclude
7 revenues, expenses and income tax adjustments associated with Provider of
8 Last Resort ("POLR") service and the recovery of stranded costs through the
9 Competitive Transition Charge ("CTC"). Column 3 shows the derivation of the
10 revenues, expenses and tax adjustments for PPL Electric's combined
11 transmission and distribution ("T&D") operations only. Column 4 shows the
12 various adjustments for a proper computation of taxable income on a pro
13 forma basis at present rates. Column 5 shows the pro forma income tax
14 computation at present rates.

15 Taxable income and the tax computations are adjusted in Column 4 for
16 the following reasons:

- 17 • To reflect the effect on taxable income of adjustments to revenue
18 and expense set forth on Schedules D-2 and to reflect other
19 changes in taxable income.
- 20 • To eliminate the effect prior year tax adjustments and provisions for
21 possible tax deficiencies recorded on the books for the 12 months
22 ended December 31, 2006, or reflected in the budget for the 12
23 months ending December 31, 2007.

- 1 • To reflect the effect of a consolidated tax savings adjustment.

2

3 Q. Are there several tax adjustments upon which you wish to elaborate?

4 A. Yes. They are the following:

5 Tax Depreciation

6 In general, depreciation for tax purposes must be computed using the
7 tax basis of the property (which generally is lower than book basis) and using
8 various depreciation methods and rates which differ from those used in
9 computing book depreciation.

10 In computing tax depreciation, this filing has paralleled the methods
11 used in PPL Electric's federal and Pennsylvania income tax returns. That is,
12 for property acquired prior to 1981, where permitted, PPL Electric has used
13 the declining balance method of depreciation with the 20% shorter lives
14 permitted by the Class Life Depreciation System (commonly referred to as
15 "ADR"). The Revenue Act of 1971 introduced ADR which permitted
16 shortening or lengthening depreciable lives as much as 20% for tax purposes.
17 For post-1980 property, the tax depreciation is based on the Accelerated Cost
18 Recovery System ("ACRS") as provided for in the Economic Recovery Tax Act
19 of 1981.

20 Annualized Interest

21 This adjustment is the result of normalizing the interest deduction based
22 on the test year measures of value, as shown on Schedules D-13, page 3.
23 Because ratepayers pay a return on only these measures of value, it is only

1 the interest associated with these measures of value that applies to PPL
2 Electric's T&D operations for ratemaking purposes.

3
4 Q. Please summarize the effects of these tax adjustments.

5 A. Recognition of all tax adjustments reflected on Schedules D-13 results in a net
6 decrease in taxable income for the historic and future test years. Taxable
7 income is the basis for computing both federal and Pennsylvania income
8 taxes.

9 The actual Pennsylvania Corporate Net Income Tax rate is 9.99%. The
10 federal income tax is computed at the current 35% tax rate. For federal
11 income tax purposes, the amount of Pennsylvania income tax is an allowable
12 deduction. Details of the computations of all taxes incurred as a result of the
13 proposed revenue increase are shown on Schedules D-13, page 5.

14

15 Consolidated Tax Savings

16 Q. Has PPL Electric proposed a consolidated tax savings adjustment in this
17 proceeding?

18 A. Yes, it has proposed a consolidated tax savings adjustment.

19

20 Q. What are your views on allocating the tax savings of unregulated affiliate
21 company tax losses to utility operations for the purposes of setting the level of
22 electric distribution service rates?

1 A. In general, the allocation of tax loss deductions of unregulated affiliate
2 companies to the utility business is contrary to sound ratemaking principles.
3 One of those principles is that a utility's revenue requirement and the
4 associated customer rates should be established on the basis of the utility's
5 normal, ongoing operations on a stand-alone basis.

6 When none of the risks of the unregulated entities are assumed by the
7 customers of the regulated utility, neither the Commission nor the Courts
8 should have the ability to appropriate the losses generated in those
9 unregulated entities to reduce the utility's cost of service. When losses do
10 occur, for whatever reason, the consolidated tax return should afford some
11 relief to the entities incurring the tax losses in the current period.

12 To deprive the unregulated affiliate of a business-loss tax deduction is
13 to take away a valuable property right belonging to that entity, and represents
14 a use of unregulated assets for regulated purposes. To base the revenue
15 requirement and associated rates of a utility on the tax losses of affiliates,
16 which vary from one year to the next as the activities of a diversified group of
17 affiliate companies fluctuate, certainly is contrary to the sound ratemaking
18 principles regarding the separation of regulated and unregulated operations
19 (investment, revenues and expenses), and the normalization of a utility's test
20 year operations (revenues and expenses, including taxes) for purposes of
21 establishing the utility's normal and ongoing revenue requirement.

22 Despite this philosophical disagreement, I recognize that the
23 Commission has adopted consolidated tax savings adjustments in other

1 proceedings and the Pennsylvania Supreme Court has mandated this
2 approach. Accordingly, PPL Electric has proposed an adjustment in this
3 proceeding.

4
5 Q. How has PPL Electric determined its consolidated tax savings adjustment in
6 this proceeding?

7 A. As shown on page 4 of Schedules D-13, PPL Electric has based its calculation
8 of this adjustment on a 3-year average of the consolidated tax savings
9 generated by PPL Corporation, PPL Electric's parent company, and its
10 unregulated subsidiaries over the most recently available tax years, 2004
11 through 2006. The rationale for using the filed returns for this 3-year period to
12 calculate the tax savings amount generated by the "tax loss" affiliates, and
13 PPL Electric's proportionate share of those savings, is to provide an average
14 level of consolidated tax savings as the starting point for calculating the
15 adjustment.

16
17 Q. Has PPL Electric made any adjustments to the taxable income data
18 associated with its "tax loss" affiliates for this 3-year period?

19 A. Yes. In order to determine the proper level of affiliate tax losses, PPL Electric
20 excluded from its calculations the non-recurring items which contributed to
21 those affiliate losses. In accordance with Commission practice and precedent,
22 non-recurring items should be excluded from the calculation of future test year
23 income tax expense, and consolidated tax savings adjustments thereto. A

1 significant portion of the tax losses incurred by PPL Electric's affiliate, PPL
2 Energy Funding Corporation, were due to the following non-recurring items.

3 (1) Non-recurring bonus tax depreciation – The Internal Revenue Code
4 allowed a 30-50% tax depreciation deduction for property placed into
5 service prior to January 1, 2005. This provision of the Code has expired.

6 (2) One-time losses resulting from the sale of gas-fired turbines and other
7 investments, mineral rights transferred to DEP and clean-up costs – The
8 losses associated with the sale of specific assets or business units are,
9 by definition, non-recurring. Such dispositions are not part of the
10 affiliate's ordinary, day-to-day business operations and are not properly
11 includible in ongoing operations. The clean-up costs for the ash basin
12 leak were incurred in connection with an isolated incident that previously
13 was not experienced and is not expected to recur.

14 (3) Losses from discontinued operations – The assets of both PPL
15 Sundance and the partnership interest in Southwest Power Partners
16 were sold. The losses associated with the sale of these assets, by
17 definition, are non-recurring.

18 (4) Losses from synfuel operations – A partnership interest in two facilities
19 that produce synfuel is being phased out and permanently shut down.
20 These losses will not recur.

21 In addition, PPL Electric adjusted its taxable income for the 3-year period 2004
22 through 2006 to eliminate that portion of taxable income associated with its

1 non-regulated subsidiaries, as well as non-recurring items, e.g., bonus tax
2 depreciation.

3
4 Q. Please explain Schedules D-14, "Adjustments to Deferred Income Taxes," for
5 both test years.

6 A. Normally, deferred taxes arise in connection with expenses which, for various
7 reasons, are recorded on the books as an expense in a different year than the
8 same item is allowed as an income tax deduction. This is referred to as a
9 book/tax timing difference. Generally accepted accounting principles
10 ("GAAP"), which are prescribed by the Financial Accounting Standards Board
11 ("FASB"), require that the tax savings related to an expense item be recorded
12 on the books at the same time as the expense item is recorded. For example,
13 if the expense item is booked in a year after its deductibility for tax purposes, a
14 deferred tax charge is recorded on the income statement and a liability for
15 such tax is recorded on the balance sheet in the year the tax deduction
16 occurs. The same basic principle applies to revenue items, as well as
17 expense items.

18 Schedules D-14 show the normalization of the net deferrals recorded
19 on the books for the 12 months ended December 31, 2006, and as budgeted
20 for the 12 months ending December 31, 2007.

21 It should be noted that for the year ended December 31, 2006, and the
22 year ending December 31, 2007, the specific items covered by deferred taxes
23 all arise in connection with timing differences, as discussed above. Certain

1 items require adjustment for purposes of this rate filing. The major adjustment
2 in the historic and future test years relates to the ACRS system of tax
3 depreciation, as set forth on Schedules D-14, page 2.

4 Regarding Schedules D-14, PPL Electric uses ACRS in computing tax
5 depreciation on post-1980 property additions. Schedules D-14 reflect an
6 adjustment for the mandatory deferral of the federal tax effects of ACRS based
7 on the tax plant balances at December 31, 2006 and December 31, 2007.

8
9 Q. Was the Pennsylvania state income tax effect of ACRS normalized and
10 claimed in these proceedings?

11 A. No. In accordance with this Commission's policy, it was not.

12
13 Q. Please explain Schedules D-15.

14 A. Schedules D-15 adjust the amortization of the investment tax credit to reflect a
15 full year's amortization based on the unamortized investment tax credit
16 remaining at December 31, 2006 and December 31, 2007, respectively.

17
18 Exhibits JMK 1, JMK 2 and JMK 3

19 Q. Please explain how PPL Electric's Pennsylvania jurisdictional costs are
20 derived.

21 A. This filing is based on the investment and expense incurred to provide
22 distribution service to PPL Electric's Pennsylvania jurisdictional customers.

23 Accordingly, PPL Electric's historic test year per books and future test year per

1 budget delivery service operating results are adjusted to eliminate all revenues
2 and expenses associated with the generation function, namely POLR service
3 and the recovery of stranded costs through the CTC, which was approved by
4 the Commission in PPL Electric's restructuring proceeding at Docket
5 No. R-00973954, to derive the combined T&D operations. T&D investment
6 and expense are then allocated between the Federal (transmission) and
7 Pennsylvania (retail distribution) jurisdictions. Exhibits JMK 1 and JMK 2
8 provide specific details regarding the allocation of those costs and the
9 determination of the Pennsylvania jurisdictional distribution service revenue
10 requirements on a system and rate class basis.

11
12 Q. Would you briefly describe the contents of Exhibits JMK 1 and JMK 2?

13 A. Exhibits JMK 1 and JMK 2 respond to Question 1 of Exhibit Regs., Part IV,
14 Section E, and present fully distributed Pennsylvania jurisdictional costs of
15 providing retail distribution service to the various rate classes at both present
16 and proposed rates. The studies contained in Exhibit JMK 1 are based on
17 costs and operating conditions for the historic test year ended December 31,
18 2006. The studies contained in Exhibit JMK 2 are based on costs and
19 operating conditions for the future test year ending December 31, 2007. The
20 objective has been to make each exhibit a self-contained document. Each
21 exhibit provides a summary of the results, a printout of the cost allocation
22 detail, and supporting schedules showing functionalization of the costs and
23 support for the cost allocation factors used. Explanatory material with regard

1 to methods employed and cross-referencing to Exhibits Historic 1 and Future
2 1, as applicable, also are included.

3
4 Q. What cost allocation method was utilized in your studies?

5 A. The cost allocation studies, which are set forth in Exhibits JMK 1 and JMK 2,
6 generally follow the same principles utilized by PPL Electric for almost thirty
7 years, including in its restructuring filing at Docket No. R-00973954 and its
8 most recent base rate case at Docket No. R-00949255. That is, PPL Electric
9 continues to utilize the class maximum demand method, which is based on the
10 highest demand imposed by each rate class on its distribution system, to
11 allocate its demand-related distribution costs. Section V of Exhibit JMK 1 and
12 Section VI of Exhibit JMK 2 present the results of studies using other demand
13 allocation methods, as required by Question 1 of Exhibit Regs., Part IV,
14 Section E.

15
16 Q. Please describe the distribution plant investment studies contained in Exhibit
17 JMK 3.

18 A. Exhibit JMK 3 contains the results of two studies: (1) the subfunctionalization
19 of distribution plant investment and expense into primary and secondary volt-
20 age components and the classification of the secondary components into
21 customer and demand-related costs, and (2) the development of allocators for
22 meter investment and meter reading expense, which are used in the historic
23 and future test year cost allocation studies provided in Exhibits JMK 1 and

1 JMK 2. It should be noted that the subfunctionalization and classification of
2 distribution plant investment and expense is based on a detailed analysis of
3 specific PPL Electric plant records and cost data. The methodologies
4 employed in the studies are explained in Exhibit JMK 3 and the results of
5 these studies are reflected in Sections A and B of Exhibits JMK 1 and JMK 2.

6
7 Q. In classifying its distribution plant investment and expense into customer and
8 demand-related costs, has PPL Electric used the same methodology as that
9 used in its last retail base rate case?

10 A. Yes. Consistent with the approach used in its most recent retail base rate
11 case, PPL Electric believes that it is appropriate to continue the use of the
12 "minimum size system" methodology to identify the applicable customer and
13 demand-related cost components to determine the current cost of the
14 "minimum size" distribution system necessary to provide reliable distribution
15 service to its customers.

16
17 Q. Has PPL Electric made any modifications to its "minimum size system"
18 methodology since its most recent base rate case at Docket No. R-00049255?

19 A. Yes, it has. In its most recent base rate proceeding, several parties criticized
20 PPL Electric's proposed "minimum size system" study based on the assertion
21 that a portion of the "minimum size" equipment classified as customer-related
22 in that study, e.g., overhead and underground transformers, had significant

1 load-carrying capability, which should have been classified as demand-related,
2 rather than customer-related.

3 In an effort to add more precision to the classification of distribution
4 *facilities into their customer-related and demand-related components*, PPL
5 Electric undertook a rigorous engineering analysis of the “minimum size”
6 overhead (10 KVA) and underground (25 KVA) transformers, which currently
7 are being installed on its system, to identify the customer-related “minimum or
8 no load” portion of that equipment. This analysis, which was based on the
9 Capitalized Cost Method, identifies the total “owning cost” for transformers that
10 consists of the cost of the transformer (canister, windings, bushings, etc.), the
11 cost of core (no load) losses, and the cost of load losses. The results of this
12 analysis, which have been applied to PPL Electric’s overhead and
13 underground transformers, provide a more precise classification of those
14 facilities into their customer-related and demand-related components, as
15 shown in Exhibit JMK 3. Those results also have been applied to overhead
16 and underground conductors and services, as shown in Exhibit JMK 3.
17 Accordingly, only the “minimum or no load” portion of PPL Electric’s overhead
18 and underground transformers, conductors and services have been classified
19 as customer-related in this proceeding; the remaining portion of those facilities
20 has been classified as demand-related.

21
22 Q. Please explain Section III of Exhibit JMK 3.

1 A. Section III of Exhibit JMK 3 provides the derivation of the proposed metering
2 and billing credits set forth in the Metering and Billing Credit Rider of PPL
3 Electric's Tariff-Electric Pa. P.U.C. No. 201 ("Tariff No. 201"). These credits
4 are applied to a customer's monthly distribution charges when an Electric
5 Generation Supplier ("EGS"), licensed by the Commission, provides metering,
6 meter reading and/or billing and collection service to a customer in lieu of PPL
7 Electric.

8 The credits were derived by determining the revenue requirement, by
9 rate schedule, for each individual service (metering, meter reading and/or
10 billing and collection) that could be provided to a PPL Electric customer by an
11 EGS. The revenue requirement calculations are based on the applicable pro
12 forma rate base and operating expenses for the 12 months ending
13 December 31, 2007, as set forth in Exhibit JMK 2.

14 The proposed credits, which are shown on page 1 of Section III of
15 Exhibit JMK 3, were aggregated into the following customer groups:
16 residential; all other secondary voltage level; primary voltage level; and
17 transmission voltage level.

18
19 Universal Service Rider

20 Q. Has PPL Electric proposed procedures to recover its universal service
21 program-related costs?

1 A. Yes. PPL Electric has proposed a mechanism and procedures to recover its
2 universal service program-related costs. The mechanism is designated the
3 Universal Service Rider ("USR").

4 Under the USR, PPL Electric will estimate the total costs it projects to
5 incur, on a calendar year basis, to provide universal service programs for all
6 eligible residential customers who receive distribution service from PPL
7 Electric. The computation year will be January 1 through December 31.

8 Universal service program-related costs will include all costs estimated
9 to be incurred by PPL Electric to provide universal service programs to its
10 eligible residential distribution service customers. These costs include, but are
11 not limited to, arrearage forgiveness, uncollectible accounts expense, and
12 administration. These estimated costs will be recovered from all residential
13 customers taking service under Rate Schedules RS, RTS and RTD on a
14 percentage basis to be added to their distribution service charges. The USR
15 will be reconciled at the end of each 12-month billing period to identify any
16 overcollections or undercollections, which will be subject to Commission
17 review and verification. Any applicable overcollections or undercollections,
18 including interest, will be included in the calculation of the subsequent
19 computation year's USR.

20

21 Energy Efficiency Rider

22 Q. Has PPL Electric proposed procedures to recover its energy efficiency
23 program-related costs?

1 A. Yes. PPL Electric has proposed a mechanism and procedures to recover its
2 energy efficiency program-related costs. The mechanism is designated the
3 Energy Efficiency Rider ("EER").

4 Under the EER, PPL Electric will estimate the total costs it projects to
5 incur, on a calendar year basis, to provide energy efficiency programs for all
6 eligible residential and small commercial customers who receive distribution
7 service from PPL Electric. The computation year will be January 1 through
8 December 31.

9 Energy efficiency program-related costs will include all costs to be
10 incurred by PPL Electric to provide energy efficiency programs to its eligible
11 residential and small commercial distribution service customers. These
12 estimated costs will be recovered from all residential and small commercial
13 customers taking service under Rate Schedules RS, RTS, RTD and GS-1 on a
14 percentage basis to be added to their distribution service charges. The EER
15 will be reconciled at the end of each 12-month billing period to identify any
16 overcollections or undercollections, which will be subject to Commission
17 review and verification. Any applicable overcollections or undercollections,
18 including interest, will be included in the calculation of the subsequent
19 computation year's EER.

20

21

22 Q. Does this conclude your direct testimony?

23 A. Yes, it does.

**Proceedings in Which Mr. Kleha
Provided Expert Testimony**

As an analyst in the PUC's former Bureau of Rates and Research, Mr. Kleha offered testimony in the following electric utility rate proceedings:

<u>Company</u>	<u>Docket No.</u>
Duquesne Light Company	R-79010740
UGI Corp. - Luzerne Division	R-79050863
Philadelphia Electric Company	R-79060865
West Penn Power Company	R-80021082
Pennsylvania Power & Light Co.	R-80031114
Metropolitan Edison Company	R-80051196
Pennsylvania Electric Company	R-80051197

As an employee of PPL Electric and PPL Services, Mr. Kleha has offered expert testimony in numerous electric and gas utility proceedings before the PUC and the Federal Energy Regulatory Commission ("FERC").

<u>PUC</u>	<u>FERC</u>
Docket No. I-900005	Docket No. ER88-545-000
Docket No. P-910521	Docket No. ER91-322-000
Docket No. M-00930406	Docket No. ER95-1267-000
Docket No. C-00935175	Docket No. ER96-930-000
Docket No. C-00935403	Docket No. ER96-931-000
Docket No. R-00943271	Docket No. ER96-932-000
Docket No. C-00957559	Docket No. ER96-933-000
Docket No. P-00961023	Docket No. ER96-1428-000
Docket No. C-00967591	Docket No. SC97-1-000
Docket No. C-00967955	Docket No. OA96-142-000
Docket No. C-00968035	Docket No. ER97-4829-000
Docket No. P-00961114	Docket No. ER97-3189-007
Docket No. R-00973954	Docket No. EL98-25-000
Docket No. P-00001789	Docket No. ER02-597-000
Docket No. M-FACE9908	Docket No. ER03-421-002
Docket No. R-00005277	Docket No. ER04-056-000
Docket No. M-FACE0008	
Docket No. M-FACE0111	
Docket No. R-00016850	
Docket No. M-FACE0212	
Docket No. M-FACE0311	
Docket No. R-00049255	
Docket No. M-FACE0411	
Docket No. M-FACE0510	
Docket No. M-FACE0511	
Docket No. P-00062227	
Docket No. M-FACE0611	
Docket No. M-FACE0612	

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

REC'D
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P.P.U.C.
SECRETARY'S BUREAU

Docket No. R-00072155

PPL ELECTRIC UTILITIES CORPORATION

Statement No. 7

Direct Testimony of Oliver G. Kasper

1 Q. Please state your full name and business address.

2 A. Oliver G. Kasper, Two North Ninth Street, Allentown, Pennsylvania, 18101.

3

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by PPL Electric Utilities Corporation ("PPL Electric" or the
6 "Company") as Manager-Pricing and Contract Administration.

7

8 Q. What are your principal duties and responsibilities as Manager-Pricing and
9 Contract Administration?

10 A. I am responsible for Tariff Administration, which involves the development of PPL
11 Electric retail tariff rules and regulations, and ensuring their uniform administration
12 throughout the Company. I also direct the development of the Company's rate
13 design function and supervise the cost of service function.

14

15 Q. What is your educational background?

16 A. I graduated from Michigan Technological University in 1973 with a Bachelor of
17 Mechanical Engineering. I am a Registered Professional Engineer in the
18 Commonwealth of Pennsylvania.

19

20 Q. Please describe your professional experience.

21 A. I was employed by Westinghouse Electric Corporation in 1973 and served in the
22 Marketing Department of the Steam Turbine Division as an Application Engineer.
23 During this period, I was involved with all aspects of the initial design and proposal

1 preparation for large steam turbine generator sets. I also was the technical license
2 contact for two foreign manufacturers of Westinghouse turbine generators.

3 In 1976, I joined PPL Electric as a construction engineer for the
4 Susquehanna Steam Electric Station. In this position I was responsible for long-
5 term storage and maintenance for all equipment during construction, and assembly
6 of the Unit 1 and Unit 2 turbine generator sets.

7 In 1978, I was named Energy Management Engineer in PPL Electric's
8 Energy Conservation Department in the former Northern Division. My
9 responsibilities included energy conservation, service coordination, and marketing
10 with PPL's large industrial and commercial customers in that division.

11 In 1982, I was promoted to Senior Engineer-Research and Technical
12 Services; later the department was renamed Industrial and Commercial (I&C)
13 Marketing Programs. My responsibilities included residential thermal storage
14 heating systems research, commercial and industrial HVAC and process
15 heating/cooling applications, research and development, commercial and industrial
16 lighting design, and educating PPL Electric's staff and customers about
17 cogeneration.

18 In 1989, I was promoted to the position of I&C Marketing Manager in PPL
19 Electric's Lancaster Division. My responsibilities included managing a staff that
20 provided direct service and marketing contacts for all industrial and commercial
21 customers in that Division. I was promoted to Manager-Pricing and Contract
22 Administration in 1991, the position I now hold.

1 In my current position, I have been the Company's primary witness in the
2 rate design and tariff language areas for both electric and gas service before the
3 Pennsylvania Public Utility Commission ("PUC" or the "Commission"). I provided
4 testimony in the 1994 base rate case (Docket No. R-00943271), the 1998 Electric
5 Restructuring Case (Docket No. R-00973954), and the 2004 base rate case
6 (Docket No. R-00049255). I also have appeared as a witness in several formal
7 complaint actions by customers involving interruptible service.

8 For PFG Gas, Inc./North Penn Gas Company, I provided rate design and
9 tariff language support for their annual Purchased Gas Clause filings (Section
10 1307(f)) in 1999 through 2002. I also provided written testimony and rate design in
11 the PFG Gas, Inc./North Penn Gas Company base rate case in 2001 (Docket No.
12 R-00005277).

13 In 2002, I provided rate design and written testimony before the Federal
14 Energy Regulatory Commission (FERC Docket No. ER02-597-000) regarding
15 changes to the PJM OATT for certain sub-transmission charges.
16

17 Q. Mr. Kasper, are you sponsoring any exhibits in this proceeding?

18 A. Yes. I am sponsoring Exhibit OGK 1, which is Supplement No. 54 to Tariff -
19 Electric Pa. P.U.C. No. 201 ("Tariff 201"), Exhibit OGK 2, Digest of Changes to PPL
20 Electric's Tariff 201, and Exhibit OGK 3, the Bill Frequency Analysis.

21
22 Q. Mr. Kasper, what is the purpose of your testimony?

1 A. My testimony addresses six subjects: (1) the effects of the revenue adjustments to
2 historic test year book revenues and future test year budget revenues; (2) the
3 allocation of the proposed increase among customer classes; (3) rate design;
4 (4) other proposed tariff changes; (5) bill frequency analysis; and (6) proof of
5 revenues.

6

7 **Adjustments to Historic and Future Test Year Revenues**

8 Q. Mr. Kasper, please describe the purpose of Schedule D-3 to Exhibits Historic 1 and
9 Future 1.

10 A. Schedule D-3 in Exhibit Historic 1 shows ratemaking adjustments to book operating
11 revenues for the historic test year ended December 31, 2006. Schedule D-3 in
12 Exhibit Future 1 shows similar adjustments to budget revenues for the future test
13 year ending December 31, 2007.

14

15 Q. Will you please describe the adjustments shown on Schedule D-3 in Exhibit
16 Historic 1?

17 A. Page 1 of Schedule D-3 in Exhibit Historic 1 contains a summary statement of the
18 various adjustments made to operating revenues for the test year ended
19 December 31, 2006, which are as follows:

20 Column 1 presents total revenues per books as supplied by Mr. Schadt.
21 Column 2 removes the revenues related to Provider of Last Resort ("POLR")
22 service and revenues related to the recovery of stranded costs. Column 3 sets
23 forth the combined T&D Operations revenues per books. Column 4 is the sum of

1 all adjustments proposed to adjust the book revenues to the pro forma ratemaking
2 level found in column 5. Line 2 of column 4 adjusts distribution revenues to reflect
3 the annualization of sales and revenues at December 31, 2006. All revenues in
4 column 5 are pro forma. Total pro forma operating revenues for the year ended
5 December 31, 2006 appear on line 17 of column 5.

6
7 Q. Please describe the adjustments shown on Schedule D-3 of Exhibit Future 1.

8 A. Page 1 of Schedule D-3 in Exhibit Future 1 contains a summary statement of the
9 various adjustments made to operating revenues budgeted for the year ending
10 December 31, 2007, which are as follows:

11 Column 1 presents total budget revenues as supplied by Mr. Schadt.

12 Column 2 removes the revenues related to POLR service and revenues related to
13 the recovery of stranded costs. Column 3 sets forth the budgeted revenues for the
14 combined T&D Operations. Column 4 is the sum of all adjustments proposed to
15 bring the budgeted revenues to the pro forma ratemaking level found in column 5.
16 Line 2 of column 4 adjusts distribution revenues to reflect the annualization of
17 budgeted sales and revenues at December 31, 2007. All revenues in column 5 are
18 pro forma. Total pro forma operating revenues at present rates for the year ending
19 December 31, 2007 appear on line 17 of column 5.

20
21 Q. Please continue your explanation of Schedule D-3.

22 A. Page 2 of Schedule D-3 for Exhibits Historic 1 and Future 1 shows the details of
23 the number of customers by rate schedule (column 2), KWH sales (column 3) and

1 revenue by each rate component (Distribution-column 4, Transmission-column 8,
2 CTC-column 9, ITC-column 10, Energy and Capacity-column 11, and two STAS-
3 columns 13 (Distribution STAS) and 14 (STAS applied to all other rate
4 components). The Total Revenue by rate schedule can be found in column 15.

5 Page 3 of Schedule D-3 shows, on line 27, for both the historic test year and
6 future test year, the total annualization adjustment by rate component. Page 3 also
7 has a calculated value for both Distribution STAS and all other STAS in columns 13
8 and 14.

9 Page 4 of Schedule D-3 shows adjustments that include: the Universal
10 Services Rider (USR), and the Energy Efficiency Rider (EER), as described in Mr.
11 Dahl's, Mr. Homa's and Mr. Kleha's testimony. On page 4, these riders represent
12 values in rates today, which are subtracted from the distribution rates on page 3.
13 These riders will be an annual adjustment to distribution rates in the future and will
14 not be shown as a separate line item on the bill.

15 Page 5 of Schedule D-3, for both the historic test year and future test year,
16 removes the revenue effect of shopping customers on the Company's
17 transmission, and energy and capacity. Those revenues are added back for rate
18 design purposes and proof of revenue calculations. This adjustment to revenues is
19 for calculation purposes only, treating all customers as if they are taking POLR
20 service.

21
22 Q. Please explain why you are adding back the transmission, and energy and
23 capacity, revenues associated with the shopping customers.

1 A. All of the Company's computer models for designing rates are based on the total
2 kWh being supplied by the Company (i.e., they are constructed using the
3 assumption that customers are not shopping). As shown in the proof of revenue
4 calculations in response to Exhibit Regs., §53.53, Part IV, Section C, it can be seen
5 in the units column that the kWh are constant for all components of the rates, as if
6 no customers are shopping. Accordingly, the Company calculates the summary of
7 total revenues at the bottom of each sheet assuming it provides POLR service to
8 all customers. This adjustment for shopping customers has no effect on the
9 amount of the increase, allocation of the increase or the proposed rate design.

10

11 Q. Please continue with your discussion of Schedule D-3.

12 A. Page 6 of Schedule D-3, for both the historic test year and future test year, shows
13 the proposed distribution revenues in column 3. Column 4 shows the Universal
14 Service Rider ("USR") proposed by Mr. Dahl totaling \$27,896,000, including
15 applicable gross receipts tax ("GRT"). Column 5 shows the Energy Efficiency
16 Rider ("EER") proposed by Mr. Homa totaling \$2,857,000, including applicable
17 GRT. The USR is charged only to the residential customers taking service under
18 Rate Schedules RS, RTS, and RTD. The EER is charged only to the residential
19 and small commercial customers taking service under Rate Schedules RS, RTS,
20 RTD and Rate Schedule GS-1.

21

1 Q. Please explain the relationship of the percentage increase shown on page 6,
2 column 15 of Schedule D-3, for both the historic test year and future test year, and
3 the proof of revenue calculations.

4 A. The total percentage increases shown by rate schedule in column 15, page 6, are
5 traceable to the response to Exhibit Regs., §53.53, Part IV, Section C, Calculation
6 of Effect of Proposed Rate (Proof of Revenue), for each rate schedule.

7 The distribution rate increase produced by the Company's proposed rate
8 design is found in column 14, line 38, page 6, of Schedule D-3 for both the historic
9 test year and future test year. For the future test year, the increase in distribution
10 revenues resulting from the Company's rate design is \$83,521,261. This increase
11 reflects both the requested increase in distribution revenues and an estimate of the
12 effect of applying both the USR and the EER, and the current level of STAS.

13

14 **Allocation of the Revenue Increase**

15 Q. What principles has PPL Electric followed in allocating the distribution rate increase
16 for this case?

17 A. As discussed by Mr. Douglas A. Krall, PPL Electric allocated the proposed revenue
18 increase in this case on the basis of cost of service and gradualism. In addition, as
19 Mr. Krall explains, allocation of the proposed increase was significantly influenced
20 by the Commonwealth Court's decision in the Lloyd case.

21

22 Q. How does the Company propose to allocate the distribution rate increase in this
23 proceeding.

1 A. As described in more detail by Mr. Krall, the increase has been allocated in a way
2 that is designed to move each rate schedule one-half of the way to full cost of
3 service, with the constraint that no rate schedule would receive a distribution rate
4 increase more than twice the system average distribution increase.

5
6 Q. Have you prepared a table to show the results of your proposed revenue
7 allocation?

8 A. Yes. Appendix A attached to this testimony provides the rate of return for each
9 rate schedule at present and proposed rates and the movement toward cost of
10 service on a relative rate of return basis. As shown on this table, with two
11 exceptions, all rate schedules were moved one-half of the way to full cost of
12 service. The two exceptions were Rate Schedule RTS and the Street Lighting
13 rates. In each case these rates were so far below cost of service that they could
14 not be moved half-way to cost of service without imposing very large rate
15 increases, out of proportion to the overall rate increase requested in this
16 proceeding. Although not shown on Appendix A, Street Lighting customers would
17 require a 37 percent distribution rate increase and Rate Schedule RTS customers
18 would require a 104 percent distribution rate increase to achieve the 50 percent
19 move to system average rate of return.

20
21 Q. Why didn't the Company propose to move all rate schedules to full cost of service
22 immediately?

1 A. Moving immediately to full cost of service would have required very large rate
2 increases to the major rate schedules. For example, moving Rate Schedule RS,
3 *under which most residential customers are served, to full cost of service would*
4 have required a 29.8 percent distribution rate increase. Such a move would have
5 required correspondingly large rate decreases for other rate schedules. And, on an
6 absolute basis, it would have required a residential rate increase far in excess of
7 the total \$77 million residential rate increase requested in this proceeding

8 Such increases are not reasonable in my opinion and certainly are not
9 required by the Lloyd decision, which affirms that gradualism is an appropriate
10 consideration in rate design. As Mr. Krall explains, the Company's proposed
11 revenue allocation has not allowed gradualism to "trump" cost of service; rather,
12 gradualism has been used to temper the movement to full cost of service over a
13 specific and reasonable time period.

14
15 Q. Did PPL Electric examine the results of the compliance filing in the 2004 rate case?

16 A. Yes. As discussed by Mr. Krall, the rates approved by the Commission in that case
17 moved all rate schedules at least one-third of the way toward full cost of service on
18 a relative rate of return basis. The data, shown on Appendix B to this testimony,
19 clearly supports this conclusion. As can be seen on Appendix B, Rate Schedule
20 RS moved from 48 % to 64% of system average return, a movement of
21 approximately one-third. In the current case, Rate Schedule RS will move from
22 59% to 82%, or one-half of the way to full cost of service. In its next distribution
23 rate case, the Company, subject to the principles of gradualism, will propose to

1 move Rate Schedule RS to full cost of service. A similar approach can be
2 observed for rate schedules currently above cost of service. Rate Schedule GS-1
3 moved from 235% to 185% of system average return in the 2004 case, a move of
4 37%. In this case, Rate Schedule GS-1 will move from 214% to 159%, or one-half
5 of the way to full cost of service. Thus, in three rate cases, i.e., 2004, 2007 and the
6 next rate case, PPL Electric will have moved rates to, or near to, full cost of
7 service. The Company believes that this is a reasonable plan to move rates to cost
8 of service and is fully consistent with the Lloyd decision.

9
10 Q. Why are the percentages of system average returns that resulted from the 2004
11 rate case not the starting points for percentages of system average returns at
12 present rates in this case?

13 A. Between cases, the allocation factors can change somewhat because of changes
14 in the inputs. Moreover, costs change between cases, and the nature of these
15 costs, and the applicable allocations used for the costs, can result in one class
16 being allocated a greater or lesser amount of costs than other classes, resulting in
17 lower or higher percentages of cost of service compared to system average. This
18 is why it is important that PPL Electric's plan reflect increasing percentage
19 movement toward full cost of service over a period of cases (i.e., 1/3, 1/2 and full),
20 and that the Commission evaluate the plan as a whole, and not just movement in
21 an isolated case.

22

1 **Rate Design**

2 Q. Please describe the overall rate design approach in PPL Electric's proposed Tariff
3 No. 201, Supplement 54, provided as Exhibit OGK 1.

4 A. The primary objective of the rate design was to develop rate schedules that would
5 produce the requested revenues when applied to forecasted conditions for the 12
6 months ending December 31, 2007.

7

8 Q. How was the cost of providing service reflected in the rate design?

9 A. In the analysis of the cost of providing service for distribution operations, there are
10 only two types of costs, customer and demand. In the presently effective
11 residential rate (Rate Schedule RS) and the small general service rate (Rate
12 Schedule GS-1), however, a large portion of the distribution revenue is being
13 collected through usage, or kWh charges. In this filing, PPL Electric is proposing to
14 continue movement toward distribution rates that are more demand and customer
15 dependent and less usage-based. This change is more reflective of how costs are
16 incurred by an electric distribution company ("EDC").

17

18 **Rate Schedule RS-Residential Service:**

19 Q What changes are being proposed for the residential rate under Rate Schedule
20 RS?

21 A. The Company is proposing to increase the customer charge from \$7.96 to \$10.00
22 per month to more closely reflect the cost of providing service, as set forth in Mr.

1 Kleha's Exhibit JMK 3. The total number of kWh steps within the rate remains the
2 same at three.

3 In addition, the single meter and two meter residential off-peak water
4 heating provisions will be charged under the standard residential Rate Schedule
5 RS rates for distribution service. The rate structure of the generation components
6 of the rate (CTC, ITC, and E&C) will remain as established by the Company's
7 Restructuring Settlement.
8

9 Q. Are there any changes to the Application provisions of Rate Schedule RS?

10 A. Yes. Today, any building on a property with a separate electric service, on which
11 there exists a house served under Rate Schedule RS, will qualify for service under
12 Rate Schedule RS, with or without residential use in the building. For non-
13 residential services, non-residential rates should apply if supplied through a
14 separate service. Tariff language is clarified to apply non-residential rates to these
15 services.

16 Specifically, a dwelling is defined as a living space consisting, at a minimum,
17 of permanent provisions for shelter, dining, sleeping, and cooking, with provisions
18 for permanent electric, water, and sanitation services. This definition will only be
19 applicable prospectively.
20

21 **Residential Time of Day-Rate Schedule RTD**

22 Q. What changes are being proposed for residential time-of-day under Rate Schedule
23 RTD?

1 A. The distribution rate structure and pricing will become the same as that for Rate
2 Schedule RS, as described above. The rate structure of the generation
3 components of the rate (CTC, ITC, and E&C) will remain as established by the
4 Company's Restructuring Settlement.

5

6 **Residential Thermal Storage-Rate Schedule RTS**

7 Q. What changes are being proposed for residential thermal storage under Rate
8 Schedule RTS?

9 A. The distribution rate structure will become the same style as that for Rate Schedule
10 RS, as described above, i.e., a customer charge and three kWh steps. Pricing is
11 being designed to limit the percentage increase in distribution rates to twice the
12 system average percentage distribution increase. The rate structure of the
13 generation components of the rate (CTC, ITC, and E&C) will remain as established
14 by the Company's Restructuring Settlement.

15

16 **Small General Service – Rate Schedule GS-1**

17 Q. What changes are being proposed for small general service under Rate Schedule
18 GS-1?

19 A. The structure of Rate Schedule GS-1 remains essentially unchanged with a
20 customer charge that includes the first 5 kW of the billing demand. PPL Electric is
21 proposing to increase the customer charge from \$11.41 to \$12.00 per month, and
22 increase the demand charge from \$2.35 per kW to \$2.40 per kW.

1 In addition, the Company is proposing to change the rounding technique
2 used in the calculation of this rate. Presently, demands for billing are rounded to
3 the nearest 1/2 kW. This is the only rate schedule in PPL Electric's tariff that is
4 calculated this way. In the Company's studies of moving to rounding to the nearest
5 full kW, there was little or no impact on any customer's annual costs.

6
7 **Large General Service – Rate Schedule GS-3**

8 Q. Are there any changes proposed to large general service under Rate Schedule
9 GS-3?

10 A. Yes. In keeping with the general direction of moving toward more customer and
11 demand-oriented rates and away from kWh-based rates, proposed Rate Schedule
12 GS-3 will recover 100% of the overall distribution revenue through demand
13 charges. The present Rate Schedule GS-3 rate already recovers 95% of the
14 overall distribution revenue through demand charges.

15
16 **Large Power Firm Service at 12,000 Volts – Rate Schedule LP-4**

17 Q. Are there any changes proposed to large power service under Rate Schedule
18 LP-4?

19 A. No rate design changes are being proposed for this rate schedule.

20
21 **Large Power Interruptible Service at 12,000 Volts – Rate Schedule IS-P**

22 Q. Are there any changes proposed to large power interruptible service under Rate
23 Schedule IS-P?

1 A. Yes, the distribution rate structure for Rate Schedule IS-P is being changed to the
2 Rate Schedule LP-4 style of rate structure. From a distribution viewpoint, there is
3 no difference between Rate Schedule IS-P customers and any other Rate
4 Schedule LP-4 customer. The billing kW for the distribution component of the bill is
5 the average number of kilowatts supplied during the 15-minute period of maximum
6 use during the current billing period. The Billing kW for the non-distribution
7 components of the bill will continue to be calculated based on the On Peak
8 Demand, Firm Power, and Load Factor.

9

10 **Large Power Service at 69,000 volts - Rate Schedules LP-5, LP-6, IS-T,**

11 Q. Are there any changes proposed to the distribution rate for large power service
12 customers that take service under 69 kV delivery rates?

13 A. Yes. PPL Electric is proposing a customer charge for all 69 kV customers for
14 distribution service. The customer charge will be different for each of the rate
15 schedules due to historical ratemaking. Over a series of rate cases, all of these
16 rate schedules should have the same customer charge.

17

18 **Electric Propulsion, Rate Schedule LPEP**

19 Q. Are there any changes proposed for electric propulsion under Rate Schedule
20 LPEP?

21 A. The existing monthly Facility Charge for use of the Company's 25-hertz facilities
22 will be combined with a customer charge.

23

1 **Tariff Changes**

2 Q. Would you briefly describe the contents of Exhibit OGK 2?

3 A. This exhibit, which is entitled "Digest of Proposed Changes Requested in
4 Supplement No. 54 to Tariff – Electric Pa. P.U.C. No. 201," contains a summary of
5 the Company's proposed rules and rate changes. A copy of this digest is provided
6 to all PPL Electric employees who have responsibility for administration of the
7 electric service tariff.

8
9 **Rule Changes**

10 Q. Is there a comprehensive list of changes that summarizes all the proposed tariff
11 changes?

12 A. Yes. This list can be found in the summary starting on page 2 of Exhibit OGK 1,
13 Supplement No. 54 to PPL Electric's Tariff – Electric Pa. P.U.C. No. 201.

14
15 Q. Are there any proposed changes in the Characteristics of Service provisions for
16 Supply of Service (Rule 4A)?

17 A. Yes. The distribution system is defined, for purposes of this rule, as including all
18 lines energized at voltages less than the nominal 69,000 volts, and excluding
19 service extensions and lines energized at voltages of nominal 69,000 volts or
20 higher. This change will clarify that Rule 4 applies only to the distribution system at
21 less than 69kV. Also, the Company may provide a separate point of delivery at the
22 customer's request as a speculative line and/or service extension to an institutional
23 complex. In the case of two or more services, the customer pays the fully allocated

1 cost of any primary or secondary voltage to serve the additional points of delivery.
2 This change clarifies how PPL Electric charges for more than two services on the
3 same property for the same customer.
4

5 Q. Are there any changes proposed to the Method of Service provision for Supply of
6 Service (Rule 4C)?

7 A. Yes. The Company furnishes and installs all electric service line facilities
8 extending from its distribution supply lines to the customer's point of delivery. The
9 "at or near the customer's property line" and "on his property" terms are removed to
10 clarify how PPL Electric treats service extensions to customer facilities.
11

12 Q. Are there any changes proposed in the "Relocations of Facilities" provision of Tariff
13 Rule 4I?

14 A. Yes. When a request for relocation of facilities is received from a property owner
15 and the facilities are on the customer's property, the charges for relocation of
16 distribution system facilities are limited to estimated contractor costs, and
17 estimated direct labor and estimated material costs, less an amount equal to any
18 estimated maintenance expense avoided as a result of the relocation. The phrase
19 "and the facilities are on the customer's property" is being added to clarify the
20 location requirement for the Company facilities.
21

22 Q. Are there any changes proposed in the "Temporary Service" provision of Tariff
23 Rule 7?

1 A. Yes. The provisions in this rule for temporary service were clarified to apply only to
2 annually recurring service. Service to permanent residences on a residential rate
3 schedule does not apply.
4

5 **Rider Changes**

6 Q. Are any new riders being proposed?

7 A. Yes, as found in Mr. Dahl's and Mr. Homa's testimony, two new, annually
8 reconciled riders are being proposed: 1) the Universal Service Rider, and 2) the
9 Energy Efficiency Rider.
10

11 Q. Are there any proposed changes to the Interruptible Service by Agreement Rider
12 and the Competitive Rate Rider?

13 A. Yes. The Company is proposing that these riders be terminated on January 1,
14 2010. At that time, any customer receiving service under these rate riders will be
15 transferred to the appropriate rate schedule in this tariff. There currently are three
16 (3) customers remaining on this rider. All three are basically on the Rate Schedule
17 LP-5 rate with an expanded Economic Development Credit within their contracts.
18 Ending the Competitive Rate Rider in 2010 will then parallel the termination of the
19 EDI and IDI riders currently in PPL Electric's Tariff.
20

21 Q. Are there any proposed changes to the Sustainable Energy Fund Rider?

22 A. Yes. The Company is proposing to remove this rider because PPL Electric is no
23 longer collecting funds from customers for this purpose. A new rider will address

1 the need to promote the development and use of renewable energy and clean
2 energy technologies, energy conservation and efficiency which promotes clean
3 energy. This rider is discussed in more detail in Mr. Krall's direct testimony.
4

5 Q. Are there any proposed changes to the Metering and Billing Credit Rider?

6 A. Yes. The Company is proposing that the Metering, Meter Reading, and Billing and
7 Collection credits be adjusted, based on current cost of service data. The
8 proposed charges are set forth in Mr. Kleha's Exhibit JMK 3.
9

10 Q. Are there any changes to the Interim and PPL-GENCO Codes of Conduct?

11 A. Yes. The Interim and PPL-GENCO Codes of Conduct became effective upon
12 Commission approval in January 1, 1999. Since that time, these Codes of Conduct
13 have been superseded, and they are no longer effective.
14

15 Q. Are there any changes proposed to the Demand Side Initiative Rider?

16 A. Yes. The Company is proposing that this "experimental" rider be extended to
17 January 1, 2010 to continue providing industrial and commercial customers with an
18 option to adjust their load requirements in response to market prices. This rider is
19 discussed further in Mr. Krall's direct testimony.
20

21 Q. Are there any proposed changes to the Demand Side Response Residential Rider?

22 A. Yes. The Company is proposing that this "experimental" rider be extended to
23 September 30, 2009 to continue providing residential customers with an option to

1 adjust their load requirements in response to market prices. This rider is discussed
2 further in Mr. Krall's direct testimony.

3
4 **Rate Schedule Changes**

5 Q. Are there any restrictions being proposed for any of the Company's rate
6 schedules?

7 A. Yes. The Company is proposing to change Rate Schedule GS-1 to be single-
8 phase service only. PPL Electric will grandfather existing 2 and 3-phase secondary
9 voltage accounts currently served on this rate schedule. Only new, secondary
10 voltage, single-phase accounts will be eligible for Rate Schedule GS-1. PPL
11 Electric also is proposing to change Rate Schedule GS-3 to be applicable for only
12 multiple-phase service. PPL Electric will grandfather existing single-phase
13 secondary voltage accounts on this rate schedule. Only new, secondary voltage, 2
14 and 3-phase accounts will be eligible for Rate Schedule GS-3.

15
16 **Private Area Lighting – Rate Schedule SA**

17 Q. Are there any changes proposed for private area lighting under Rate Schedule SA?

18 A. Yes. Lamp replacements will be provided by the third working day following outage
19 notification to the Company by the customer.

20

1 **Mercury Vapor Street Lighting Service – Rate Schedule SM and High Pressure**
2 **Sodium Street Lighting Service – Rate Schedule SHS**
3

4 Q. Are there any changes proposed for mercury vapor street lighting service under
5 Rate Schedule SM and high pressure sodium street lighting service under Rate
6 Schedule SHS?

7 A. Yes. No new installations of mercury vapor lamps and fixtures will be offered after
8 January 1, 2008 in accordance with the Energy Policy Act of 2005. In addition, as
9 existing mercury vapor fixtures fail, the customer will be transitioned to the high
10 pressure sodium (Rate Schedule SHS) nominal lumens equivalent, in accordance
11 with the Energy Policy Act of 2005, which states that “mercury vapor lamp ballasts
12 shall not be manufactured or imported after January 1, 2008.

13
14 Q. Are there any changes proposed for the Energy Only Street Lighting Service - Rate
15 Schedule SE?

16 A. Yes. The application of this rate schedule will be expanded to include induction
17 street lighting systems for municipalities, governmental agencies, and property
18 owners/developers. This will provide another option for customers replacing
19 sodium vapor lamps. Also, the minimum number of lamps for eligibility is being
20 reduced from 100 to 5, and the restriction on municipal or governmental ownership
21 is being removed.

22
23 Q. Are there any changes to enrollment procedures for customers who have not had
24 the opportunity to shop?

1 A. Yes. The following phrase that exists in all rate schedules is being removed: "New
2 applications for service in the tariff are limited to customers who have not had the
3 opportunity to purchase capacity and energy from their choice of electric
4 generation suppliers pursuant to the enrollment procedures contained in the
5 Commission's order at Docket M-00960890F.0014 and M-00960890F.0015." This
6 statement is no longer applicable and can be removed from the appropriate rate
7 schedules in the tariff.

8

9 **Bill Frequency Analysis**

10 Q. Mr. Kasper, please explain the methods used to calculate the annual revenue
11 effects of the proposed rates.

12 A. A summary of the bill distributions and other summaries of billing quantities for all
13 rates are provided in Exhibit OGK 3 for the 12 months ended December 31, 2006.
14 Both present and proposed rates were applied to the calculated billing quantities.
15 The results of these calculations were then used to obtain adjusted rate class
16 revenue for the period ended December 31, 2006, and for the budgeted rate class
17 revenue for the period ending December 31, 2007. In this way, the Company
18 derived the total annual revenue effect and the effect by rate classes. Increases
19 also were assigned to the late payment charge and to the annualized revenue
20 adjustment.

21

22 **Proof of Revenue**

23 Q. Please explain the proof of revenue or bill frequency analysis.

1 A. The response to Exhibit Regs., §53.53, Part IV, Section C contains a bill frequency
2 analysis which details, by rate class, the billing units for each type of charge in PPL
3 Electric's existing and proposed tariff. In column 2, there is a summary of the
4 annual billing units for each class. This summary includes total customer bills, total
5 kW, or total kWhs in the specific block. Column 3 contains the price per unit at
6 current rates. Column 4 shows the total revenue for that block. The percentage
7 increase in proposed rates over current rates is at the bottom of each page. This
8 percentage is used to calculate the dollar revenue increase for all classes. The
9 results of the proof of revenue can be found on Schedule D-3, page 6, of Exhibits
10 Historic 1 and Future 1.

11
12 Q. Have you compared customer bills before and after the proposed increase?
13 A. Yes, bill comparisons for selected rate schedules can be found in response to
14 Exhibit Regs., §53.53, Part IV, Section D. Various bill comparisons were
15 completed utilizing average usage and a selected range of residential and general
16 service usage.

17
18 Q. Does this conclude your testimony?
19 A. Yes, it does.

**PPL Electric Utilities Corporation
2007 Distribution Rate Filing
ROR & Revenue Requirements
(\$000s)**

	System	RS	RTS	GS-1	GS-3	LP-4	ISP	GH	SL/AL	LP-5	IST	LP-6	LPEP	L5-S
Present ROR	6.11%	3.63%	-4.31%	13.08%	13.14%	13.83%	19.08%	9.20%	-0.03%	20.74%	41.46%	17.69%	13.89%	6.38%
Pct of System	100.00%	59.41%	-70.54%	214.08%	215.06%	226.35%	312.27%	150.57%	-0.49%	339.44%	678.56%	289.53%	227.33%	104.42%
Proposed ROR	8.36%	6.82%	-2.98%	13.32%	13.24%	13.54%	17.54%	10.57%	2.79%	18.29%	33.05%	16.67%	13.76%	8.51%
Pct of System	100.00%	81.58%	-35.65%	159.33%	158.37%	161.96%	209.81%	126.44%	33.37%	218.78%	395.33%	199.40%	164.59%	101.79%
Change Proposed ROR	2.25%	3.19%	1.33%	0.24%	0.10%	-0.29%	-1.54%	1.37%	2.82%	-2.45%	-8.41%	-1.02%	-0.13%	2.13%
Pct of System	0.00%	22.17%	34.89%	-54.75%	-56.68%	-64.39%	-102.47%	-24.14%	33.86%	-120.66%	-283.22%	-90.12%	-62.74%	-2.62%
Revenue Increase	83,521	77,329	944	845	612	(391)	(107)	542	4,007	(135)	(127)	(5)	(1)	2
Pct of Total Revenues	2.68%	5.95%	3.57%	0.36%	0.08%	-0.10%	-0.53%	1.55%	16.84%	-0.07%	-0.14%	-0.02%	-0.02%	0.18%
Pct of Distribution														
Rate Revenues	13.04%	20.13%	25.44%	1.10%	0.52%	-1.28%	-5.60%	7.64%	24.89%	-7.37%	-16.34%	0.00%	-0.30%	6.06%
2 times Cap	26.07%													
Revenue Increase Components:														
Social Program Rider	27,896	27,629	267											
Energy Efficiency Rider	2,856	2,362	23	471										
Base Rate Change	52,769	47,338	654	374	612	(391)	(107)	542	4,007	(135)	(127)	(5)	(1)	2
Total	83,521	77,329	944	845	612	(391)	(107)	542	4,007	(135)	(127)	(5)	(1)	2
Pct of System														
50% Move to SARR														
Present		59.41%	-70.54%	214.08%	215.06%	226.35%	312.27%	150.57%	-0.49%	339.44%	678.56%	289.53%	227.33%	104.42%
Proposed		81.58%	-35.65%	159.33%	158.37%	161.96%	209.81%	126.44%	33.37%	218.78%	395.33%	199.40%	164.59%	101.79%
Move		22.17%	-34.89%	-54.75%	-56.68%	-64.39%	-102.47%	-24.14%	33.86%	-120.66%	-283.22%	-90.12%	-62.74%	-2.62%
Pct Move		54.6%	20.5%	48.0%	49.3%	51.0%	48.3%	47.7%	33.7%	50.4%	49.0%	47.6%	49.3%	59.4%

**PPL Electric Utilities Corporation
2004 Distribution Rate Filing
ROR Changes**

	System	RS	RTS	GS-1	GS-3	LP-4	ISP	GH	SL/AL	LP-5	IST	LP-6	LPEP	L5-S
2004 Present Rates ROR	4.04%	1.94%	-4.07%	9.49%	9.09%	9.00%	12.40%	8.85%	2.24%	25.54%	92.92%	85.29%	7.77%	5.99%
Pct of System	100.00%	48.02%	-100.74%	234.90%	225.00%	222.77%	306.93%	219.06%	55.45%	632.18%	2300.00%	2111.14%	192.33%	148.27%
2004 Compl Filing ROR	8.43%	5.42%	-3.26%	15.57%	16.67%	16.38%	16.81%	15.84%	4.06%	27.12%	55.01%	52.94%	11.66%	19.16%
Pct of System	100.00%	64.29%	-38.67%	184.70%	197.75%	194.31%	199.41%	187.90%	48.16%	321.71%	652.55%	628.00%	138.32%	227.28%
ChangeIn 2004 ROR	4.39%	3.48%	0.81%	6.08%	7.58%	7.38%	4.41%	6.99%	1.82%	1.58%	-37.91%	-32.35%	3.89%	13.17%
Pct of System	0.00%	16.27%	62.07%	-50.20%	-27.25%	-28.47%	-107.52%	-31.16%	-7.28%	-310.47%	-1647.45%	-1483.14%	-54.01%	79.02%
Pct of System														
50% Move to SARR														
Present		48.02%	-100.74%	234.90%	225.00%	222.77%	306.93%	219.06%	55.45%	632.18%	2300.00%	2111.14%	192.33%	148.27%
Proposed		64.29%	-38.67%	184.70%	197.75%	194.31%	199.41%	187.90%	48.16%	321.71%	652.55%	628.00%	138.32%	227.28%
Move		16.27%	62.07%	-50.20%	-27.25%	-28.47%	-107.52%	-31.16%	-7.28%	-310.47%	-1647.45%	-1483.14%	-54.01%	79.02%
Pct Move		31.31%	30.92%	-37.22%	21.80%	-23.19%	51.96%	26.17%	-16.35%	-58.34%	-74.88%	73.75%	58.50%	-163.71%