

OTS Statement No. 1
Witness: Kevan L. Deardorff

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Direct Testimony

Of

Kevan L. Deardorff

Office of Trial Staff

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

Concerning:

Rate of Return

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Kevan L. Deardorff. My business address is P.O. Box 3265,
3 Harrisburg, Pa. 17105-3265.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am currently employed by the Pennsylvania Public Utility Commission
7 (“Commission”) as a Fixed Utility Financial Analyst Supervisor. I am
8 assigned to the Office of Trial Staff (“OTS”) as an expert witness.

9

10 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE**
11 **PROCEEDINGS.**

12 A. OTS was established by the legislature and is responsible for protecting the
13 public interest in rate proceedings. The OTS analysis in this proceeding is
14 based on its responsibility to represent the public interest. This
15 responsibility requires the balancing of the interests of ratepayers and the
16 company.

17

18 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
19 **BACKGROUND?**

20 A. I have prepared this information in Appendix A attached to my direct
21 testimony.

1 I. Subject of Testimony

2

3 Q. PLEASE IDENTIFY THE ISSUES THAT ARE ADDRESSED IN
4 YOUR TESTIMONY.

5 A. The issues addressed in my direct testimony are rate of return, including the
6 cost of common equity, and the overall fair rate of return for the PPL
7 Electric Utilities Corporation (“PPL” or “Company”).

8

9 Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT
10 THAT SUPPORTS YOUR RECOMMENDATIONS WITH RESPECT
11 TO A FAIR RATE OF RETURN?

12 A. Yes. OTS Exhibit No. 1 presents the analyses that I have conducted
13 regarding rate of return.

14

15 II. Background Discussion

16

17 Q. HOW DOES THE RATE OF RETURN COMPONENT FIT WITHIN
18 THE REVENUE REQUIREMENT FORMULA?

1 A. The revenue requirement formula is as follows:

2
$$RR = E + D + T + (V-d) \times R$$

3 Where:

4 RR = Revenue Requirement

5 E = Operating Expense

6 D = Depreciation Expense

7 T = Taxes

8 V = Gross Rate Base

9 d = Accrued Depreciation

10 R = Overall Rate of Return

11 In the above formula, the rate of return is expressed as a percentage. The
12 calculation of that rate is independent of the determination of the
13 appropriate rate base value for ratemaking purposes. As such, the
14 appropriate total dollar return is dependent upon the proper computation of
15 the rate of return and the proper valuation of the Company's rate base.

16

17 **Q. WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL**
18 **RATE OF RETURN?**

19 A. A fair and reasonable overall rate of return is one which will allow the
20 utility the opportunity to recover those costs prudently incurred by all
21 classes of capital used to finance the rate base during the prospective period
22 its rates will be in effect.

1 The Bluefield Water Works and Hope Natural Gas cases of 1923 and
2 1944, respectively (cited below), set forth the principles that are generally
3 accepted by regulators throughout the country as the appropriate criteria for
4 measuring a fair rate of return:

5 A public utility is entitled to such rates as will permit it to
6 earn a return on the value of the property which it employs
7 for the convenience of the public equal to that generally being
8 made at the same time and in the same general part of the
9 country on investments in other business undertakings which
10 are attended by corresponding risks and uncertainties; but it
11 has no constitutional right to profits such as are realized or
12 anticipated in highly profitable enterprises or speculative ven-
13 tures. The return should be reasonably sufficient to assure
14 confidence in the financial soundness of the utility and should
15 be adequate, under efficient and economical management, to
16 maintain and support its credit and enable it to raise the
17 money necessary for the proper discharge of its public duties.
18 A rate of return may be reasonable at one time and become
19 too high or too low by changes affecting opportunities for
20 investment, the money market and business conditions
21 generally.

22
23 Bluefield Water Works & Improvements Co. v. Public Service Comm. of
24 West Virginia, 262 U.S. 679, 692-93 (1923).

25 It is important that there be enough revenue not only for
26 operating expenses but also for the capital costs of the business.
27 These include service on the debt and dividends on the stock. By
28 that standard the return to the equity owner should be commensurate
29 with risks on investments in other enterprises having corresponding
30 risks. That return, moreover, should be sufficient to assure
31 confidence in the financial integrity of the enterprise, so as to main-
32 tain its credit and to attract capital.

33
34 FPC v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944).

1 While interpretations of these excerpted citations may vary
2 *somewhat, they provide general guidelines for the regulator to determine a*
3 *fair rate of return.*

4
5 **Q. WOULD YOU PLEASE EXPLAIN HOW YOU CALCULATED**
6 **YOUR OVERALL RATE OF RETURN?**

7 **A.** Yes. The overall rate of return in this rate proceeding is calculated using
8 the weighted average cost of capital method, which is the interaction of the
9 following components: the percentage of long-term debt, the percentage of
10 common equity, the cost of long-term debt and the cost rate of common
11 equity. First, it is necessary to determine the proportion of each type of
12 capital (referred to as the capital structure) that has financed the rate base
13 and assign the appropriate cost rate to each. The cost rate of debt is fixed
14 and can be computed accurately. The cost rate of common equity is not
15 fixed and is much more difficult to measure.

16 The overall rate of return is then calculated using the proportions of
17 capital and cost rates for each type of capital. OTS Exhibit No. 1, Schedule
18 1, demonstrates the interaction of the capital structure and the cost rates of
19 each type of capital. By multiplying each capital component's capital ratio
20 by its associated cost rate, a weighted cost rate is derived for each capital
21 component. The overall rate of return is the sum of weighted cost rates.

1 **III. Company Position**

2

3 **Q. WHAT IS THE COMPANY'S RATE OF RETURN CLAIM IN THIS**
4 **CASE?**

5 A. Mr. Paul R. Moul, the Company's cost of capital witness, recommended the
6 following rate of return for PPL:

	Weighted Capital Structure (%)	Cost Rate (%)	Cost Rate (%)
11 Long-Term Debt	46.41	5.93	2.75
12 Preferred and Preference Stock	10.46	6.24	0.65
13 Common Equity	<u>43.13</u>	11.50	<u>4.96</u>
14 Total	<u>100.00</u>		<u>8.36</u>

15

16 Source: PPL Ex. PRM-1, Page 1, Sch. 1.

17

18 **Q. WHAT IS THE BASIS FOR PPL'S CLAIMED CAPITAL**
19 **STRUCTURE?**

20 A. At page 16 of PPL Statement No. 11, Mr. Moul states that it is appropriate
21 to use the capital structure of the Company for ratemaking purposes since
22 the Company raises its own debt and preferred stock directly in the capital
23 markets. The Company's estimated capital structure at December 31, 2007,
24 consists of 46.41 percent long-term debt, 10.46 percent preferred stock, and
25 43.13 percent common equity. This capital structure reflects adjustments

1 related to the treatment of the call premiums on early redemption of high
2 cost securities, the removal of the accumulated other comprehensive
3 income (OCI), and the deferred cost associated with a 2005 ice storm. Mr.
4 Moul further states that these capital structure ratios are the best
5 approximation of the mix of capital the Company will employ to finance its
6 rate base during the period new rates are in effect.

7
8 **Q. WHAT IS THE BASIS FOR PPL'S COST OF DEBT CLAIM?**

9 A. The calculation of PPL's cost rate of long-term debt is shown on Mr.
10 Moul's Schedule 6, Page 2. The long-term debt cost rate of 5.93 percent is
11 a weighted cost rate based on PPL's debt issues expected to be outstanding
12 at December 31, 2007. This estimated cost rate includes the maturity and
13 redemption of \$254.9 million of long-term debt that had a cost rate of
14 5.875% and the expected issuance of \$240 million of long-term debt with
15 an expected cost rate of 5.7%.

16
17 **Q. WHAT IS THE BASIS FOR PPL'S EMBEDDED COST OF
18 PREFERRED AND PREFERENCE STOCK CLAIM?**

19 A. The calculation of PPL's cost rate of preferred and preference stock is
20 shown on Mr. Moul's Schedule 7, Page 2. The preferred and preference
21 stock cost rate of 6.24 percent is a weighted cost rate based on PPL's

1 preferred and preference stock issues expected to be outstanding at
2 December 31, 2007.

3
4 **Q. WHAT IS THE BASIS FOR PPL'S COST OF EQUITY CLAIM?**

5 A. Mr. Moul summarizes his cost of equity analysis on pages 3 through 5 of
6 PPL Statement No. 11, wherein he recommends that an 11.50 percent
7 common equity cost rate be used in this proceeding. To determine his cost
8 of common equity, Mr. Moul states that he relied upon four well-
9 recognized measures: the Discounted Cash Flow (DCF), the Risk Premium
10 (RP), the Capital Asset Pricing Model (CAPM), and the Comparable
11 Earnings (CE) approach. He applied the DCF and the CAPM methods to a
12 group of eight electric companies referred to as the "Electric Group". The
13 RP results were derived from common equity returns for the S&P Public
14 Utility Index and long-term debt returns for the Public Utility Bond Index.
15 The CE model was applied to a barometer group of eighty-two unregulated
16 companies. The results from these models ranged from 11.01% to 15.05%.

17
18 **III. OTS Position**

19
20 **Q. WILL YOU PLEASE SUMMARIZE YOUR RECOMMENDATION?**

1 A. The following is a summary of my rate of return recommendation:

2		Weighted		
3		Capital	Cost	Cost
4		<u>Structure</u>	<u>Rate</u>	<u>Rate</u>
5		(%)	(%)	(%)
6	Long-Term Debt	46.41	5.93	2.75
7	Preferred and Preference Stock	10.46	6.24	0.65
8	Common Equity	<u>43.13</u>	10.13	<u>4.37</u>
9	Total	<u>100.00</u>		<u>7.77</u>
10				

11
12 Source: OTS Ex. No. 1, Sch. No. 1.

13

14 **Q. HAVE YOU ADOPTED ANY ELEMENTS OF THE COMPANY'S**
15 **RECOMMENDATION IN ARRIVING AT YOUR POSITION?**

16 A. Yes. I have adopted PPL's claimed capital structure, cost rate of preferred
17 and preference stock and the cost rate of long-term debt.

18

19 **Q. HOW DOES YOUR RECOMMENDATION DIFFER FROM THE**
20 **COMPANY'S CLAIM?**

21 A. In the table on the preceding page, I have italicized and bolded the numbers
22 where my recommendation differs from the Company's rate of return claim.
23 My recommendation differs in two areas: the cost rate of common equity,
24 and the overall rate of return. I recommend a 10.13 percent cost rate of
25 common equity in lieu of Mr. Moul's 11.50 percent recommendation. As a

1 result, my overall rate of return is 7.77 percent in lieu of the Company's
2 8.36 percent.

3
4 **IV. Cost of Common Equity**

5
6 **Q. WHAT IS THE BASIS FOR YOUR 10.13 PERCENT COST OF
7 EQUITY RECOMMENDATION?**

8 A. I used the Discounted Cash Flow (“DCF”) method applied to a barometer
9 group of eight and a group of six electric companies to determine my 10.13
10 percent cost rate of common equity. To compute the various components
11 of the DCF method, I relied upon current, historical, and forecasted market
12 data for each company in the barometer group. As a check of the DCF
13 results, I performed a CAPM analysis of the same barometer group of eight
14 electric companies.

15
16 **Q. WHY HAVE YOU LIMITED YOUR ANALYSIS TO BAROMETER
17 GROUPS IN THIS PROCEEDING?**

18 A. Since the cost of equity capital is set in the marketplace, it is necessary to
19 use market-based data. PPL does not have common stock that is publicly
20 traded. PPL Corporation, the parent of PPL could be used since it has
21 common stock that is traded; however, PPL Corporation is not
22 representative of an electric distribution company such as PPL Electric

1 Utilities Corporation since the majority of PPL Corporation's operations
2 are not electric distribution related.

3
4 **Q. ARE THERE OTHER REASONS FOR USING BAROMETER**
5 **GROUPS?**

6 A. Yes. Even if PPL had publicly traded stock, the use of data for one
7 company may be less reliable than using a barometer group because the
8 data for one company may be subject to events that can cause short-term
9 aberrations in the marketplace. The rate of return on common equity for a
10 single company could become distorted in these particular circumstances.
11 The use of a barometer group has the effect of smoothing out any rate of
12 return aberrations associated with using only one company.

13 A barometer group cost of equity is also used as a benchmark to
14 satisfy the long established ratemaking guideline of providing a utility the
15 opportunity to earn a return equal to that of similar risk enterprises.

16
17 **Q. WHAT BAROMETER GROUP DID YOU USE FOR YOUR**
18 **ANALYSIS?**

19 A. I have adopted Mr. Moul's barometer group of eight electric companies. In
20 my opinion, the barometer group he selected is representative of the electric
21 distribution industry. However, for my DCF analysis I have imposed the
22 additional selection criteria that each company in the barometer group have

1 at least two sources of analyst forecasts of earnings growth. As a result, my
2 primary barometer group for my DCF analysis consists of six of the eight
3 electric companies in Mr. Moul's barometer group, resulting from the
4 exclusion of CH Energy Group and Central Vermont Public Service.

5
6 **Q. DOES YOUR COST OF EQUITY ANALYSIS TAKE CHANGING**
7 **BUSINESS AND ECONOMIC CONDITIONS INTO ACCOUNT?**

8 A. Yes. In my professional opinion, the financial markets take all factors into
9 account when assessing investments. As such, the aggregate risks of an
10 investment are reflected in the stock price per share. The data for the
11 barometer group that I have utilized is market based; therefore, assuming
12 that the equity markets are reasonably efficient, my results have implicitly
13 accounted for all these factors.

14
15 **Q. WHAT ECONOMIC FACTORS DO YOU CONSIDER IMPORTANT**
16 **IN YOUR ANALYSIS OF COST OF CAPITAL?**

17 A. I have made comparisons of important economic variables and have
18 examined their impact on electric utilities over the past twenty-six years.
19 Schedule No. 3 of OTS Exhibit No. 1 presents a historical perspective of
20 the Moody's "Aaa" Corporate Bond Yield, the 10-Year U.S. Treasury Bond
21 rate ("T-Bond"), the prime rate, and the percent change in the Consumer
22 Price Index ("CPI") compared to the average dividend yield of the eight

1 company electric barometer group for the same period. This schedule also
2 presents a sampling of economic experts' quarterly forecasts for 2007 and
3 2008 and yearly forecasts for the period 2008 to 2017.

4
5 **Q. IS THERE A RELATIONSHIP BETWEEN DIVIDEND YIELDS OF**
6 **ELECTRIC DISTRIBUTION COMPANIES AND "Aaa" BOND**
7 **YIELDS?**

8 A. Yes. A comparison of the "Aaa" bond yields and dividend yields in
9 Schedule No. 3 of OTS Exhibit No. 1 reveals a direct relationship between
10 these two variables. The correlation coefficient of the two arrays is .96,
11 which indicates a very strong relationship.¹ This high correlation should be
12 expected since all capital costs are extremely competitive. As a result, I
13 consider it important in determining an appropriate cost rate of common
14 equity to recognize this relationship. Any potential impact related to a
15 projected change in bond yields should be considered in recommending a
16 representative dividend yield for the prospective period.

¹ Correlation coefficients range between 1 and -1. A correlation coefficient of 1 indicates a perfect positive relationship. A correlation coefficient of -1 indicates a perfect negative relationship. A correlation coefficient of 0 indicates no relationship exists.

1 **Q. WHAT HAS BEEN THE HISTORICAL TREND OF PUBLIC**
2 **UTILITY BOND YIELDS AND THE BAROMETER GROUP'S**
3 **DIVIDEND YIELDS?**

4 A. The trend in "Aaa" rated bond yields and electric utility dividend yields,
5 presented in Schedule 3 of OTS Exhibit No. 1, has been a steady decline
6 over the past 26 years. Since 1981, "Aaa" rated corporate bond yields have
7 decreased from 14.17 percent to 5.59 percent through 2006, or 858 basis
8 points. Over the same time period, the eight company barometer group's
9 average dividend yield declined from 12.90 percent to 4.53 percent
10 resulting in a decline of 837 basis points.

11
12 **Q. WHAT IS THE OUTLOOK FOR INTEREST RATES IN RELATION**
13 **TO THE FORECASTED INFLATION RATE?**

14 A. Schedule No. 3 of OTS Exhibit No. 1 also presents short-term and long-
15 term forecasts published by Blue Chip Financial Forecasts. Over the next
16 two years, forecasting professionals are expecting the ten (10) year T-Bond
17 yields to be between 4.70 and 5.00 percent and forecasted inflation to be
18 between 2.10 and 4.20 percent. As a result, the real rate of interest² is
19 expected to be in the .50 to 2.70 percent range for this period. In relation to

² The real rate of interest is the actual rate of interest minus the inflation rate.

1 the historical average the expected real rate of interest for the majority of
2 the forecast quarters are within the long-term average of 2 to 3 percent.

3 Forecasting professionals are also expecting interest rates on long-
4 term "Aaa" rated corporate bonds to remain fairly stable with an increase
5 from 5.50 percent in the second quarter of 2007 to 5.90 percent by the third
6 quarter of 2008. These forecasts reflect the belief that investors can expect
7 real Gross Domestic Product ("GDP") growth to remain relatively weak at
8 between 2.3 to 3.0 percent over the next two years³.

9 Investors' expectations are, however, continually changing and
10 influenced by Federal Reserve policy. The Federal Reserve's tight
11 monetary policy of recent years has done much to alleviate inflationary
12 fear. However, with the recent emphasis on economic growth both in
13 monetary and fiscal policy, inflationary fears have again become a concern.
14 In my professional opinion, the Federal Reserve has as a result increased
15 the Federal Funds rate from 1.00% in May 2004 to 5.25% in July, 2006, to
16 attempt to preempt inflationary pressures.

17
18 **Q. WHAT IS THE OUTLOOK FOR INTEREST RATES FOR THE**
19 **LONG-TERM?**

³ Blue Chip Financial Forecasts, June 1, 2007.

1 A. Schedule No. 3 of OTS Exhibit No. 1 presents extended forecasts for the
2 various interest rates. Expectations are for the "Aaa" corporate bond yield
3 to increase from 5.5 percent to 6.0 percent. The 10-year T-Bond yield is
4 expected to increase to 5.2 percent from the current level of 4.7 percent.

5

6 **Discounted Cash Flow Analysis ("DCF")**

7

8 **Q. PLEASE EXPLAIN YOUR DCF ANALYSIS.**

9 A. My analysis employs the standard discrete DCF model, $k = D_1/P_0 + g$,
10 where D_1 is the dividend expected during the year, P_0 is the current price
11 of the stock, and g is the expected growth rate of dividends. For purposes
12 of calculating a dividend yield applicable to the formula, D_0/P_0 (the current
13 dividend divided by the current price) must be adjusted by $\frac{1}{2}$ the expected
14 growth rate⁴ in order to account for changes in the dividend rate in period 1.

15

16 **Q. PLEASE STATE THE RESULTS OF YOUR DISCOUNTED CASH**
17 **FLOW ("DCF") ANALYSIS.**

⁴ The adjustment of $\frac{1}{2}$ the growth rate is used when the timing of the dividend increase is not known or a projection of the next period dividend is unavailable. An increase in the dividend could occur next month or the twelfth month. On average it is safe to assume that the increase will occur half way through the prospective year. Therefore, an adjustment by $\frac{1}{2}$ the expected growth rate is appropriate.

1 A. The following table summarizes the results of my DCF analysis:

	<u>Range</u>	<u>Average</u>	
2			
3			
4			
5	Six Company Barometer Gp.	10.39 - 10.46%	10.43%
6			
7	Eight Company Barometer Gp.	9.75 - 9.77%	9.76%
8			
9			

10 Source: OTS Ex. No. 1, Sch. 4, pages 1 and 2, column 3.

11

12 **Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND**
13 **YIELDS THAT WERE USED IN YOUR DCF ANALYSIS?**

14 A. A representative dividend yield must be calculated over a time frame that
15 avoids the problems of short-term aberrations and "stale" data series. For
16 purposes of my DCF analysis, I placed equal emphasis on the most recent
17 spot and 52 week average dividend yields. The following table summarizes
18 my dividend yield computations for the barometer groups:

	<u>Dividend Yields (Adjusted)</u>			
	Spot	52-week	Average	
	6/1/07	Average		
	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	
21				
22				
23				
24				
25				
26	Six Company Barometer Gp.	4.32	4.38	4.35
27				
28	Eight Company Barometer Gp.	4.14	4.33	4.24
29				
30				

31 Source: OTS Ex. No. 1, Sch. 4, pages 1 and 2, column 1.

1 **Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE**
2 **YOUR EXPECTED GROWTH RATE.**

3 A. To arrive at a representative dividend growth rate, I surveyed several series
4 of projected growth rates. These growth rates are presented in OTS Ex. No.
5 1, Sch. No. 4, page 3. My growth rate estimates are based on a survey of
6 established forecasting entities including Value Line, Standard & Poor's
7 ("S&P"), Thomson First Call, Clear Station, Smart Money, MSN Money
8 Central and Morningstar.

9
10 **Q. WHY HAVE YOU LIMITED YOUR SURVEY TO ANALYSTS'**
11 **GROWTH RATE FORECASTS IN YOUR DETERMINATION OF**
12 **AN OVERALL GROWTH RATE?**

13 A. The bulk of the research evidence has indicated to me that analysts' growth
14 forecast are superior to historically oriented growth measures in forecasting
15 growth. Forecasting professionals have already accounted for historical
16 data in their estimates along with expectations of a wide array of economic
17 variables. In my opinion, to give any weight to historical growth rates
18 would result in an inappropriate double count.

19
20 **Q. WHAT DO YOU CONCLUDE TO BE A REASONABLE GROWTH**
21 **RATE FOR YOUR BAROMETER GROUP OF SIX ELECTRIC**
22 **COMPANIES?**

1 A. I conclude that investors could expect to achieve a growth rate of 6.0
2 percent for the six company barometer group.

3

4 **Q. WHAT INFORMATION DID YOU USE TO DETERMINE THAT**
5 **INVESTORS SHOULD EXPECT TO ACHIEVE A GROWTH RATE**
6 **OF 6.0 PERCENT FOR THE SIX COMPANY BAROMETER**
7 **GROUP?**

8 A. The expected growth rates for the six company barometer group are
9 presented on page 4 of Schedule 3 of OTS Exhibit No. 1. The barometer
10 group average growth rates expected by Value Line, S&P, Thomson First
11 Call, Clear Station, Smart Money, MSN, and Morningstar are 6.7, 7.0, 6.8,
12 6.6, 6.6, 6.6, and 6.0 percent, respectively. The average growth rate from
13 these seven sources is 6.6 percent. On the surface this information would
14 indicate a growth rate of approximately 6.5 percent. From this information
15 I have concluded that an investor could reasonably expect to achieve a
16 growth rate for my six company barometer group of 6.0 percent.

17

18 **Q. WHY DID YOU ADJUST THE GROWTH RATE DOWN TO 6.00**
19 **PERCENT?**

20 A. It is my opinion that the average growth rate of 12 percent for Northeast
21 Utilities ("NU") is an over estimate due to depressed earnings in the base
22 year 2006. Value Line reports that NU had earnings of \$.82 per share in

1 2006 and is expecting earnings of \$1.40 per share in 2007 resulting in a one
2 year growth rate of 70.7 percent growth rate. For the remaining five years,
3 Value Line expects earnings to grow from \$1.40 per share in 2007 to \$1.80
4 per share in 2012 resulting in a five year growth rate of only 3.8 percent.
5 Clearly, the depressed earnings of 2006 are distorting the overall average.

6
7 **Q. HOW DID YOU CORRECT FOR THIS DISTORTION?**

8 A. I normalized NU's earnings for the depressed year by regression analysis.
9 The smoothing process resulted in normalized \$1.21 earnings for 2006 and
10 a more reasonable 7.4 percent five-year growth rate for NU.

11
12 **Q. WHAT OTHER CONCERN DID YOU HAVE WITH THE RAW**
13 **GROWTH RATES?**

14 A. Four of the sources did not report growth rates for UIL Holdings. As a
15 result, the average growth rates calculated from these four sources are for a
16 five company barometer group that should not be used in a DCF analysis
17 for a six company barometer group.

18
19 **Q. HOW DID YOU CORRECT FOR THIS CONCERN?**

20 A. I used the average of the other three sources as a proxy for UIL Holdings'
21 growth rate and imputed it for the other four sources.

1 **Q. WHAT IS YOUR CONCLUSION AFTER CORRECTING FOR**
2 **THESE TWO CONCERNS?**

3 A. I recalculated the average growth rates and presented them in OTS Ex. No.
4 1, Schedule No. 4, page 4. The barometer group average growth rates for
5 Value Line, S&P, Thomson First Call, Clear Station, Smart Money, MSN,
6 and Morningstar are 5.9, 5.9, 6.1, 5.8, 5.4, 5.8, and 5.8 percent,
7 respectively. The average growth rate from these seven sources is 5.8
8 percent. As a result, I recommend a growth rate of 6.0 percent for the six
9 company barometer group.

10
11 **Q. WHAT DO YOU CONCLUDE TO BE A REASONABLE GROWTH**
12 **RATE FOR MR. MOUL'S BAROMETER GROUP OF EIGHT**
13 **ELECTRIC COMPANIES?**

14 A. From the information on page 4 of Schedule No. 4, I conclude that
15 investors can expect to achieve a growth rate of 5.50 percent for Mr.
16 Moul's barometer group of eight electric companies. This schedule also
17 corrects for the same problems I had with the six company barometer
18 group. The barometer group average growth rates for Value Line, S&P,
19 Thomson First Call, Clear Station, Smart Money, MSN, and Morningstar
20 are 5.5, 5.5, 5.6, 5.3, 5.1, 5.3, and 5.4 percent, respectively. The average
21 growth rate from these seven sources is 5.4 percent. As a result, I

1 recommend a growth rate of 5.5 percent for the eight company barometer
2 group.

3

4 **Q. WHAT COST RATE OF COMMON EQUITY IS INDICATED**
5 **FROM THE RESULTS OF YOUR DCF ANALYSIS?**

6 A. Given these representative dividend yields and my recommended growth
7 rates, I calculated the DCF return with the results presented on pages 1 and
8 2 of Schedule No. 4 of OTS Exhibit No. 1. The six company barometer
9 group results range from 10.39 to 10.46 percent. Mr. Moul's eight
10 company barometer group results range from 9.75 to 9.77 percent.

11

12 **Capital Asset Pricing Model ("CAPM")**

13

14 **Q. WHY ARE YOU CONDUCTING A CAPM ANALYSIS?**

15 A. I am including a CAPM analysis as a result of my reading of recent
16 Commission Orders that expressed an increased interest in confirming the
17 DCF results submitted in base rate cases by a second method. Assuming
18 the Commission would similarly seek to check the results of the DCF
19 method in this proceeding, it is my opinion that the CAPM should be the
20 method of choice for that purpose.

21

22 **Q. WILL YOU PLEASE EXPLAIN YOUR CAPM ANALYSIS?**

1 A. My analysis employs the standard CAPM model as portrayed in the
2 following formula:

3 $k = R_f + \beta(R_m - R_f)$

4 Where:

5 k = Cost of equity

6 R_f = Risk-free rate of return

7 R_m = Expected rate of return on the overall stock market

8 β = Beta measures the systematic risk of an asset

9 The CAPM described by this formula is actually a form of the more general
10 risk premium approach and is based upon modern portfolio theory. The
11 method hypothesizes that the investor required return on a company's stock
12 is equal to the return on a "risk free asset" plus an equity premium
13 reflecting that company's investment risk. In the CAPM, two types of risk
14 are associated with a stock: (1) firm-specific risk ("unsystemic risk") and
15 (2) market risk ("systemic risk") which is measured by a firm's beta. The
16 model only allows for investors to receive a return for bearing systemic
17 risk. Unsystemic risk is assumed to be diversified away, therefore does not
18 earn a return.

19

20 **Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU CHOSEN FOR**
21 **YOUR CAPM ANALYSIS?**

1 A. I used, as my risk-free rate of return (R_f), the projected yield on 10-year
2 Treasury Bonds for several reasons. While the yield on the short-term T-
3 Bill is a more theoretically correct parameter to represent a risk-free yield,
4 this yield can be extremely volatile. The volatility of short-term T-Bills is
5 directly influenced by Federal Reserve policy. At the other extreme, the
6 30-year Treasury Bond yield exhibits more stability but is not risk-free.
7 Long-term Treasury Bonds have substantial maturity risk associated with
8 market risk and the risk of unexpected inflation. Long-term treasuries
9 normally offer higher yields to compensate investors for these risks. As a
10 result, I chose to use the projected yield on the 10-year Treasury Bond
11 because it balances the short comings of the other two alternatives. As
12 shown on Schedule No. 3 of OTS Ex. No. 1, the yield on the 10-year
13 Treasury Bond is expected to range between 4.7 and 5.2 percent over the
14 next ten-years. For my analysis I chose 5.0 percent, which is the
15 approximate mid-point of the range.

16

17 **Q. WHAT EXPECTED RETURN ON THE OVERALL STOCK**
18 **MARKET HAVE YOU CHOSEN FOR YOUR CAPM ANALYSIS?**

19 A. To arrive at a representative expected return on the overall stock market, I
20 surveyed three sources that are presented in OTS Ex. No. 1, Schedule No.
21 6, page 1. Value Line expects its universe of 1500 stocks to have a return
22 of 9.39% based on a forecasted dividend yield of 1.6% and a yearly index

1 appreciation of 7.79%. Based upon a 12.30% expected increase in the S&P
2 500 index by Morningstar and an indicated dividend yield of 1.81%, the
3 expected market return is 14.22%. The 78 year historical return for the
4 S&P Composite Index is 10.10%. The average of these three sources is
5 11.24%.

6
7 **Q. WHAT IS BETA AS EMPLOYED IN YOUR USE OF THE**
8 **STANDARD CAPM MODEL?**

9 A. Beta is a measure of the systemic risk of a stock in relation to the rest of the
10 stock market. A stock's beta is estimated by running a linear regression of
11 a stock's return against the return on the overall stock market. The beta of
12 a stock with an identical price pattern as the overall stock market will have
13 a beta of 1. A stock with a price movement that is greater than the overall
14 stock market will have a beta that is greater than 1 and would be described
15 as having more investment risk than the market. Conversely, a stock with a
16 price movement that is less than the overall stock market will have a beta of
17 less than 1 and would be described as having less investment risk than the
18 market.

19
20 **Q. WHAT BETA DID YOU CHOOSE FOR YOUR CAPM ANALYSIS?**

21 A. In estimating an equity cost rate for the group of eight electric distribution
22 companies, I am using the average of the betas for the companies as

1 provided in the Value Line Investment Survey. As shown on page 1 of
2 OTS Ex. No. 1, Schedule No 6, the average beta for the eight company
3 barometer group is .85.

4
5 **Q. WHAT COST RATE OF COMMON EQUITY IS INDICATED**
6 **FROM THE RESULTS OF YOUR CAPM ANALYSIS?**

7 A. Given the input estimates I just discussed, I calculated the CAPM return for
8 the eight company barometer group to be 10.30%. This calculation is
9 shown as:

$$k = 5.0\% + .85(11.24\% - 5.0\%) = 10.30\%$$

11
12 **Q. WHAT COST RATE OF EQUITY DO YOU RECOMMEND FOR**
13 **PPL USING THE DCF MODEL AND CONFIRMING WITH THE**
14 **CAPM MODEL?**

15 A. Based primarily on the DCF results for the two barometer groups, I
16 recommend that the appropriate cost rate of common equity for the electric
17 distribution industry on average is in the range of 9.75 to 10.50 percent.
18 Based upon this range, I recommend a 10.13 percent cost rate of common
19 equity for PPL. The results of the CAPM analysis of 10.39 percent confirm
20 the reasonableness of my recommendation.

21
22 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

1 A. Based upon the close proximity of the Company's capital structure to the
2 barometer group averages, I am of the opinion that the financial risk of PPL
3 is similar to that of the barometer groups (Schedule No. 2, page 2, OTS Ex.
4 No. 1). In order to reflect the similarity in financial risk, it is appropriate to
5 recommend 10.13, the midpoint of my recommended cost of common
6 equity range.

7
8 **Q. HAVE YOU TAKEN INTO CONSIDERATION MARKET**
9 **PRESSURE AND SELLING AND ISSUANCE EXPENSES IN**
10 **MAKING YOUR RECOMMENDATION?**

11 A. Yes. I have considered these items but have not made any adjustments to
12 account for them. I am of the opinion that market pressure, selling and
13 issuance expenses are an additional cost of capital that are incurred at the
14 time of issuance. However, the current market price of common stock
15 already reflects these items, as investors have already capitalized market
16 pressure and issuance expenses in determining the value of the stock at the
17 time of purchase. Since my analyses are market-based, these items have
18 already been taken into consideration and no additional adjustments are
19 necessary or appropriate.

1 V. Overall Weighted Cost of Capital

2

3 Q. **WHAT IS THE OVERALL WEIGHTED COST OF CAPITAL FOR**
4 **PPL?**

5 A. OTS Exhibit No. 1, Schedule No. 1 presents the calculation of PPL's
6 overall weighted cost of capital. Based upon my 10.13 percent cost rate of
7 common equity, the overall weighted cost of capital is 7.77 percent.

8

9 VI. Critique of PPL's Cost of Capital Testimony

10

11 Q. **PLEASE SUMMARIZE YOUR CRITIQUE OF THE PPL WITNESS'**
12 **COST OF CAPITAL TESTIMONY.**

13 A. I have four primary areas of disagreement with PPL Witness Moul's cost of
14 capital direct testimony, identified as PPL Statement No. 11.

- 15 • First, Mr. Moul's use of an ex-dividend adjustment in his DCF
16 analysis is in error.
- 17 • Second, Mr. Moul's market to book adjustment is not appropriate.
- 18 • Third, Mr. Moul's has erroneously requested a size adjustment in his
19 CAPM analysis.

- 1 • Fourth, Mr. Moul has incorrectly given equal weight to the Risk
2 Premium and CAPM, and Comparable Earnings methods in his
3 recommendation.

4

5 **Q. WHY SHOULD THE EX-DIVIDEND ADJUSTMENT BE**
6 **REJECTED AS AN APPROPRIATE ADJUSTMENT TO THE DCF**
7 **RETURNS?**

8 A. In my professional opinion, the ex-dividend adjustment is inappropriate for
9 two reasons. First, I have not uncovered any academic support for such an
10 ex-dividend adjustment to dividend yields in the context of the DCF model.

11 Secondly, there are no financial publications that provide
12 ex-dividend adjusted yields to investors for their investment
13 decision-making purposes. I am of the opinion that the mainstream
14 financial publications would be providing such ex-dividend adjusted yields
15 either on a daily or weekly basis if it was indeed such an important input
16 into investors' decision-making. However, such is not the case.

17

18 **Q. WHY SHOULD MR. MOUL'S MARKET/BOOK ADJUSTMENT BE**
19 **REJECTED?**

20 A. Mr. Moul's 47 basis points adjustment for the M/B greater than 1.0 should
21 be rejected for several reasons. First, the fact that electric distribution
22 companies' M/Bs are in excess of 1.0 is more an indicator that these

1 companies are earning in excess of the required rate of return, rather than
2 under earning. An investor earning exactly his rate of return would price
3 the stock at book value. Only when the earnings on book exceed the
4 required rate of return will an investor bid the price of the stock above book
5 value. The possibility of 47 basis points being added to the return investors
6 currently require will give investors the incentive to bid prices even higher
7 and cause the M/B ratio to rise above the current level. The situation then
8 becomes one of self-fulfilling circularity. Following Mr. Moul's logic, he
9 would have to claim an even higher adjustment for the ever-increasing M/B
10 ratios with every future rate case. Clear evidence of this phenomenon
11 appeared in the last three Aqua Pennsylvania Inc. (Aqua) rate cases.
12 Aqua's witness claimed an M/B adjustment of 47 basis points in 2001, 64
13 basis points in 2003 and 103 basis points in 2005.

14
15 **Q. DOES PRECEDENT SUPPORT ADJUSTING THE COST RATE OF**
16 **COMMON EQUITY DUE TO A DISPARITY BETWEEN MARKET**
17 **PRICE AND BOOK VALUE?**

18 A. No. In *Blue Mountain Consolidated Water Company v. Pa. P.U.C.*, 57 Pa.
19 Commw. 363; 426 A.2d 724; 1981 Pa. Commw. LEXIS 1238, decided
20 March 6, 1981, the Commonwealth Court remanded a case to the
21 Commission for a more comprehensive explanation of the fair rate of return

1 and its integral common equity capital costs. At 55 PUR, January 14, 1982,
2 p. 503, the Commission stated the following:

3 (3) Market price-book value ratios are
4 not a goal of regulation but a result of
5 regulation, general economic factors and
6 individual company's characteristics of
7 management, operations and perceived
8 future.
9

10 I wholly concur with the Commission. The result of the Commission's
11 long-term sole use of the DCF method and informed judgment has
12 produced market prices well in excess of book value. Thus, there is
13 clearly no need to adjust the DCF upward in that it has consistently
14 provided a fair rate of return for public utilities in Pennsylvania.
15

16 **Q. ARE THERE ANY OTHER REASONS WHY YOU SHOULD**
17 **QUESTION THE CREDIBILITY OF MR. MOUL'S 47 BASIS**
18 **POINT UPWARD ADJUSTMENT DUE TO A MARKET TO BOOK**
19 **RATIO GREATER THAN 1.0?**

20 **A.** Yes. Mr. Moul's credibility is also somewhat suspect since he has
21 advocated in past Commission proceedings that a positive M/B adjustment
22 should be made when the M/B ratio is less than 1. In *Pa.P.U.C. v. Blue*
23 *Mountain Consolidated Water Company*, Docket No. R-78100686, Mr.
24 Moul testified the rate of return should be inflated by up to 150 basis points
25 in order to raise the M/B to 1.25. It can be presumed then that Mr. Moul is

1 therefore quite aware of the impact on the M/B ratio of awarding a rate of
2 return in excess of that required by investors. His target must have changed
3 since that case, otherwise he would be recommending in the instant case a
4 negative M/B adjustment in order to achieve an M/B ratio of 1.25 in the
5 future⁵.

6
7 **Q. WHY DO YOU BELIEVE THAT SIZE OF THE UTILITY SHOULD**
8 **NOT BE A FACTOR IN THE DETERMINATION OF AN**
9 **APPROPRIATE COST OF COMMON EQUITY?**

10 A. My research on the subject strictly pertaining to utilities indicates to me that
11 the size of the utility is not a determinant of the cost of capital. Said
12 research includes an article by Annie Wong, entitled "Utility Stocks and the
13 Size Effect: An Empirical Analysis", Journal of the Midwest Finance
14 Association, 1993, pp. 95-101. In that article, Ms. Wong concluded, in
15 pertinent part:

16 The objective of this study is to examine if the size effect exists in
17 the utility industry. After controlling for equity values, there is some
18 weak evidence that firm size is a missing factor from the CAPM for
19 the industrial but not for utility stocks. This implies that although
20 the size phenomenon has been strongly documented for the
21 industrials, the findings suggest that there is no need to adjust for the
22 firm size in utility rate regulation.

⁵ The average M/B ratio for Mr. Moul's eight company barometer group is currently 1.76, Value Line Investment Survey, June 1, 2007.

1 **Q. WHY SHOULD MR. MOUL'S METHODOLOGY THAT WEIGHTS**
2 **THE RISK PREMIUM AND CAPM RESULT EQUALLY WITH**
3 **THE DCF RESULTS BE REJECTED FOR THE DETERMINATION**
4 **OF THE APPROPRIATE COST OF CAPITAL FOR PPL?**

5 A. To understand why these rate of return methods should be rejected for cost
6 of capital purposes, it must first be understood how investors use these
7 methods in their decision making process. The Capital Asset Pricing
8 Model ("CAPM") and Risk Premium ("RP") methods give results that
9 indicate to an investor what the equity cost rate should be if current
10 economic and regulatory conditions are the same as those present during
11 the historical period the risk premiums were determined. By comparing
12 CAPM and RP results with current expected equity returns (DCF results),
13 an investor can make rational buy and sell decisions. When expected DCF
14 returns are higher than those indicated by the CAPM and RP historical
15 norms, an investor would have an incentive to buy, and vice versa.

16 In my opinion, the relevancy of these methods does not carry over
17 from the investment decision making process to the regulatory process,
18 because regulators can never be certain that economic and regulatory
19 conditions underlying the historical period during which the risk premiums
20 were calculated are the same today or in the future.

1 **Q. GIVEN THE FACT THAT ECONOMIC AND REGULATORY**
2 **CONDITIONS TODAY ARE DIFFERENT FROM THE**
3 **HISTORICAL PERIOD, HOW DOES THIS AFFECT THE RISK**
4 **PREMIUMS USED IN MR. MOUL'S RP AND CAPM MODELS?**

5 A. The CAPM and RP models do not measure the current rate of return on
6 common equity directly, as does the DCF model. These methods determine
7 the rate of return on common equity by indirectly observing the current cost
8 of debt. An implicit assumption when using these methods is that the
9 variables determining the equity cost rate and debt cost rate are the same,
10 which allows the analyst to apply a constant risk premium. Actually, the
11 variables determining the cost rates in the two markets are different.
12 Changing economic conditions cause these variables in the two markets to
13 change, resulting in changing risk premiums over time. While betas do
14 change over time thus effecting changes in the risk premium, it's not
15 reflective of current market conditions because the betas are calculated
16 using five years of historical data.

17
18 **Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE**
19 **CREDIBILITY OF THE CAPM MODEL?**

20 A. Yes. An article, which appeared in the New York Times on February 18,
21 1992, summarizes a CAPM study conducted by professors Eugene F. Fama
22 and Kenneth R. French (OTS Exhibit No. 1, Schedule No. 7). Their study

1 examined the importance of beta (CAPM's risk factor) in explaining returns
2 on common stock. In CAPM theory, the higher a stock's beta, the higher
3 the expected return on that stock. They found that the model did not do
4 well in predicting actual returns and suggest the use of more elaborate
5 multi-factor models. As a result of this new information, I am of the
6 opinion that rational investors will give less credibility to expected equity
7 returns that are calculated using the simple CAPM model.

8
9 **Q. MR. MOUL OPINES THAT THE COMPARABLE EARNINGS**
10 **MODEL (CEM) SHOULD BE GIVEN EQUAL WEIGHT. WHY**
11 **SHOULD THIS METHOD BE REJECTED FOR RATEMAKING**
12 **PURPOSES?**

13 A. There are several problems with Mr. Moul's CEM that render it
14 inappropriate for ratemaking purposes. First, Mr. Moul measured the
15 historical earnings/book value ratios of non-utility companies. Mr. Moul
16 has provided absolutely no evidence that these *accounting* returns for non-
17 utilities bear any relationship to a *market* based return for electric utilities.
18 Moreover, this method completely contradicts the premise underlying his
19 other methods. In all of the other methods, Mr. Moul measured returns
20 based upon market values, including the bond returns that he subtracted
21 from the common stock returns to determine his risk premia.

1 **Q. WHAT IS THE COMMISSION'S HISTORICAL TREATMENT OF**
2 **THE COMPARABLE EARNINGS APPROACH?**

3 A. The Commission has long recognized the problem with this method.
4 Regarding to the use of non-utility companies' historical book earnings in
5 an attempt to determine a cost of equity for a utility the Commission stated:

6 The use of nonregulated companies as a comparable group for
7 regulated firms under the comparable earnings method of
8 computing a rate of return on common equity requires
9 numerous unsupportable assumptions and results in a highly
10 speculative finding.

11
12 *Pa. PUC v. Philadelphia Electric Co.*, (1980) 33 Pur4th 319, 341 (1980).

13
14 NFGD employed comparable earnings as a check on
15 the common equity cost rates produced by its other
16 methodology. NFGD M.B. p. 170. NFGD did not use
17 comparable earnings as a common equity cost rate
18 determinant. Additionally, it was noted that
19 comparable earnings are not market related but
20 accounting related ratios.

21
22 *Pa PUC v. National Fuel Gas Distribution Corp.*, Docket No. R-00940021,
23 p. 199, Order entered December 1, 1994.

24
25 **Q. ARE THERE ANY OTHER REASONS WHY MR. MOUL'S CEM**
26 **RESULTS SHOULD BE REJECTED?**

27 A. Yes. The companies in Mr. Moul's CEM barometer group are simply not
28 comparable to electric distribution utilities in terms of their business
29 risk/financial risk profile. Electric distribution utilities, being monopolies

1 with very low business risk, are able to maintain higher financial risk
2 profiles by employing more leverage. Conversely, Mr. Moul's CEM
3 barometer group companies, being in an unregulated competitive
4 environment with much higher business risk, must maintain lower financial
5 risk profiles by employing minimal leverage. As evidence of this,
6 Schedule No. 8, p. 1, of OTS Exhibit No. 1 presents the debt ratios for the
7 barometer group of electric companies compared to Mr. Moul's CEM
8 barometer group. Mr. Moul's CEM barometer group has an average debt
9 ratio of only 39.95%, compared to a debt ratio of 50.50% for Mr. Moul's
10 Eight Company Electric Group and 54.33% for the Six Company Electric
11 Group.

12
13 **Q. WHAT OTHER RATIO SHOWS THAT THE CEM BAROMETER**
14 **GROUP IS NOT COMPARABLE TO THE ELECTRIC INDUSTRY?**

15 A. Schedule 8 of OTS Exhibit No. 1 also presents the percent of institutional
16 holdings of the unregulated companies used in Mr. Moul's CEM analysis
17 and the Electric Groups. Institutional investors hold 69.65% of the shares
18 of the unregulated companies compared to 50.85% for the Mr. Moul's
19 Electric Group and 53.93% for the Six Company Electric Group.
20 Particularly misleading then is Mr. Moul's inclusion of three companies
21 that have over 100% ownership by institutional investors. Clearly,

1 institutional investors view the unregulated companies used in Mr. Moul's
2 CEM analysis differently than they do electric distribution companies.

3

4 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

5 **A. Yes.**

Kevan L. Deardorff
Educational and Professional Background

I am a graduate of the Pennsylvania State University, where I received a Bachelor of Science Degree in Business Economics and Finance and a Master of Arts Degree in Economics. Before coming to the Pennsylvania PUC in 1983, I worked as a consultant for the United States Environmental Protection Agency between 1980 and 1981, and as a Research Economist for the Pennsylvania Department of Commerce during 1982.

I am currently employed as a Fixed Utility Financial Analyst III Supervisor. I have completed rate of return analyses in a large number of rate cases and assisted in the analyses of many electric, gas, water and telephone rate cases. I have prepared testimony concerning rate of return, discount rate, price cap and merger benefits in the following rate cases:

Keystone Water Company	R-822211-12
	R-822215-19
	R-822221
Western Pennsylvania Water Company	R-832381
Philadelphia Suburban Water Company	R-842592
Duquesne Light Company	R-842583
Western Pennsylvania Water Company	R-842621-25
Riverton Consolidated Water Company	R-842675
Keystone Water Company	R-842755-56
	R-842759
Equitable Gas Company	R-842769
Western Pennsylvania Water Company	R-850096-97
West Penn Power Company	R-850220
Dauphin Consolidated Water Supply Co.	R-860350
Western Pennsylvania Water Company	R-860397
Philadelphia Electric Company (Gas Division)	R-870629
National Fuel Gas Distribution Corp.	R-870719
Western Pennsylvania Water Company	R-870825
Philadelphia Suburban Water Company	R-870840
Equitable Gas Company	R-880971
Chartiers Natural Gas Company	R-891283
Columbia Gas of Pennsylvania, Inc.	R-891468
Arrowhead Public Service Corp.	R-891557
Pennsylvania-American Water Co.	R-901652

Citizens Utilities Water Company of Pennsylvania	R-901663
Citizens Utilities Home Water Company	R-901664
National Fuel Gas Distribution	R-901670
York Water Company	R-901813
Columbia Gas of Pennsylvania, Inc.	R-901873
National Fuel Gas Distribution Corp.	R-911912
The Peoples Natural Gas Company	R-00922180
York Water Company	R-00922168
Pennsylvania & Southern Gas Company	R-00922312
North Penn Gas Company	R-00922276
North East Heat and Light Company	R-00922309
Shenango Valley Water Company	R-00922420
Mechanicsburg Water Company	R-00922502
National Fuel Gas Distribution Corp.	R-00932548
Roaring Creek Water Company	R-00932665
Shenango Valley Water Company	R-00932798
The Peoples Natural Gas Company	R-00932866
Blue Mountain Consolidated Water Co.	R-00932873
Allied Gas Company, et. al.	R-00932952
National Fuel Gas Distribution Corp.	R-00942991
Borough of Media Water Works	R-00943098
Newtown Artesian Water Company	R-00943157
Roaring Creek Water Company	R-00943177
Borough of Schuylkill Haven	R-00943156
Pennsylvania Power & Light Company	R-00943271
National Fuel Gas Distribution Corp.	R-00953299
Frontier Companies	P-00951005
PFG Gas, Inc. and North Penn Gas Company	R-00953524
Commonwealth Telephone Company	P-00961024
PECO Energy Company	R-00973877
PECO Energy Company	R-00973953
Pennsylvania Power & Light Company	R-00973954
Ironton Telephone Company	P-00971182
Metropolitan Edison Company	R-00974008
Pennsylvania Electric Company	R-00974009
Pennsylvania Power Company	R-00974149
PG Energy, Inc.	R-00984280
ALLTEL Pennsylvania, Inc.	P-00981423
Pennsylvania Telephone Association Small Group	P-00981425, <u>et al</u>
United Telephone Company of Pennsylvania	P-00981410
City of Lancaster Water Fund	R-00984567
York Water Company	R-00994605
Pittsburgh Thermal, L.P.	R-00994641

PECO Energy Company	A-110550F0147
City of Lancaster Sewer Fund	R-00005109
PG Energy	R-00005119
City of Lancaster Sewer Fund	R-00005109
PFG Gas, Inc. and North Penn Gas Company	R-00005277
Emporium Water Company	R-00005050
T.W. Phillips Gas and Oil Company	R-00005459
Verizon North, Inc.	P-00001854
Metropolitan Edison Company	P-00001860
Pennsylvania Electric Company	P-00001861
Philadelphia Gas Works	R-00006042
Pennsylvania American Water Company	R-00016339
Wellsboro Electric Company	R-00016356
Verizon Pennsylvania Inc.	R-00016683
Philadelphia Suburban Water Company	R-00016750
Philadelphia Gas Works – Extraordinary Rate Relief	R-00017034F
Verizon Pennsylvania Inc.	P-00930715F0002
The York Water Company	R-00027975
National Fuel Gas Distribution Corp.	R-00038168
Pennsylvania American Water Company	R-00038304
Aqua Pennsylvania, Inc.	R-00038805
Duquesne Light Company	P-00032071
PPL Electric Utilities Corporation	R-00049255
Valley Energy Inc.	R-00049345
Wellsboro Electric Company	R-00049313
National Fuel Gas Distribution Corporation	R-00049656
Pike County Light & Power Company	R-00049884
Township of Falls – Sewer Fund	R-00049557
PECO Energy Company	A-110550F016
MESCO, Inc.	R-00050678
Aqua Pennsylvania, Inc.	R-00051030
United Water Pennsylvania, Inc.	R-00051186
Metropolitan Edison Company	R-00061366
Pennsylvania Electric Company	R-00061367
PG Energy	R-00061365
PPL Gas Utilities Corporation	R-00061398
Duquesne Light Company	A-110150F0035
	A-311233F002

OTS Exhibit No. 1
Witness: Kevan Deardorff

Hbg DC

AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Exhibit to Accompany

the

Direct Testimony

of

Kevan Deardorff

Office of Trial Staff

**DOCUMENT
FOLDER**

RECEIVED

AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

RATE OF RETURN

PPL Electric Utilities Corporation
 OTS Recommended Weighted Cost of Capital
at December 31, 2007

	<u>Capital Structure</u> (1)	<u>Cost Rates</u> (2)	<u>Weighted Cost of Capital</u> (3=1x2)
(1) Long-Term Debt	46.41%	5.93%	2.75%
(2) Preferred and Preference Stock	10.46%	6.24%	0.65%
(3) Common Equity	<u>43.13%</u>	10.13%	<u>4.37%</u>
(4) Total	<u>100.00%</u>		<u>7.77%</u>

PPL Electric Utilities Corporation
 Capitalization Structure Comparison
at December 31, 2006

	PPL Electric Utilities Corporation <u>Dec. 31, 2006</u> (1)	Eight Company Barometer Group <u>Dec. 31, 2006</u> (2)	Six Company Barometer Group <u>Dec. 31, 2006</u> (3)
(1) Long-Term Debt	46.91%	51.63%	55.85%
(2) Preferred and Preference Stock	10.47%	1.49%	1.01%
(3) Common Equity	<u>42.62%</u>	<u>46.87%</u>	<u>43.15%</u>
(4) Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: PPL Exhibit PRM-1, Page 9, Schedule 5
 Value Line Investment Survey, June 1, 2007

PPL Electric Utilities Corporation
 Capitalization Structure Comparison
estimated at December 31, 2007

	PPL Electric Utilities Corporation <u>Dec. 31, 2007</u> (1)	Eight Company Barometer Group <u>Dec. 31, 2007</u> (2)	Six Company Barometer Group <u>Dec. 31, 2007</u> (3)
(1) Long-Term Debt	46.41%	49.56%	51.83%
(2) Preferred and Preference Stock	10.46%	1.38%	1.00%
(3) Common Equity	<u>43.13%</u>	<u>49.06%</u>	<u>47.17%</u>
(4) Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: PPL Exhibit PRM-1, Page 9, Schedule 5
 Value Line Investment Survey, June 1, 2007

Comparison of Key Economic Variables to the Dividend Yields for the
Barometer Group of Six Electric Companies
for 1981 to 2006 and Estimates for 2007 to 2017

	Year	Moody's 'Aaa' Corporate <u>Bond Yield</u> (1)	10-Year Treasury <u>Bonds</u> (2)	Prime <u>Rate</u> (3)	CPI Percent <u>Change</u> (4)	Barometer Group Dividend <u>Yields</u> (5)
(1)	1981	14.17	13.91	18.87	8.90	12.90
(2)	1982	13.79	13.00	14.86	3.80	11.74
(3)	1983	12.04	11.10	10.79	3.80	10.38
(4)	1984	12.71	12.44	12.04	4.00	11.68
(5)	1985	11.37	10.62	9.93	3.80	9.24
(6)	1986	9.02	7.68	8.33	1.10	7.19
(7)	1987	9.38	8.39	8.21	4.40	8.03
(8)	1988	9.71	8.85	9.32	4.40	8.69
(9)	1989	9.26	8.49	10.87	4.60	7.99
(10)	1990	9.32	8.55	10.01	6.10	8.00
(11)	1991	8.77	7.86	8.46	3.10	7.56
(12)	1992	8.14	7.01	6.25	2.90	6.75
(13)	1993	7.22	5.87	6.00	2.70	6.14
(14)	1994	7.96	7.09	7.15	2.70	7.89
(15)	1995	7.59	6.57	8.83	2.50	7.15
(16)	1996	7.37	6.44	8.27	3.30	7.15
(17)	1997	7.26	6.35	8.44	1.70	6.29
(18)	1998	6.53	5.26	8.35	1.60	4.65
(19)	1999	7.04	5.65	8.00	2.70	4.86
(20)	2000	7.62	6.03	9.23	3.40	5.63
(21)	2001	7.08	5.02	6.99	1.60	4.91
(22)	2002	6.49	4.61	4.67	2.40	4.45
(23)	2003	5.67	4.01	4.12	1.90	5.15
(24)	2004	5.63	4.27	4.34	3.30	4.69
(25)	2005	5.24	4.29	6.19	3.40	4.43
(26)	2006	5.59	4.80	7.96	2.50	4.53
Recent Forecasts:						
(27)	2007-2nd Qtr	5.50	4.70	8.30	4.20	
(28)	2007-3rd Qtr	5.60	4.80	8.20	2.30	
(29)	2007-4th Qtr	5.70	4.80	8.10	2.10	
(30)	2008-1st Qtr	5.70	4.90	8.00	2.40	
(31)	2008-2nd Qtr	5.80	4.90	8.00	2.40	
(32)	2008-3rd Qtr	5.90	5.00	8.00	2.40	
Extended Forecasts:						
(33)	2008	5.90	5.00	8.10	2.30	
(34)	2009	6.00	5.20	8.00	2.40	
(35)	2010	6.00	5.20	7.80	2.40	
(36)	2011	6.00	5.20	7.80	2.50	
(37)	2012	6.00	5.20	7.80	2.40	
(35)	2013-17	6.00	5.20	7.80	2.50	

Note: Correlation of C1 and C5 = 0.96

Sources: Economic Indicators, April, 2007
Blue Chip-Financial Forecasts, June 1, 2007
Mergent Bond Record, Various Issues
Value Line Investment Survey

Expected Market Cost Rate of Equity
Using Data for the Barometer Group of Six Electric Companies

<u>Time Period</u>	<u>Adjusted Dividend Yield(1)</u> (1)	<u>Growth Rate</u> (2)	<u>Expected Rate of Return</u> (3=1+2)
(1) 52 Week Average (ending 6/15/07)	4.39%	6.00%	10.39%
(2) Spot Price (ending 6/15/07)	<u>4.46%</u>	<u>6.00%</u>	<u>10.46%</u>
(3) Average:	<u>4.43%</u>	<u>6.00%</u>	<u>10.43%</u>

Notes: (1) Value Line's reported dividends are projected for the year ahead.

Sources: Value Line, Ratings and Reports, June 1, 2007
 Barron's, June 18, 2007

Expected Market Cost Rate of Equity
Using Data for the Barometer Group of Eight Electric Companies

<u>Time Period</u>	<u>Adjusted Dividend Yield(1)</u> (1)	<u>Growth Rate</u> (2)	<u>Expected Rate of Return</u> (3=1+2)
(1) 52 Week Average (ending 6/15/07)	4.27%	5.50%	9.77%
(2) Spot Price (ending 6/15/07)	<u>4.25%</u>	<u>5.50%</u>	<u>9.75%</u>
(3) Average:	<u><u>4.26%</u></u>	<u><u>5.50%</u></u>	<u><u>9.76%</u></u>

Notes: (1) Value Line's reported dividends are projected for the year ahead.

Sources: Value Line, Ratings and Reports, June 1, 2007
 Barron's, June 18, 2007

Expected Growth Rates
for the Barometer Groups of Electric Distribution Companies

<u>Company</u>	<u>Value Line</u> <u>Earnings</u> <u>Growth</u> (1)	<u>S & P</u> <u>Earnings</u> <u>Growth</u> (2)	<u>Yahoo</u> <u>Thomson</u> <u>First Call</u> <u>Earnings</u> <u>Growth</u> (3)	<u>Clear</u> <u>Station</u> <u>Earnings</u> <u>Growth</u> (4)	<u>Smart</u> <u>Money</u> <u>Earnings</u> <u>Growth</u> (5)	<u>MSN</u> <u>Earnings</u> <u>Growth</u> (6)	<u>Morning-</u> <u>star</u> <u>Earnings</u> <u>Growth</u> (7)
[1] CH Energy Group	3.0	-	-	-	-	-	-
[2] Central Vermont P.S.	11.0	-	-	-	-	-	-
[3] Consolidated Edison	3.5	4.0	3.0	3.5	3.5	3.5	3.9
[4] Energy East	2.5	4.0	4.0	3.5	3.5	3.5	3.5
[5] Northeast Utilities	12.0	11.0	12.0	13.0	13.0	13.0	9.4
[6] NSTAR	8.5	6.0	6.0	6.3	6.3	6.3	5.8
[7] Pepco Holdings	8.0	9.0	8.0	6.7	6.7	6.7	7.3
[8] UIL Holdings	5.5	8.0	8.0	-	-	-	-
[9] Six Company Average	6.7	7.0	6.8	6.6	6.6	6.6	6.0
[10] Eight Company Average	6.8	7.0	6.8	6.6	6.6	6.6	6.0

Sources:

Value Line Investment Survey, June 1, 2007
Internet, Tradingday.com, June 11, 2007
Standard & Poor's Earnings Guide, June, 2007

Expected Growth Rates
for the Barometer Groups of Electric Distribution Companies

<u>Company</u>	<u>Value Line Earnings Growth</u> (1)	<u>S & P Earnings Growth</u> (2)	<u>Yahoo Thomson First Call Earnings Growth</u> (3)	<u>Clear Station Earnings Growth</u> (4)	<u>Smart Money Earnings Growth</u> (5)	<u>MSN Earnings Growth</u> (6)	<u>Morningstar Earnings Growth</u> (7)
[1] CH Energy Group	3.0	3.0	3.0	3.0	3.0	3.0	3.0
[2] Central Vermont P.S.	5.2	5.2	5.2	5.2	5.2	5.2	5.2
[3] Consolidated Edison	3.5	3.0	3.0	3.5	3.5	3.5	3.9
[4] Energy East	2.5	4.0	4.0	3.5	3.5	3.5	3.5
[5] Northeast Utilities	7.4	7.4	7.4	7.4	7.4	7.4	7.4
[6] NSTAR	8.5	6.0	6.0	6.3	4.0	6.3	5.8
[7] Pepco Holdings	8.0	7.0	8.0	6.7	6.7	6.7	7.3
[8] UIL Holdings	5.5	8.0	8.0	7.2	7.2	7.2	7.2
[9] Six Company Average	5.9	5.9	6.1	5.8	5.4	5.8	5.8
[10] Eight Company Average	5.5	5.5	5.6	5.3	5.1	5.3	5.4

Sources: Value Line Investment Survey, June 1, 2007
 Internet, Tradingday.com, June 11, 2007
 Standard & Poor's Earnings Guide, June, 2007

Rate of Return on the Overall Stock Market

	<u>Dividend Yield</u>	+	<u>Growth Rate</u>	=	<u>Expected Market Return</u>
Value Line Estimate	1.60%	+	7.79% ⁽¹⁾	=	9.39%
S&P 500 DCF	1.81%(1.0615)	+	12.30%	=	14.22%
S&P Composite Index Historical Return					<u>10.10%</u>
			Average Expected Market Return	=	11.24%

Note: (1) $(1.35^{25}-1)$. Value Line forecast for the 3 to 5 year index appreciation is 35%.

Sources: Value Line Investment Survey, June 15, 2007
 Baron's, June 11, 2007
 Internet, Morningstar, June 14, 2007
 Exhibit PRM 1, Page 24, Schedule 12

Value Line Betas for the Electric Companies

	<u>Company</u>	<u>Beta</u>
[1]	CH Energy Group	0.85
[2]	Central Vermont P.S.	0.70
[3]	Consolidated Edison	0.75
[4]	Energy East Corp.	0.95
[5]	Northeast Utilities	0.90
[6]	NSTAR	0.80
[7]	Pepco Holdings	0.90
[8]	Southwest Water Company	<u>0.95</u>
	Average	0.85

Source: Value Line Investment Survey, June 1, 2007

Market Place

A Study Shakes Confidence In the Volatile-Stock Theory

By ERIC N. BERG

One of the most enduring ideas of modern finance is facing its most serious challenge. Two scholars of finance say they have disproved the theory, common among investors, that stocks more volatile than the market as a whole are the best performers.

Eugene F. Fama and Kenneth R. French, business professors at the University of Chicago, traced the performance of thousands of stocks over 50 years but found no link between relative volatility and long-term returns. The many investors who try to beat the market by buying widely swinging issues are misguided, they say.

The importance of "beta," the investment community's term for a stock's volatility relative to the market, has long been under challenge. But it is still closely watched by ana-

lysts, and business students are still taught that they can earn higher returns by buying stocks whose swings are wider than the market's.

"The fact is," Professor Fama said in a recent telephone interview, "beta as the sole variable explaining returns on stocks is dead."

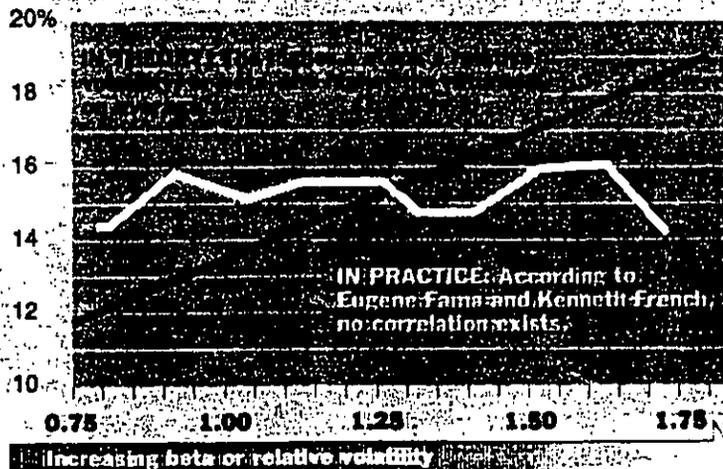
Some still favor relatively volatile stocks, among them William F. Sharpe, a retired Stanford University professor who won the 1990 Nobel Memorial Prize in Economic Science for theories based on beta. "It is a remarkable set of empirical results about what happened in the past," he said of the University of Chicago study. "But I am not willing to make investment decisions based on the theory that there is no relationship between beta, properly measured, and expected returns."

If Professors Fama and French

Continued on Page D6

Knocking Down a Popular Theory

Annual returns on stock investments, based on relative volatility.



Beta measures the volatility of a stock relative to the market.

*Returns are based on average one-month Treasury bill yields, annualized, and average market returns, July 1963 to December 1990.

Source: Eugene F. Fama and Kenneth R. French, University of Chicago.

A Study Shakes Confidence In the Volatile-Stock Theory

Continued From First Business Page

are right, however, the impact could be far reaching. Some highly volatile groups of stocks that have enjoyed wide followings — airlines, for example — could lose a portion of their appeal if beta-believing investors side with the professors.

Additionally, many executives of publicly held companies have taken the view that if their own company's stock is more volatile than the market as a whole, any project they invest in — from a lowly piece of new equipment to a huge joint venture — must generate an extra high return to compensate investors for swings in the stock's price and earnings. The professors' work could force many companies to rethink the way they approach capital spending, finance scholars say.

Finally, many publicly held utilities have used beta to justify rate requests. They figure the returns that investors demand, given their companies' betas, and develop rate structures that allow them to earn these returns. But recognizing that their low betas tend to argue against large rate increases, a growing number of utilities had already turned to other approaches. More will probably do so if the research of Professors Fama and French gains currency.

And if investors decide to quit following betas, other theories of market behavior are likely to gain influence. "What we are really taking about is opening the floodgates to a whole new generation of research into what truly drives stock prices," said Anthony B. Sanders, an Ohio State University professor of finance who is currently a visiting professor at the University of Chicago. "Once you hammer a model like the old one closed, you generate all sorts of additional academic interest."

Professor Fama has already won worldwide recognition for his efficient-markets theory — the notion that because investors all have essentially the same information it is impossible to consistently earn returns greater than those justified by the risks.

Professor Sharpe used Professor Fama's theory as an assumption to develop the capital-asset pricing model, which links returns to risk, as measured by beta.

Professor Sharpe says that a diversified portfolio can reduce the risks peculiar to individual companies — that General Motors stock, for example, will be hurt by a strike. Investors, therefore, earn no rewards for bearing this risk, according to the Sharpe theory.

But investors do earn higher returns for bearing the other type of risk, known as market risk, Professor Sharpe says. This risk, which re-

mains even after an investor diversifies, depends on how much an individual stock is dragged up or down by the market as a whole. Stocks like that of the biotechnology company Genentech, which have betas of more than 1.0, are more volatile than the market, while stocks like that of the power company Consolidated Edison, which have betas of less than 1.0, are calmer than the market.

To calculate market risk, or beta, finance professionals compare changes in the prices of individual stocks with changes in market indicators like the Standard & Poor's 500-stock index. Professor Sharpe and his followers say that in general, the higher a stock's beta, or volatility relative to the market, the greater its long-term returns.

Professors Fama and French disagree. Their paper, just published by the University of Chicago's Center for Research in Security Prices, says that long-term returns depend not on beta, but on company size and price-to-book ratios. Smaller companies, as measured by the market value of their shares, and those with low prices relative to their book values have in fact outperformed the market, they say.

The professors theorize that investors view smaller companies as more vulnerable to economic downturns and therefore demand higher returns. They also say that low price-to-book ratios typically reflect financial problems, another reason for investors to demand higher returns.

Professors Fama and French are by no means the first to fire an intellectual salvo at the capital-asset pricing model. Since Professor Sharpe developed the model in the early 1960's, a broad array of rival theories has emerged to explain stock price movements: the January effect, which says that stocks usually gain at the beginning of the year, to the week-end effect, which says stocks generally perform poorly on Mondays. Most recently, the arbitrage pricing theory says that stocks are driven by powerful economywide forces like unanticipated inflation and spikes in interest rates.

But finance experts say that Professors Fama and French have presented the most conclusive evidence against beta.

"What they have proven fairly rigorously is what other academics have been talking about for some time," said Richard Roll, a finance professor at the University of California at Los Angeles, who with others developed the arbitrage pricing theory.

Equity Issues This Week

Comparison of Debt to Total Capital Ratios and Percent Institutional Holdings for Mr. Moul's CEM Group
Compared to Mr. Moul's Electric Group and the Group of Six Electric Companies

	<u>Company</u>	Debt Ratio (1)	Percentage Institutional (2)
[1]	CEM Group(a)	39.95%	69.65%
[2]	Mr. Moul's Electric Group	50.50%	50.85%
[3]	Six Company Electric Group	54.33%	53.93%

Source: Value Line Investment Survey

Note: (a) Reference OTS Exhibit No. 1, Schedule 7, Page 2.

Debt to Total Capital Ratios and Percent Institutional Holdings for the CEM Group
 at December 31, 2006

	Debt Ratio (1)	Percentage Institutional (2)
ComRADV		
[1] Abbot Labs	33.28%	66.59%
[2] ABM Industries Inc.	0.00%	72.91%
[3] Air Products & Chemical	31.65%	82.60%
[4] Alexander & Baldwin	28.08%	74.90%
[5] Allergan Inc.	33.82%	97.91%
[6] Alliant Techsystems	66.67%	89.81%
[7] Allied Capital Corp.	40.06%	31.92%
[8] Amerisource Bergen	20.90%	96.62%
[9] Applebee's Intl	28.23%	90.84%
[10] Aptar Group	15.14%	91.64%
[11] Arbitron Inc.	0.00%	100.47%
[12] Arrow Intl	0.00%	54.54%
[13] Assoc. Banc-Corp.	47.98%	44.64%
[14] Bank of Hawaii	26.57%	64.46%
[15] BB&T Corp.	57.52%	28.68%
[16] Beclon Dickinson	19.97%	84.61%
[17] Bemis Co.	32.94%	67.37%
[18] Berkley (W. R.)	28.36%	77.92%
[19] BOK Financial	2.06%	18.75%
[20] Burlington Northern	39.94%	77.88%
[21] Campbell Soup	54.48%	43.05%
[22] Capitol Fed. Finl	79.38%	9.27%
[23] CLARCOR Inc.	2.87%	88.06%
[24] Coca-Cola Enterprises	67.07%	44.87%
[25] Commerce Bancshs.	3.60%	42.28%
[26] Compass Bancshares	55.43%	46.17%
[27] Constellation Brands	52.08%	76.95%
[28] CVS Corp.	22.48%	83.50%
[29] DeVita Inc.	74.96%	90.11%
[30] Delphi Fin'l 'A'	21.59%	78.27%
[31] Dentsply Intl	7.22%	52.11%
[32] Dionex Corp.	0.00%	88.62%
[33] Domino's Pizza	454.55%	95.61%
[34] Donaldson Co.	15.53%	67.34%
[35] Dun & Bradstreet	205.13%	86.17%
[36] Ecolab Inc.	24.83%	55.80%
[37] Edwards Lifesciences	23.94%	89.09%
[38] Fifth Third Bancorp	55.59%	70.45%
[39] First Horizon National	71.35%	53.34%
[40] First Midwest Bancorp	23.47%	58.25%
[41] Freddie Mac	93.03%	94.95%
[42] Gannett Co.	38.33%	81.44%
[43] General Dynamics	22.01%	78.98%
[44] Genuine Parts	16.39%	74.05%
[45] Genworth Finl	19.83%	97.95%
[46] HCC Insurance	16.14%	97.18%
[47] Health Management Assoc.	35.03%	97.74%
[48] Hillenbrand Inds.	23.47%	62.45%
[49] Hormel Foods	16.26%	28.71%
[50] Huntington Bancshs.	59.95%	46.82%
[50] IHOP Corp.	52.63%	104.63%
[51] ITT Corp.	14.87%	73.45%
[52] Journal Communications	32.82%	65.16%
[53] Lee Enterprises	60.39%	79.23%
[54] Lilly (Eli)	76.09%	72.37%
[55] Liz Claiborne	21.13%	91.17%
[56] Marriott Intl	40.98%	57.66%
[57] Minerals Techn.	13.09%	106.14%
[58] New York Community	76.30%	50.99%
[59] New York Times	49.23%	95.20%
[60] NIKE Inc. 'B'	6.13%	60.56%
[61] Northrop Grumman	19.05%	87.75%
[62] Old Natl Bancorp	53.76%	33.24%
[63] PepsiCo Inc.	14.17%	68.75%
[64] Pfizer Inc.	7.21%	68.34%
[65] Pitney Bowes	84.62%	80.21%
[66] Praxair Inc.	39.56%	82.88%
[67] Protective Life	30.27%	79.29%
[68] Regis Corp.	37.39%	81.87%
[69] Republic Services	52.06%	89.37%
[70] RPM Intl	48.46%	65.15%
[71] Ruddick Corp.	25.40%	68.27%
[72] Schein (Henry)	23.66%	87.11%
[73] Scotts Miracle-Gro	30.52%	65.03%
[74] Selective Ins. Group	25.14%	78.14%
[75] ServiceMaster Co.	38.05%	63.32%
[76] Sigma-Aldrich	19.32%	80.97%
[77] Snap-on Inc.	31.96%	87.27%
[78] Speedway Motorsports	34.31%	33.57%
[79] Toolzie Roll Ind.	1.18%	26.46%
[80] Triarc Cos. 'A'	56.91%	19.40%
[81] V.F. Corp.	16.29%	89.80%
[82] Valspar Corp.	22.03%	70.16%
[80] Washington Federal Waste Connections	54.29%	61.59%
[81] Weis Markets	0.00%	26.58%
[82] Wiley (John) & Sons	30.53%	63.12%
[82] Wilmington Trust	26.83%	48.96%
[83] Average	39.95%	69.65%

OTS Statement No. 1-SR
Witness: Kevan Deardorff

Wbg JK AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Surrebuttal Testimony

of

Kevan Deardorff

Office of Trial Staff

**DOCUMENT
FOLDER**

RECEIVED

AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

RATE OF RETURN

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Kevan L. Deardorff. My business address is P.O. Box 3265,
3 Harrisburg, Pa. 17105-3265.

4
5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes, I have. Please refer to OTS Statement No. 1 and OTS Exhibit No. 1.

8
9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. The purpose of my surrebuttal testimony is to respond to Company Witness
11 Moul's rebuttal testimony, identified as PPL Electric Statement 11R.

12
13 **Q. PLEASE SUMMARIZE THE ISSUES ADDRESSED IN THIS**
14 **SURREBUTTAL TESTIMONY.**

15 A. I will respond to criticisms made by Mr. Moul in his rebuttal testimony concerning
16 (1) DCF results (2) CAPM analysis and (3) general statements as to the claimed
17 inadequacy of the OTS recommendation.

18
19 **Q. PLEASE SUMMARIZE MR. MOUL'S CRITICISMS OF YOUR DCF**
20 **RESULTS.**

1 A. Mr. Moul criticizes my DCF results because 1) of improper alterations to the
2 analysts' growth rates, 2) my failure to make the market to book adjustment, and
3 3) an alleged error in the growth rates. (PPL St. 11R, pp. 10).

4
5 **Q. MR. MOUL CRITICIZES YOUR DCF RESULTS BY ALLEGING THAT**
6 **YOU IMPROPERLY ALTERED THE ANALYSTS' GROWTH RATES.**
7 **PLEASE EXPLAIN WHY HIS CRITICISM HAS NO MERIT.**

8 A. I have already testified at page 19 of my direct testimony as to the reasons why the
9 earnings for NU were biased upward. (OTS St. 1, p. 19) Apparently Mr. Moul
10 readily accepts that the growth rates are biased since he did not quibble over this
11 issue. He contends that the bias should not be removed from the growth rates
12 because investors blindly accept analysts' forecasts without question. In order to
13 accept this position, one must either assume that investors are naive or the
14 information used in the determination of the bias is unavailable to investors.
15 Clearly neither is the case. The majority of the investors in the in the barometer
16 group companies are institutional investors. In fact 74 % of Northeast Utilities are
17 institutional investors. Many of these investors have hundreds of millions of
18 dollars invested in these companies. To think that these investors do not perform
19 their due diligence is simply incorrect. The information used in the determination
20 of the bias is public information and is readily available. Clearly, Mr. Moul's
21 assumption fails the reality check. As a result, the bias needs to be removed from
22 the growth estimates.

1 Q. MR. MOUL ALSO CRITIZES YOUR DCF RESULTS BECAUSE YOU DO
2 NOT MAKE A MARKET TO BOOK ADJUSTMENT. PLEASE
3 COMMENT.

4 A. I have already testified as to the short comings of the market to book adjustment to
5 the DCF results in my direct testimony at pages 29 through 32. (OTS St. 1, pp.
6 29-32) I believe that my contentions there are still relevant and that Mr. Moul's
7 rebuttal of these arguments adds nothing to refute their legitimacy.

8
9 Q. MR. MOUL MAKES ONE FINAL CRITICISM OF YOUR DCF RESULTS
10 CONCERNING A PERCEIVED ERROR IN YOUR GROWTH RATE
11 CALCULATION. IS THERE IN FACT AN ERROR?

12 A. No. What Mr. Moul calls an error is simply a difference in the interpretation of
13 the results of the smoothing process. I used the Value Line methodology where
14 three five-year periods are used to calculate the final growth rate versus Mr.
15 Moul's use of the 12 year slope of the regression line as the proper growth rate.

16
17 Q. DOES MR. MOUL'S INTERPRETATION OF THE REGRESSION
18 RESULTS CHANGE YOUR OPINION OF THE APPROPRIATE
19 GROWTH RATES FOR THE BAROMETER GROUPS?

1 A. No. Mr. Moul's different interpretation of the growth rates also supports my
2 recommended growth rates of 5.5% and 6.0% for the barometer groups. The
3 average growth rates form PRM 3 attached to Mr. Moul's rebuttal testimony are
4 5.6% and 6.0%.

5
6 **Q. MR. MOUL MAKES SEVERAL CRITICISMS OF YOUR CAPM**
7 **RESULTS. PLEASE SUMMARIZE HIS CRITICISMS?**

8 A. Mr. Moul criticizes my CAPM results pointing out my perceived "failure" to
9 1) use the arithmetic mean since I chose to use of the geometric mean, 2) use
10 leverage adjusted betas, and 3) recognize a size adjustment.

11
12 **Q. WHY DO YOU BELIEVE THAT THE GEOMETRIC MEAN IS MORE**
13 **APPPROPRIATE METHOD FOR CALCULATING THE MEAN MARKET**
14 **RETURN?**

15 A. Mr. Moul's use of the arithmetic mean rests entirely on the Ibbotson argument
16 presented at page 28 of his direct testimony. (PPL St. 11, p. 28) The Ibbotson
17 argument is based on the following statement "The arithmetic mean is the rate of
18 return which, when compounded over multiple periods, gives the mean of the
19 probability distribution of ending wealth." A simple example proves this
20 statement false. Suppose a hypothetical investor has \$100 to invest over a two-
21 year period. The first year the investor earns a 100% return so that his ending
22 wealth at the end of period 1 is \$200. The second year the investor has a -50%

1 return (loses \$100) so that his ending wealth at the end of period 2 is \$100. The
2 geometric mean return for this example is 0%, while the arithmetic mean return is
3 25%. This simple example illustrates the inherent bias of using the arithmetic mean
4 to calculate period returns. As a result, it is quite clear that the use of arithmetic
5 mean for cost of capital purposes will produce biased results and the geometric
6 mean is more accurate and appropriate.

7
8 **Q. MR. MOUL ALSO CRITIZES YOUR CAPM RESULTS BECAUSE YOU**
9 **FAIL TO USE LEVERAGE ADJUSTED BETAS. PLEASE EXPLAIN**
10 **WHY THIS ADJUSTMENT SHOULD BE REJECTED.**

11 A. As I explained in my direct testimony, and now state definitively here, Mr. Moul's
12 leverage adjustment is a disguised market to book adjustment. I have already
13 testified as to the shortcomings of such an adjustment in my direct testimony at
14 pages 29 through 32. However I would like to add one final comment concerning
15 the credibility of the market to book adjustment. I find it an oddity to the
16 academic definition of beta that Mr. Moul is the only finance expert that
17 prophesizes this adjustment. If the unadjusted Value Line betas¹ do not reflect
18 total investment risk as Mr. Moul would have us believe, why does Value Line not
19 publish betas that are adjusted for the market to book? Until this type of

¹ Value Line does adjust for the tendency for stock betas to gravitate toward one but does not make a market to book adjustment.

1 adjustment is tested in the academic literature, I recommend that the market to
2 book adjustment to betas in the CAPM model be rejected.

3
4 **Q. AS A FINAL CRITICISM, MR. MOUL STATES THAT YOUR CAPM**
5 **RESULTS FAIL TO ADJUST FOR PPL'S SMALL SIZE. PLEASE**
6 **EXPLAIN WHY THIS ADJUSTMENT SHOULD BE REJECTED.**

7 A. I have already testified as to why size should not be a factor in this case, however,
8 Mr. Moul takes issue with the fact that the Wong article examining the size effect
9 for utilities is 14 years old. (OTS St. 1, p. 32) I consider this to be a very weak
10 argument based purely on Mr. Moul's speculation that things change. Until Mr.
11 Moul can produce a more recent study or do a study himself concerning the effect
12 of size upon utility returns, I will continue to recommend that the Commission
13 reject the size adjustment based upon the Wong research.

14
15 **Q. MR. MOUL HAS MADE SEVERAL CLAIMS REGARDING THE**
16 **CLAIMED INADEQUACY OF YOUR RECOMMENDED EQUITY**
17 **RETURN OF 10.13%. ONE OF THESE CLAIMS IS THAT CAPITAL**
18 **COSTS HAVE INCREASED SINCE THE LAST RATE CASE. IS HIS**
19 **CLAM CORRECT?**

20 A. No. Both Mr. Moul and Ms. Julie M. Cannell have made references to the
21 allowed rate of return in the last rate case and to the inadequacies of the
22 recommended rates of return by OCA witness Parcell and myself. First, I am not

1 an advocate of basing the recommendation in this case on what the Commission
2 awarded in the last case. However, if the Commission wishes to enter into such an
3 exercise then they should do so with actual numbers rather than Mr. Moul's
4 speculations. Presented below are the actual and forecasted "Aaa" Corporate
5 Bond Yields presented in the rate case 3 years ago compared to those presented in
6 Schedule No. 3 of my direct testimony for the current rate case. (OTS Ex. 1, Sch
7 3)

9	1 st Qtr. 2004 (Actual)	5.46	1 st Qtr. 2007 (Actual)	5.36
10	2 nd Qtr. 2004 (Forecast)	6.00	2 nd Qtr. 2007 (Forecast)	5.50
11	3 rd Qtr. 2004 (Forecast)	6.30	3 rd Qtr. 2007 (Forecast)	5.60
12	4 th Qtr. 2004 (Forecast)	6.40	4 th Qtr. 2007 (Forecast)	5.70
13	1 st Qtr. 2005 (Forecast)	5.60	1 st Qtr. 2008 (Forecast)	5.70
14	2 nd Qtr. 2005 (Forecast)	6.80	2 nd Qtr. 2008 (Forecast)	5.80
15	3 rd Qtr. 2005 (Forecast)	6.90	3 rd Qtr. 2008 (Forecast)	5.90

16
17 It is quite apparent that interest rates today are lower than they were during the last
18 rate case, both actual and forecasted.

1 **Q. MR MOUL CLAIMS AT PAGE 4 OF HIS REBUTTAL TESTIMONY**
2 **THAT YOUR RECOMMENDATION IS INADEQUATE BECAUSE YOU**
3 **DID NOT MAKE AN ADJUSTMENT FOR PPL'S HIGHER FINANCIAL**
4 **RISK. DOES PPL HAVE HIGHER FINANCIAL RISK IN COMPARISON**
5 **TO THE BAROMETER GROUP?**

6 A. No. I made an analysis at OTS Exhibit No. 1, Schedule No. 2, page 2 of the
7 Company's capital structure compared to the barometer groups' averages.
8 Financial risk is determined by the level of long-term debt employed by a
9 company. As indicated in the schedule, PPL is expected to employ a lower level
10 of debt for the future test year compared to the barometer group indicating lower
11 financial risk. While I did not recommend a financial risk adjustment in my direct
12 testimony, it is my opinion that if the Commission found it necessary to make a
13 risk adjustment the appropriate adjustment would be to lower the cost rate of
14 equity to reflect the lower financial risk.

15
16 **Q. MR MOUL STATES THAT YOU DID NOT MAKE AN ADJUSTMENT**
17 **FOR EXEMPLARY PERFORMANCE IN YOUR RECOMMENDED**
18 **EQUITY RETURN. IS AN ADJUSTED WARRANTED?**

19 A. No. Both Mr. Moul and Mr. DeCampli suggest that an appropriate return on
20 equity should consider PPL's superior management performance. As delineated
21 earlier in my direct testimony, the landmark Bluefield Water Works &
22 Improvement Company. V. Public Service Commission of West Virginia, 262U.S.

1 679, 692-93 (1923), the setting of an appropriate cost rate of common equity
2 assumes efficient and economical management. My recommended equity return
3 range was based on a DCF analysis using Mr. Moul's barometer group of electric
4 companies. Any recognition of exemplary performance must be made in relation
5 to this barometer group. Neither Mr. Moul nor Mr. DeCampli provided any
6 evidence to support the claim that PPL's management is more efficiently and
7 economically operated in comparison to the companies in Mr. Moul's barometer
8 group. Without such evidence, Mr. Moul's request that I make an adjustment for
9 superior management performance should be rejected.

10
11 **Q. MR. MOUL CLAIMS AT PAGE 4 OF HIS REBUTTAL TESTIMONY**
12 **THAT YOUR RECOMMENDATION IS INADEQUATE BECAUSE THE**
13 **COMPANY HAS ENHANCED ITS CREDIT QUALITY THROUGH RING-**
14 **FENCING. PLEASE EXPLAIN WHY AN ADJUSTMENT TO REFLECT**
15 **RING-FENCING SHOULD BE REJECTED?**

16 A. Repeating from the last answer, the setting of an appropriate cost rate of common
17 equity assumes efficient and economical management. I consider the attainment
18 of proper ring-fencing as nothing more than a result of normal operations of
19 efficient and economical management. As a result, I believe an adjustment is not
20 necessary and should not be made.

1 **Q. DID MR. MOUL MAKE ANY ADJUSTMENTS TO REFLECT**
2 **DIFFERENCES IN FINANCIAL RISK BETWEEN THE BAROMETER**
3 **GROUP AND PPL, FOR PPL'S SUPERIOR MANAGEMENT**
4 **PERFORMANCE OR FOR RING-FENCING?**

5 A. No. Mr. Moul recommended the midpoint of his range. I also recommended the
6 midpoint of my range.

7

8 **Q. MR MOUL'S OVERALL CONTENTION IS THAT YOUR**
9 **RECOMMENDATION IS INADEQUATE. DO YOU BELIEVE THE**
10 **CURRENT MARKET CONDITIONS SUPPORT THIS CONTENTION?**

11 A. No. To the contrary, my recommended cost of equity is more reflective of reality
12 because it is primarily based on the DCF results that use current market
13 information relevant to what investors currently require. This methodology differs
14 from the other three methods which rely on historical information going back as
15 far as 1928.

16

17 **Q. WHY ARE THE RESULTS BASED ON HISTORICAL DATA**
18 **SOMETIMES MISLEADING?**

19 A. Analysis of long time series of data without analyzing sub-sets can give
20 misleading conclusions. Take for example, the following series of experienced
21 returns for the S&P 500 Index over the past 26 years:

	<u>Year</u>	<u>S&P Returns</u>
1		
2		
3	1982	21.41%
4	1983	22.51%
5	1984	6.27%
6	1985	32.16%
7	1986	18.47%
8	1987	5.23%
9	1988	16.81%
10	1989	31.49%
11	1990	-3.17%
12	1991	30.55%
13	1992	7.67%
14	1993	9.99%
15	1994	1.31%
16	1995	37.43%
17	1996	23.07%
18	1997	33.36%
19	1998	28.59%
20	1999	21.04%
21	2000	-9.11%
22	2001	-11.88%
23	2002	-22.10%
24	2003	28.70%
25	2004	10.87%
26	2005	4.91%
27	2006	15.80%
28		

29

30 **Q. WHAT IS SO UNUSUAL ABOUT THIS SERIES?**

31 A. An investor basing his expectations on the total series would expect that equity
32 returns over the long term would be 13.3%. Within this series are two subsets: the
33 period from 1982-1999 that had exceptional returns of 18.5% per year and the
34 period from 2000-2005 that had muted returns of 2.5% per year.

1 **Q. DO YOU BELIEVE THESE MUTED RETURNS ARE INFLUENCING**
2 **INVESTORS EXPECTED RETURNS TODAY?**

3 A. Yes. I do not believe that investors will expect the negative returns that they have
4 experienced over the last six years to occur in the future. However, I do believe
5 that the current era of muted returns will dampen their expectations for future
6 returns.

7
8 **Q. ARE INVESTORS BEING ADVISED OF THIS SITUATION SO THAT**
9 **THEY CAN MAKE RATIONAL INVESTMENT DECISIONS?**

10 A. Yes. Merrill Lynch (ML), one of the largest retail brokerage houses, has been
11 advising their clients for quite some time: "Perhaps most important, the continued
12 uncertainty about economic growth and inflation expectations may serve to mute
13 asset returns further. We have been saying for a long time that returns may be
14 restrained in relation to investors' expectations across a broad spectrum of asset
15 classes. Simply put, there is no asset class today that is starved for capital, and the
16 uncertainty about the contours of nominal growth is likely to dampen returns even
17 more."²

18
19 **Q. WHAT IMPACT DOES THIS ANALYSIS HAVE ON EXPECTED**
20 **RETURNS FOR ELECTRIC UTILITIES?**

² The RIC Report, ML RIC Group, August 8, 2006.

1 A. In that same report, ML further states "Investors should remember, however, that
2 income-oriented strategies tend to perform quite well during periods of
3 uncertainty, rising volatility, and low returns." It also must be remembered that
4 during the period from 1940 to June 2006, nearly 64% of the annualized return on
5 the S&P 500 came from reinvested dividends. As a result investors will accept a
6 lower expected overall rate of return in exchange for the fact that a large
7 proportion of their return will be in the form of a dividend. Since electric utility
8 equities have relatively high dividends, this makes them appropriate in these
9 income-oriented strategies.

10

11 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

12 A. Yes.

OTS Statement No. 2
Witness: Janet M. Markovich

Atty. Gen.

AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

DOCUMENT
FOLDER

Direct Testimony

of

Janet M. Markovich

Office of Trial Staff

RECEIVED

AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

OPERATION AND MAINTENANCE EXPENSES

1 **Q. STATE YOUR FULL NAME, EMPLOYER AND BUSINESS ADDRESS.**

2 A. My name is Janet M. Markovich. I am employed by the Pennsylvania Public
3 Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

4

5 **Q. WHAT IS YOUR POSITION WITH THE PENNSYLVANIA PUBLIC**
6 **UTILITY COMMISSION?**

7 A. I am a Fixed Utility Financial Analyst in the Office of Trial Staff (OTS).

8

9 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE PROCEEDINGS.**

10 A. OTS was established by the legislature and is responsible for protecting the public
11 interest in rate proceedings. The OTS analysis in this proceeding is based on its
12 responsibility to represent the public interest. This responsibility requires the
13 balancing of the interests of the ratepayers and the Company.

14

15 **Q. WHAT ARE YOUR DUTIES AS AN ANALYST IN OTS?**

16 A. My duties as an OTS Analyst include participation in formal base rate proceedings
17 as an expert witness. In that capacity, I prepare and present OTS testimony and
18 exhibits. My education and professional background are set forth in the attached
19 Appendix A.

20

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A. Based upon my review of PPL Electric Utilities Corporation's (PPL or Company)
2 base rate filing, I recommend a disallowance of the Sustainable Development
3 Program and adjustments to the Company's claim for Pennsylvania Capital Stock
4 Tax and Meter Data Management System.

5

6 **SUSTAINABLE DEVELOPMENT PROGRAM**

7 **Q. WHAT IS THE SUSTAINABLE DEVELOPMENT PROGRAM?**

8 A. The Company is proposing to implement a new program in 2008 called the
9 Sustainable Development Program (SDP). The purpose of the SDP is to assist
10 community development organizations in addressing local needs by providing
11 grant funds. Under SDP, the Company would underwrite 50 percent of interest
12 charges on funds borrowed by an eligible economic development organization to
13 construct or acquire speculative industrial buildings. The interest subsidy, up to a
14 maximum of \$30,000 annually, continues until the organization sells or leases the
15 building, up to a maximum of three years. The SDP would target community and
16 economic development programs. The SDP also would support local efforts to
17 improve economic prosperity (PPL St.8, pp 19 – 20).

18

19 **Q. WHY IS PPL PROPOSING THE SUSTAINABLE DEVELOPMENT**
20 **PROGRAM?**

1 A. PPL is proposing the SDP to enhance its role and visibility by addressing social
2 concerns in its service community and to improve relations with community
3 organizations.

4
5 **Q. WHAT IS THE COMPANY'S SUSTAINABLE DEVELOPMENT
6 PROGRAM CLAIM?**

7 A. The SDP claim is presented on PPL Exhibit Future 1, D-8. The Company
8 proposes to recover from ratepayers, the funding for the Sustainable Development
9 Program at \$1,250,000 annually, for the initial three-year period (2008 – 2010).

10
11 **Q. DO YOU AGREE WITH THE PROPOSED SDP CLAIM?**

12 A. No.

13
14 **Q. WHAT IS YOUR RECOMMENDATION?**

15 A. I recommend that the proposed recovery of \$1.25 million in base rates for the SDP
16 claim be rejected.

17
18 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

19 A. I recommend that this claim be rejected for three reasons. First, this program is
20 not driven by specific Commission approved regulatory goals. Any program
21 funded by ratepayers should provide direct benefits to ratepayers. The fact that
22 benefits may or may not materialize is secondary to the overall intent of the

1 program. Second, there is no discernable benefit to ratepayers. This program in
2 general is designed to achieve social benefits that accrue to local communities and
3 society at large. Third, the funding of this program can be characterized as an
4 attempt to extract a forced contribution or taxation of ratepayers. Utilities
5 certainly lack the statutory power of taxation and appropriation no matter how
6 well intentioned they are. To the extent any portion of this program is funded by
7 tax dollars, ratepayers and corporations would be forced to contribute a second
8 time. Moreover, the Commission has consistently rejected the regulatory recovery
9 of forced contributions. In this regard, the recovery of charitable contributions is
10 routinely denied regulatory recovery. The funding of these social initiatives is no
11 different than a charitable contribution and should be accorded the same treatment
12 in determining rates.

13
14 **Q. DID PPL PROPOSED THESE SOCIO-ECONOMIC TYPE PROGRAMS IN**
15 **ITS LAST PROCEEDING?**

16 A. Yes. PPL previously requested rate recognition for its Community Betterment
17 Initiative which the Commission denied at Docket No. R-00049255, specifically
18 discussed at pages 45-47 of the Commission's Opinion and Order (entered
19 December 22, 2004).

1 **PENNSYLVANIA CAPITAL STOCK TAX**

2 **Q. WHAT IS THE PENNSYLVANIA CAPITAL STOCK TAX (CST)?**

3 A. *The capital stock tax is a property tax computed on a combined base of average*
4 *net income and net worth.*

5
6 **Q. HOW IS THE CST LIABILITY DETERMINED?**

7 A. The CST liability is determined by multiplying the CST rate times the CST
8 valuation.

9
10 **Q. HOW IS THE COMPANY'S CST VALUATION DETERMINED?**

11 A. The CST valuation is based on a formula that is an average of two numbers. The
12 first number is the average of the most recent five years book net income
13 capitalized at 9.5%. The second number is 75% of the Company's net worth.

14
15 **Q. WHAT IS THE COMPANY'S CLAIM FOR CAPITAL STOCK TAX?**

16 A. The Company's claim for Capital Stock Tax is \$2,912,000 and is found in PPL
17 Exhibit Future 1, D-12, Page 2 of 4.

18
19 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

20 A. No.

21
22 **Q. WHAT IS YOUR RECOMMENDATION?**

1 A. My recommendation can be broken down into three parts. First, I recommend that
2 the CST rate of 2.89 mills be used in the calculation effective on January 1, 2008,
3 as shown on OTS Exhibit No. 2, Schedule 1, instead of the 3.89 mills claimed.
4 Second, I recommend a change to the CST valuation based on a Company error in
5 determining its net worth. Third, I will discuss the Company's attempt to iterate
6 Capital Stock tax under proposed rates.

7
8 **Q. WHY DO YOU RECOMMEND USING THE CAPITAL STOCK TAX**
9 **RATE FOR 2008?**

10 A. Rates in this proceeding will be effective on January 1, 2008. If the Company is
11 permitted to use the 2007 rate of 3.89 mills, it will have to also file a state tax
12 adjustment surcharge (STAS) on the same day to reflect the lower 2008 Capital
13 Stock Tax rate of 2.89 mills. There is no reason not to reflect the change in rates
14 now which will eliminate the filing of a negative STAS. This recommendation
15 will reduce distribution expense for Capital Stock Tax by \$817,000 as shown on
16 OTS Exhibit No. 2, Schedule 1.

17
18 **Q. WHAT IS THE NATURE OF YOUR SECOND ADJUSTMENT FOR THE**
19 **CST?**

20 A. I recommend that the CST value be revised due to an error in determining the
21 Company's net worth. This will increase the CST by \$125,000.

1 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

2 A. The Company responded to OTS-RE-92D and indicated that the net worth at
3 December 31, 2007, shown on Schedule D-12, page 2 of PPL Exhibit Future 1 is
4 incorrect. The correct net worth is \$1,332,576,000 (OTS Ex. No. 2, Sch 2). This
5 revision is necessary in order to provide the Commission with the correct
6 adjustment to the CST now instead of waiting until the rebuttal phase of this
7 proceeding.

8
9 **Q. WHAT IS THE COMBINED EFFECT OF THESE TWO ADJUSTMENTS?**

10 A. The combined effect of these two adjustments will reduce distribution operating
11 expense (taxes – other than income) by \$692,000 (\$817,000 - \$125,000).

12
13 **Q. WHAT IS THE NATURE OF YOUR THIRD RECOMMENDATION
14 REGARDING CST?**

15 A. The Company has calculated an additional increase of \$226,000 in CST, based on
16 its requested increase of \$83,573,000 (Exhibit Future 1, D-13, Page 5). The
17 iteration of the CST should be rejected.

18
19 **Q. WHY IS CAPITAL STOCK TAX EXCLUDED FROM THE RE-
20 ITERATION PROCESS?**

1 A. Capital Stock Tax does not increase in direct proportion with an increase in
2 revenues as does gross receipts tax and federal and state income taxes. Therefore,
3 Capital Stock Tax should not be included on PPL Exhibit Future 1, D-13, Page 5.
4 The effect of the increase that the Commission ultimately grants would be an
5 increase to book income in the current year. The increase would be averaged with
6 four other years and then averaged again with 75% of net equity. At best, the
7 effect would be 1/10 of that requested by the Company because of the lessened
8 impact on the CST valuation calculation. Because of the de minimis impact,
9 current regulatory practice is to not iterate CST.

10

11 **METER DATA MANAGEMENT SYSTEM**

12 **Q. WHAT IS THE METER DATA MANAGEMENT SYSTEM (MDMS)?**

13 A. The meter management data system is a customer interface that will permit
14 customers to analyze and better understand their electricity usage and bills.
15 Customers will be able to access the interface through the Company's website.
16 This interface will be available to customers in June 2007 (PPL St. No. 5, pp. 16 -
17 17).

18

19 **Q. WHAT WILL THIS INTERFACE ENABLE CUSTOMERS TO DO?**

1 A. The interface will allow customers to review their bills and bill histories, compare
2 billed usage from one period to another and estimate the value of various energy
3 efficiencies and conservation measures. In addition, customers will be able to
4 complete a home energy survey and have access to a library and web links (PPL
5 St. No. 5, p.17).

6
7 **Q. WHAT IS THE COMPANY'S CLAIM TOR THE METER DATA**
8 **MANAGEMENT SYSTEM?**

9 A. The Company claim for the future test year is \$4.4 million for web design and
10 advertising to introduce customers to the interface functions of the meter data
11 management system. This claim is itemized on OTS Ex No. 2, Sch. 3 which
12 shows the majority of the future test year expense is various forms of media
13 advertising.

14
15 **Q. WHAT ARE THE CURRENT TYPES OF ADVERTISING BEING USED**
16 **TO INTRODUCE CUSTOMERS TO MDMS?**

17 A. The Company is using television, print media, website and bill inserts.

18
19 **Q. HAS THE COMPANY IDENTIFIED ADDITIONAL PROGRAMS**
20 **BEYOND THE FUTURE TEST YEAR?**

1 A. Yes. The Company has indicated that additional programs may be developed and
2 follow-up advertising may be directed at customers in connection with the
3 existence of these programs (PPL St. No. 5, p. 18).
4

5 **Q. DO YOU AGREE WITH THE PROPOSED MDMS?**

6 A. No.
7

8 **Q. WHAT IS YOUR RECOMMENDATION?**

9 A. I recommend that the \$4.4 million claim for the MDMS introduction be reduced to
10 an allowance of \$2.4 million. This will reduce the Company's claim by \$2
11 million.
12

13 **Q. PLEASE EXPLAIN HOW YOU DERIVED THE \$2.4 MILLION**
14 **RECOMMENDED ALLOWANCE.**

15 A. I reviewed the budgeted expenditures for the future test year and recognizing that
16 the initial cost to advertise a new program usually exceeds future costs to maintain
17 and develop an existing program, I discounted the need for extensive television
18 advertising. In my opinion, this is an expensive media and less effective than print
19 for reinforcement efforts and to inform customers of any changes to the MDMS.
20

21 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

1 A. The Company has stated that “after the Company has introduced the customer
2 interface to its customers, there should be no future on-going introductory costs”
3 (OTS Ex. No. 2, Sch 4). Programs to be added to the MDMS are speculative and
4 future costs are not measurable. The Company’s claim is based on advertising
5 dollars to make its customers aware of this program and does not provide a
6 reasonable basis for estimating future costs. Customers are already aware of
7 PPL’s website and can navigate to the MDMS without the Company spending
8 millions on advertising in the future. Moreover, interested customers could
9 already perform most of these functions before the MDMS goes online.

10

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes.

Janet M. Markovich

Applicable Educational and Professional Background

Education:

Master of Science in Business Administration, Concentration in Finance,
St. Joseph's University, Philadelphia, Pa. 1994

Bachelor of Science in Business Administration, Elmhurst College, Elmhurst Ill. 1981

Additional Education:

NARUC Utility Rate School - October 2004

The Many Voices of Wall Street – October 2004

Telephony and Telecommunications – December 2004

Business Experience:

Commonwealth of Pennsylvania

Public Utility Commission

Office of Trial Staff

Fixed Utility Financial Analyst 2004 - Present

Responsible for performing studies and analysis of revenues and expenses and other related financial and economic data as required to process rate increase requests, 1307 (f) purchased gas cost filings and general tariff revisions.

Commonwealth of Pennsylvania

Department of Corrections

Budget Analyst I and II 2003-2004

Responsible for coordinating the General Fund section of the business office as required to monitor spending, collect data and generate budgets, re-budgets and various projections.

Borough of Minersville

Borough Manager 1997-2000

Responsibilities under the direction of the Borough Council included the supervision of the business office, and the coordination of the activities of the following departments:

Streets, Sewer Treatment Plant and Collection System, Code, Health, and Grant Administration. Additional responsibilities included the development and administration of budgets for the General, Water, and Sewer Funds.

Pepperidge Farm, Inc
Plant Manager 1982-1991

As Resident Executive, my responsibilities included all activities related to the manufacture and distribution of fresh and frozen bakery, cookie and cracker products at facilities in Downers Grove, Illinois and Lakeland, Florida. Major responsibilities included the development and administration of plant operating and capital budgets and the coordination of the following functions: Engineering, Maintenance, Production, Distribution, Accounting, Purchasing, Human Resources, and Information Systems.

Assisted in the following Cases :

Borough of Quakertown – Rate Case – R-00049555
National Fuel Gas Distribution – Rate Case – R-00049656
TW Phillips Gas and Oil Co. – 1307(f) – R- 00040059
Myers Gas Company – Rate Case – R-00050259
PECO Energy Company – 1307(f) – R – 00050537
UGI Utilities, Inc. Gas Division – 1307(f) – R – 00050539
Trigen- Philadelphia Energy Corporation – R – 00050781

Participated in the following Cases:

City of Bethlehem Water Fund – Rate Case - R-00050671
Wonderview Water Inc. – Rate Case - R-00050659
Meadows Sewer Co. – Rate Case – R-00050672
Wilcox Water Co. – Rate Case – R-00050781
Lancaster Waterfund – Rate Case – R-000501167

Testified in the following Cases:

City of Lancaster Sewer Fund – Rate Case – R-00049862
Mesco Inc. – Rate Case – R- 00050678
TW Phillips 1307(f) – R-00051134
Aqua Pa – Rate Case – R-00051030

OTS Exhibit No. 2

Witness: Janet M. Markovich

Hby Jk

AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

DOCUMENT
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Exhibit to Accompany

the

Direct Testimony

of

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AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

OPERATION AND MAINTENANCE EXPENSES

PPL ELECTRIC UTILITIES CORPORATION

Capital Stock Tax at Present Rates
Year Ended December 31, 2007
(Thousands of Dollars)
Per OTS

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	PA Capital Stock Tax = 50% ((5 Year Average Net Income/0.095) + (75%(Net Worth)))	
	Net Income	
2	2003	28,470
3	2004	60,302
4	2005	92,437
5	2006	85,102
6	2007	<u>126,534</u>
7	Total	<u><u>392,845</u></u>
8	5 Year Average	<u><u>78,569</u></u>
9	Net worth at December 31, 2007	<u><u>1,332,576</u></u>
10	PA Capital Stock value = 0.5(((\$78569/0.095) + (0.75 x \$1,332,576)) =	913,237
11	Statutory Exemption	<u>150</u>
12	Value of Capital Stock less Statutory Exemption	913,087
13	Apportionment Percentage	<u>0.895720</u>
14	PA Capital Stock Taxable Value	<u><u>817,870</u></u>
15	PA Capital Stock Tax at 2.89 mils	2,364
16	Less: PA Education tax credit	<u>144</u>
17	PA Capital Stock Tax	<u><u>2,220</u></u>

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

Q.OTS-RE-92-D. Reference the Company's Exhibit Historic 1 and Exhibit Future 1, Schedule D-12, page 2, concerning capital stock tax.

- A.** Provide the PA. corporate income tax returns including a copy of the Federal Form 1120 on a separate company basis and a copy of Schedule M 1 on a separate company basis for 2001, 2002, 2003, 2004, 2005, 2006 and 2007.
- B.** Provide the documentation including all supporting calculations for the net worth at December 31, 2007 of \$1,236,625.
- C.** Provide copies of the five most recent capital stock filings and settlements.
- D.** Explain why the 2007 tax rate of 3.89 mills is used in the calculation instead of the 2008 or 2009 rate since this tax is expected to be phased out after 2010.

A.OTS-RE-92-D. **A.** The requested information is voluminous and is being provided only to the requesting party. Copies will be made available to other parties upon request. The 2006 and 2007 tax returns have not been filed and are due on October 15, 2007 and October 15, 2008, respectively.

- B.** The net worth at December 31, 2007 shown on Schedule D-12, page 2 of Exhibit Future 1 is incorrect. Accordingly, PPL Electric will provide a corrected Schedule D-12 of Exhibit Future 1 and a corresponding Schedule D-13, pages 5 and 6 of Exhibit Future 1 during the rebuttal phase of this proceeding. The correct net worth at December 31, 2007 is \$1,332,576 and is determined as follows: 1) Total Proprietary Capital from Schedule B-1, page 3 of Exhibit Future 1 in the amount of \$1,523,760 less the effects of PPL Receivables Corporation in the amount of \$191,184.
- C.** The requested information is voluminous and is being provided only to the requesting party. Copies will be made available to other parties upon request. The PA Department of Revenue has not settled tax year 2005 as of this date.
- D.** The 2007 tax rate of 3.89 mills is the statutory PA capital stock tax rate in effect for tax year 2007. The Company will file a

**State Tax Adjustment Surcharge for any future tax rate changes
in accordance with the Commission's regulations at 52 Pa.
Code §69.51, et seq. and at 52 Pa. Code §54.91, et seq.**

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set X,
Dated April 23, 2007**

Docket No. R-00072155

Q.OTS-RE-62-D. Reference the Company's Exhibits Historic 1 and Future 1, Schedule B-4, page 3, account 909 concerning informational and instructional expense.

- A. Provide an explanation and detailed breakdown of what is included in the \$4,400,000 claim for informational and instructional expense in the future test year ending 12/31/2007.
- B. Explain why account 909 is not listed on Schedule B-4 for the twelve months ended 12/31/2006. Identify the account that these expenses were charged to in 2006, provide the 2006 amount of informational and instructional expense and provide the same breakdown as requested in Part A. above for the 2006 expenses.
- C. Provide the per book amount for informational and instructional expenses in the twelve months ending 12/31/2005, 2004, 2003 and 2002 and identify the account these expenses were charged to in those years.

A.OTS-RE-62-D.

A. The following is a breakdown and explanation of the \$4,400,000 claim for informational and instructional expense in the future test year ending 12/31/2007:

<u>Purpose</u>	<u>Media</u>	<u>Amount</u>
Energy Conservation/Efficiency	Television	\$3,315,000
	Print Media	390,000
	Bill Inserts	35,000
	Website	230,000
Electrical Safety	Website	30,000
Institutional	Television	<u>400,000</u>
Total		\$4,400,000

- B. The Company charges expenses related to advertising to various functional FERC accounts. See Attachment II-D-7d of the response to Question II-D-7, of Exhibit Regs. § 53.53, Part II-Primary Statements of Rate Base and Operating Income, for more information related to advertising expenses for the Company. The advertising expenses for 2006 were primarily charged to FERC accounts 912, 913 and 916.
- C. Advertising expenses, including but not limited to informational and instructional expenses, for the years 2002-2005 are as follows (in thousands):

	Amount	Account
2002	\$291	908, 912
2003	2,500	908, 912, 913
2004	2,176	912, 921
2005	264	912, 916, 921

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set VII,
Dated June 1, 2007**

Docket No. R-00072155

- Q.12.** Is it correct that after the introduction of the customer interface, the \$4.4 million cost will not be incurred again? If not, please explain how introductory costs will continue to be incurred.
- A.12.** It is correct that, after the Company has introduced the customer interface to its customers, there should be no on-going introductory costs. However, as described in Statement No. 5, the Direct Testimony of Douglas A. Krall, page 17, lines 9 through 17, the customer interface will evolve to include new functionality, and the Company believes that there is a need to provide additional education, beyond the initial introductory efforts, to assure that customers are aware of and can utilize this additional functionality. In addition, see the response to Question 13 of Interrogatories of the Office of Consumer Advocate, Set VII, dated June 1, 2007.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set VII,
Dated June 1, 2007**

Docket No. R-00072155

- Q.13.** Please provide the annual customer education and advertising costs associated with the meter data management system for 2008 and 2009.
- A.13.** The Company anticipates spending \$4.4 million per year in 2008 and 2009 to make customers aware of the meter data management system's energy use and bill analysis capabilities, and to educate them on the system's functionality. The Company further anticipates that its education programs in 2008 and 2009 will be subject to continuing Commission review.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set VII,
Dated June 1, 2007**

Docket No. R-00072155

- Q.14.** With reference to the discussion beginning on page 18, line 4 through page 19, line 8, identify and provide the annual costs for 2008 and 2009 for each activity requiring funding.
- A.14.** The items, which are listed on page 18, line 4 through page 19, line 8 of Statement No. 5, the Direct Testimony of Douglas A. Krall, are educational messages that the Company believes will need to be delivered to customers during 2008 and 2009. The Company believes that the activities necessary to deliver those messages include the development and placement of television ads, the development and placement of print media communications, the development of material for bill inserts, and further enhancement of the Company's website. These activities are similar to those to be undertaken in 2007. Accordingly, the Company estimates that the cost of customer education efforts in 2008 and 2009 will be the same \$4.4 million per year estimated to be spent on those activities in 2007. The activities to be undertaken during 2008 and 2009 will be further defined based on feedback from both customers and the Commission in response to the 2007 effort.

OTS Statement No. 2 - SR
Witness: Janet M. Markovich

Hy -JK AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

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Surrebuttal Testimony

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

of

Janet M. Markovich

Office of Trial Staff

**DOCUMENT
FOLDER**

Concerning:

OPERATION AND MAINTENANCE EXPENSES

1 **Q. STATE YOUR FULL NAME, EMPLOYER AND BUSINESS ADDRESS.**

2 A. My name is Janet M. Markovich. I am employed by the Pennsylvania Public
3 Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

4

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes, I have submitted OTS Statement No. 2 and OTS Exhibit No. 2.

8

9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
11 the following PPL Electric Utilities Corporation's (PPL or Company) witnesses:

- 12 • Mr. Dahl (PPL statement No. 8-R, pp. 34-38) concerning the PPL
13 proposed Sustainable Development Program.
- 14 • Mr. Kleha (PPL Statement No. 6-R, pp. 27-31) concerning the PPL
15 future test year claim for Capital Stock Tax.
- 16 • Mr. Krall (PPL Statement No 5R, pp. 17-21) concerning the
17 proposed education portion of PPL's Meter Data Management
18 Program.

19

20 **SUSTAINABLE DEVELOPMENT PROGRAM**

21 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE PPL**
22 **PROPOSED SUSTAINABLE DEVELOPMENT PROGRAM?**

1 A. I recommended that the recovery of \$1.25 million in base rates for the Sustainable
2 Development Program claim (SDP) be rejected.

3
4 **Q. DOES PPL WITNESS MR. DAHL AGREE WITH YOUR**
5 **RECOMMENDATION?**

6 A. No. Mr. Dahl disagrees with my assertion that the proposed SDP is not supported
7 by approved regulatory goals. To provide proof that PPL's proposed SDP is
8 supported by regulatory goals, he refers to the recent motion made by Chairman
9 Holland to approve the Distribution System Improvement Charge (DISC) petition
10 of Pennsylvania American Water at Docket No. P.00062241. Mr. Dahl's
11 testimony states that Commissioner Holland noted in his motion that one of the
12 main features of the DISC is that it "promotes economic development" (PPL St.
13 No.8-R, p. 35).

14
15 **Q. DO YOU AGREE WITH MR. DAHL'S OPINION?**

16 No. The DISC is directly related to the funding of an upgrade to a water
17 company's aging infrastructure. The DISC funding provides direct benefits to the
18 water customers in various ways such as reduced service interruptions due to main
19 breaks, improved water quality, water pressure and fire protection. In his motion
20 Commissioner Holland did note that one of the main features of the DISC is that it
21 "promotes economic development as it creates hundreds of jobs." However, I
22 believe the jobs he was referring to are mainly those that are created by replacing

1 the aging infrastructure which the water company may not be able to afford if the
2 DISC was not approved. Chairman Holland may also be inferring that a sound
3 water infrastructure contributes to making a region attractive to commercial and
4 industrial development. It is my sincere opinion that Chairman Holland was not
5 stating that the costs for that economic development should be included in water
6 rates.

7
8 **Q. DOES MR. DAHL OFFER ANY OTHER REBUTTAL ARGUMENTS?**

9 A. Yes. PPL witness Dahl also cites page 31 of the Commission's Final Investigatory
10 Order at Docket No. M-00051923, concerning the allocation of costs for Customer
11 Assistance Programs (CAP), where the Commission notes the following: "The
12 Commission believes that we should not initiate a policy change that could have a
13 detrimental impact on economic development and the climate for business and
14 jobs within the Commonwealth."

15
16 **Q. DO YOU AGREE WITH MR. DAHL THAT THESE COMMENTS**
17 **SUPPORT HIS ARGUMENT THAT ECONOMIC DEVELOPMENT IS A**
18 **REGULATORY GOAL AND THEREFORE THE COMMISSION**
19 **SUPPORTS THE COMPANY'S PROPOSED SUSTAINABLE**
20 **DEVELOPMENT PROGRAM EXPENSE TO BE INCLUDED IN RATES?**

1 A. No. In this order the Commission confirms its current policy of allocating costs
2 only to the customer class that is eligible for the program, which in this case is
3 residential customers. Thereby rejecting the idea of having commercial and
4 industrial rates include the cost of CAP programs in which they are not eligible to
5 participate and from which they do not directly benefit. It is my opinion that the
6 Commission's statement confirms that it does not want to restrict the
7 Commonwealth's potential to attract economic development by inflating
8 commercial and industrial rates with CAP costs that only benefit residential
9 customers. I believe that this decision supports my recommendation to reject the
10 inclusion of these costs in the rates of any customer class.

11

12 **Q. MR. DAHL ALSO CITES THE COMMISSION'S INVOLVEMENT IN**
13 **ADDRESSING ENVIRONMENTAL CONCERNS AS SUPPORT FOR THE**
14 **SUSTAINABLE DEVELOPMENT PROGRAM. DO YOU AGREE?**

15 A. No. The Commission's activities in support of energy conservation education,
16 demand side working groups and alternative energy portfolio standards are works
17 in progress and support the Commission's mission statement to foster new
18 technologies and competitive markets in an environmentally sound manner.
19 In my opinion, it does not follow that the Commission has given explicit approval
20 to include the \$150,000 in customer rates that the company proposes to use to
21 support Leadership in Energy and Environmental Design (LEED) certification that
22 designates "green" buildings.

1 **Q. PLEASE SUMMARIZE THE BASIS FOR YOUR RECOMMENDATION.**

2 A. I recommended that this claim be rejected for three basic reasons. First, this
3 program is not driven by specific Commission approved regulatory goals. By that
4 I mean that the expense for this program is not necessary to provide safe and
5 reliable service to the ratepayers. Any program or expense funded by ratepayers
6 should provide direct benefits to ratepayers and be essential to the customer's cost
7 of service. Second, there is no discernable benefit to ratepayers. The fact that
8 benefits may materialize for the Company or the community at large is secondary
9 and tangential to the overall intent of the program. Third, the funding of this
10 program can be characterized as an attempt to extract a forced contribution or
11 taxation of ratepayers. Utilities lack the statutory power of taxation and
12 appropriation no matter how well intentioned the cause. To the extent any portion
13 of this program is funded by tax dollars, ratepayers and corporations would be
14 forced to contribute or be taxed a second time. And this time, without direct
15 representation since the ratepayers do not elect the officials and managers of PPL
16 who will have an impact on the decisions regarding the recipients of these grants.
17 Moreover, the Commission has consistently rejected the regulatory recovery of
18 forced contributions. In this regard, the recovery of charitable contributions is
19 routinely denied regulatory recovery.

20
21 **Q. AGAIN, DID PPL PROPOSE THESE SOCIO-ECONOMIC TYPE**
22 **PROGRAMS IN ITS LAST PROCEEDING?**

1 A. Yes. PPL previously requested rate recognition for its Community Betterment
2 Initiative which the Commission denied at Docket No. R-00049255, specifically
3 discussed at pages 45-47 of the Commission's Opinion and Order (entered
4 December 22, 2004).

5

6 **PENNSYLVANIA CAPITAL STOCK TAX (CST)**

7 **Q. WHAT IS YOUR RECOMMENDATION?**

8 A. My recommendation can be broken down into three parts. First, I recommended
9 that the CST rate of 2.89 mills be used in the calculation effective on January 1,
10 2008, as shown on OTS Exhibit No. 2, Schedule 1, instead of the 3.89 mills
11 claimed. Second, I recommended a change to the CST valuation based on a
12 Company error in determining its net worth. Third, I opposed the Company's
13 attempt to iterate Capital Stock tax under proposed rates.

14

15 **Q. DID THE COMPANY PROVIDE REBUTTAL TESTIMONY**
16 **CONCERNING YOUR RECOMMENDATIONS ON CAPITAL STOCK**
17 **TAX?**

18 A. Yes. Mr. Kleha (PPL Statement No. 6-R, pp. 27-31) submitted capital stock tax
19 rebuttal testimony.

20

21 **Q. SUMMARIZE THE COMPANY'S REBUTTAL TESTIMONY.**

1 A. The Company agrees with the correction in determining its net worth and added an
2 additional correction in its calculation of the 2007 net income at present rates.
3 However, the Company only agrees to adopt the January 1, 2008 CST rate of 2.89
4 mills to calculate the Company's future test year capital stock tax liability at
5 present rates, if the incremental increase in capital stock tax liability produced by
6 the proposed revenue is included in the calculation of capital stock tax liability
7 (PPL St. No. 6-R, pp. 29-31). The Company provided Schedule D-13, page 6, in
8 Exhibit future I – Revised. OTS refers to this practice as the iteration of CST
9 under proposed rates. The Capital Stock Tax liability at proposed rates is
10 \$2,167,000. The revised schedule D-13, page 6 reflects an increase of \$155,000
11 (\$2,167,000 - \$2,012,000) additional Capital Stock Tax at proposed rates.

12
13 **Q. DID MR. KLEHA PROVIDE AN UPDATED SCHEDULE FOR CST AT**
14 **PRESENT RATES?**

15 A. Yes. In Exhibit Future I - Revised, Mr. Kleha included Schedule D-12, page 2 of 4
16 which reflects both corrections and calculates PPL's future test year capital stock
17 tax liability at present rates using the OTS proposed rate of 2.89 mills. The end
18 result is an expense for Capital Stock Tax of \$2,012,000. This reflects an
19 adjustment of \$900,000 (\$2,912,000 - \$2,012,000) from the Company's original
20 claim.

1 **Q. DOES OTS ACCEPT THE CAPITAL STOCK TAX AMOUNT**
2 **REFLECTED IN PPL'S EXHIBIT FUTURE I – REVISED, SCHEDULE D-**
3 **12, PAGE 2 OF 4?**

4 A. Yes. OTS recommends the revised Capital Stock Tax liability at present rates of
5 \$2,012,000.

6
7 **Q. DOES OTS ACCEPT THE COMPANY'S RECOMMENDATION TO**
8 **ITERATE CAPITAL STOCK TAX LIABILITY AT PROPOSED RATES?**

9 A. No. As I stated in my direct testimony, Capital Stock Tax does not increase in
10 direct proportion to an increase in revenue. The effect of any approved rate
11 increase will be to increase book income for 2007 in relation to 2006 book
12 income. That book income is averaged with four prior year's book income within
13 the Capital Stock Tax formula. At this point, the increase has been reduced by
14 80% because of the five-year averaging. However this number is only ½ of the
15 formula and is further averaged with net worth. The true tax effect is much less
16 than that presented by the Company. To the best of my knowledge, no other
17 utility iterates Capital Stock Tax in the increase column. To do so will overstate
18 the Capital Stock Tax because of the effects within the Capital Stock Tax formula.

19
20 **Q. WAS THIS ISSUE DISCUSSED IN THE MOST RECENT PPL CASE?**

1 A. Yes. In the Recommended Decision at Docket No.R-00049255, page 92, the
2 Administrative Law Judge reviewed the Company and OTS positions on iterating
3 Capital Stock Tax at proposed rates and agreed that “this addition to revenues
4 should be deleted”. The Commission adopted the ALJ recommendation in its
5 order at Docket No. R-00049255, page 55 (Order entered on December 22, 2004).

6

7 **METER DATA MANAGEMENT SYSTEM**

8 **Q. WHAT IS YOUR RECOMMENDATION?**

9 A. I recommend that the \$4.4 million claim for the MDMS introduction be reduced to
10 an allowance of \$2.4 million. This will reduce the Company’s claim by \$2
11 million.

12

13 **Q. DID THE COMPANY PROVIDE REBUTTAL TESTIMONY**
14 **CONCERNING YOUR RECOMMENDATION TO REDUCE THE**
15 **CONSUMER EDUCATION EXPENSE ASSOCIATED WITH THE METER**
16 **DATA MANAGEMENT SYSTEM?**

17 A. Yes. Mr. Krall (PPL Statement No 5R, pp. 17-21) submitted rebuttal testimony
18 opposing the OTS recommendation to reduce the Company’s claim by \$2 million.

19

20 **Q. SUMMARIZE MR. KRALL’S REBUTTAL TESTIMONY.**

1 A. Mr. Krall offers no additional justification for an annual expense of \$4.4 million.
2 He merely refers back to his direct testimony and repeats the premise that the
3 Company anticipates the need for consumer education beyond the introductory
4 period of 2007. He notes the substantial investment the Company has made in the
5 systems, the benefits customers are already receiving and the fact that more
6 benefits can be derived if the customers are continually educated and utilize these
7 systems.

8

9 **Q. DID MR. KRALL PROVIDE ANY EVIDENCE OF THE EFFECTIVENESS**
10 **OF THE \$3.3 MILLION TELEVISION ADVERTISING CAMPAIGN?**

11 A. No. Mr. Krall has not provided any evidence that the extensive television
12 advertising campaign has effectively resulted in an increase in customer use of the
13 website and customer utilization of the systems available to manage their
14 electricity use and reduce customer costs.

15

16 **Q. DID MR. KRALL PROVIDE ANY PROOF OF A CONTINUING**
17 **EDUCATION PLAN (WHICH COSTS \$4.4 MILLION ANNUALLY) THAT**
18 **WILL ACHIEVE COMPANY OR INDUSTRY BENCHMARKS**
19 **RELATIVE TO THE EFFECTIVENESS OF CUSTOMER MANAGEMENT**
20 **OF THEIR ELECTRICITY USE AND COSTS?**

21 A. No.

1 **Q. DOES OTS MAINTAIN THE RECOMMENDATION OF AN**
2 **ALLOWANCE OF \$2.4 MILLION FOR THE CONSUMER EDUCATION**
3 **EXPENSE ASSOCIATED WITH THE METER DATA MANAGEMENT**
4 **SYSTEM?**

5 A. Yes. As I stated in my direct testimony, I reviewed the budgeted expenditures for
6 the future test year and I recognized that the initial cost to advertise a new program
7 usually exceeds future costs to maintain and develop an existing program. As a
8 result, I discounted the need for extensive television advertising. Again, in my
9 opinion, television is an expensive media and I believe less effective than print for
10 reinforcement efforts to directly inform customers of any changes to the MDMS.
11 Furthermore, I suggest the Company focus more on the use of informative inserts
12 (which go directly to the customer) that the Company already provides.

13
14 **Q. PLEASE REITERATE THE BASIS FOR YOUR RECOMMENDATION?**

15 A. The Company has stated that “after the Company has introduced the customer
16 interface to its customers, there should be no future on-going introductory costs”
17 (OTS Ex. No. 2, Sch 4). Programs to be added to the MDMS are speculative and
18 future costs are not measurable. Consequently, the Company’s claim is based on
19 advertising dollars spent to inform its customers of this program and does not
20 provide a reasonable basis for estimating future costs. Customers are already
21 aware of PPL’s website and can navigate to the MDMS without the Company

1 spending millions on advertising in the future. Moreover, interested customers
2 could already perform most of these functions before the MDMS goes online.

3

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 A. Yes.

OTS Statement No. 3
Witness: Joseph Kubas
Hog DC AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Direct Testimony

of

Joseph Kubas

Office of Trial Staff

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

PRESENT RATE REVENUE

**DOCUMENT
FOLDER**

1 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Joseph Kubas and my business address is Pennsylvania Public Utility
3 Commission, P. O. Box 3265, Harrisburg, PA 17105-3265.

4

5 **Q. IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am employed as a Fixed Utility Valuation Engineer with the Office of Trial Staff
7 (OTS).

8

9 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

10 A. An outline of my education and employment experience is attached to this direct
11 testimony as Appendix A.

12

13 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE PROCEEDINGS.**

14 A. OTS was established by the Legislature as a quasi-independent prosecutorial arm
15 of the Pennsylvania Public Utility Commission (Commission) and is responsible
16 for protecting the public interest in rate proceedings. The OTS analysis in this
17 proceeding is based on its responsibility to represent the public interest. This
18 responsibility requires the balancing of the interests of ratepayers and the
19 Company.

20

21 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

1 A. The purpose of my direct testimony is to address the present rate revenue claimed
2 by PPL Electric Utilities Corporation (PPL or Company) as part of its present
3 request for \$83,573,000 in additional annual distribution revenue filed March 29,
4 2007.

5
6 **Q. WHAT IS A TEST YEAR?**

7 A. A test year is a specific twelve-month period, established by 52 Pa. Code §§
8 53.52(b)(2) and 53.56(a), that jurisdictional public utilities use as the basis for
9 operating statements filed with base rate cases. The operating statements may be
10 based on historic data, or on a combination of historic and forecasted data. When
11 the statements are based on historic data, the test year is referred to as a “historic
12 test year.” Unless granted special permission by the Commission to extend the
13 timeframe, the period ending date of a historic test year may be no more than 120
14 days from the date that the rate case is filed. A “future test year” is the twelve-
15 month period immediately following the historic test year period. During the
16 course of proceedings, utilities must submit the results of their actual experience in
17 the future test year for each quarter starting with the day following the end of the
18 required experienced twelve-month period. A utility can elect either as the basis
19 for attempting to support a rate increase.

20
21 **Q. WHAT IS PPL’S CLAIMED TEST YEAR IN THIS PROCEEDING?**

1 A. In this proceeding, the Company has selected a future test year ending December
2 31, 2007.

3
4 **Q. WHAT IS PPL'S CLAIM FOR PRESENT RATE REVENUES FOR THE**
5 **TEST YEAR ENDING DECEMBER 31, 2007?**

6 A. PPL is claiming that it will receive \$673,618,000 in present rate distribution
7 revenue including miscellaneous revenue (PPL Exhibit Future 1, Schedule D-1,
8 line 1, column 6).

9
10 **Q. IS THIS \$673,618,000 BASED ON A PROJECTED NUMBER OF**
11 **CUSTOMERS AND PROJECTED SALES VOLUMES?**

12 A. Yes. The Company projected the number of customers and projected normalized
13 usage by class to arrive at the \$673,618,000 in total present rate distribution
14 revenue (PPL St. No. 5, PPL Ex. Future 1, D-3 and PPL DRW-1). In my
15 professional opinion, an accurate customer count and sales volume data are critical
16 to the correct calculation of present and proposed revenue.

17
18 **PRESENT RATE REVENUE**

19 **Q. HOW DID THE COMPANY ARRIVE AT \$673,618,000 IN PRESENT RATE**
20 **REVENUE FOR THE YEAR ENDING DECEMBER 31, 2007?**

1 A. The Company began by providing a schedule showing the number of customers
2 and usage by customer class (PPL Attachment IV-C). The Company applied
3 billing factors, removed the State Tax Adjustment Surcharge (STAS) revenue, and
4 projected other various annualizations to the revenue from this billing to arrive at
5 the \$673,618,000 present rate distribution revenues on PPL Ex Future 1, D-1, line
6 1, column 6.

7
8 **Number of Customers**

9 **Q. HOW MANY CUSTOMERS DID THE COMPANY ORIGINALLY**
10 **PROJECT IT WOULD ADD IN 2007?**

11 A. The Company originally projected that it would add 5,046 customers in 2007,
12 which is the difference between the 1,382,814 customers projected for 2007 shown
13 on PPL JMK-2, page 162 and the 1,377,768 actual customers in 2006 shown on
14 PPL JMK-1, page 158.

15
16 **Q. WHAT ANNUALIZATION ADJUSTMENT TO DISTRIBUTION**
17 **REVENUE DID THE COMPANY ORIGINALLY PROPOSE AS A RESULT**
18 **OF THESE 5,046 ADDITIONAL CUSTOMERS?**

19 A. The Company's original 2007 annualization included adjustments to annualize
20 usage and the number of customers for 2007. The total 2007 annualization of
21 \$1,724,000 was determined on PPL Ex. DRW-1, p. 5, column 11. As described

1 above, this \$1,724,000 annualization adjustment was then added to the adjusted
2 billing data revenue to arrive at the \$673,618,000 present rate distribution revenue
3 shown on PPL Ex. Future 1, Schedule D-1, line 1, column 6.

4
5 **Q. DID THE COMPANY RESPOND TO A DATA REQUEST THAT**
6 **CORRECTED THE PROJECTED GAIN AND LOSS OF CUSTOMERS BY**
7 **CLASS FOR 2007 AND CORRESPONDING 2007 ANNUALIZATION?**

8 A. Yes. The Company's response to OTS-RE-3 indicates that for the twelve months
9 ending December 31, 2007, the Company projected the incorrect number of
10 customers in the filing. The Company's response is provided as OTS Ex. No. 3,
11 Sch. 1. Revising the number of projected 2007 customers upward, in the response
12 to OTS Ex. No. 3, the Company increased the 2007 annualization adjustment to
13 \$2,910,000, which is \$1,186,000 more than the \$1,724,000 shown in the original
14 filing ($\$2,910,000 - \$1,724,000 = \$1,186,000$) (OTS Ex. No. 3, Sch. 1, p. 2).

15
16 **Q. WHAT DO YOU RECOMMEND CONCERNING THIS \$673,618,000**
17 **PRESENT RATE REVENUE?**

18 A. I recommend that the Company increase present rate revenue by \$1,186,000 to
19 \$674,804,000 to reflect the difference in the original filing and the corrected
20 annualization adjustment shown on the Company's response to OTS-RE-3.

1 **Q. AFTER THIS CORRECTION, DO YOU AGREE WITH THE**
2 **CORRECTED NUMBER OF RESIDENTIAL CUSTOMERS?**

3 A. No. The Company's response to OTS-RE-3-D indicates that the Company is
4 projecting it will add 9,805 residential customers for a total of 1,199,707
5 (1,189,902 + 9,805) residential customers for the year ending December 31, 2007
6 The Company's response is provided as OTS Ex No. 3, Sch. 1.

7
8 **Q. HOW MANY MORE RESIDENTIAL CUSTOMERS DO YOU BELIEVE**
9 **THE COMPANY WILL ADD IN 2007?**

10 A. I believe that a more reasonable estimate is that 11,653 residential customers will
11 be added in 2007, which is 1,848 (11,653 – 9,805) more residential customers than
12 is reflected in the Company's revised annualization adjustment.

13
14 **Q. HOW DID YOU DETERMINE THAT IT IS MORE LIKELY THAT THE**
15 **COMPANY WILL ADD 11,653 RESIDENTIAL CUSTOMERS IN 2007?**

16 A. The basis for my projection is the actual two-year average gain of residential
17 customers. The Company's response to OTS-RE-2 indicates that the Company
18 added 11,904 residential customers in 2005 and 11,400 residential customers in
19 2006 or an average of 11,653 residential customers per year. The Company's
20 response is provided as OTS Ex. No. 3, Sch. 2.

1 **Q. WHAT WOULD HAVE BEEN THE EFFECT UPON YOUR PROJECTION**
2 **IF YOU HAD USED A THREE-YEAR PERIOD OF DATA RATHER THAN**
3 **THE TWO-YEAR-PERIOD YOU SELECTED?**

4 A. The projected number of customers added in 2007 would have been even greater if
5 year 2004 data was incorporated into the calculation to determine the average
6 number of residential customers that would be added in 2007. The Company's
7 response to OTS-RE-2 reflects that the Company added 16,672 residential
8 customers in 2004, which was more than was added in either 2005 or 2006.
9 Therefore, in order to be conservative and to incorporate the Company's claim that
10 the increase in residential customers may be slowing, I selected a two-year period
11 on which to base my projection.

12
13 **Q. WHAT IS THE TOTAL INCREASE IN PRESENT RATE DISTRIBUTION**
14 **REVENUE DO YOU RECOMMEND?**

15 A. My recommendation to add an additional 1,848 residential customers to the
16 Company's revised customers count increases present rate distribution revenue by
17 \$589,800 (OTS Ex. No. 3, Sch. 3, column H, line, 7).

18
19 **Q. HOW DID YOU DETERMINE THE \$589,800 INCREASE IN PRESENT**
20 **RATE DISTRIBUTION REVENUE?**

1 A. My calculation recognizes the additional 1,848 customers who will pay a \$7.96 per
2 month customer charge that will produce \$176,500 in present rate customer charge
3 revenue (OTS Ex. No. 3, Sch. 3, line 2). The Company's historic billing analysis
4 shows that the Company's 1,173,540 residential customers used 13,307,098,300
5 kWh of electricity or approximately 945 kWh per customer per month
6 $(13,307,098,300 / 1,173,540 / 12)$ (OTS Ex. No. 3, Sch. 3, columns B and F, line
7 6). The application of the distribution rate blocks to the usage in each block for
8 the additional usage of the 1,848 residential customers produces \$413,300 in
9 present rate usage revenue (OTS Ex. No. 3, Sch. 3, lines 3-5). Therefore, by
10 January 2008, when the proposed rates will become effective, total present rate
11 customer charge and usage revenue will increase \$589,800 $(\$176,500 + \$413,300)$
12 as a result of the additional 1,848, residential customers (OTS Ex. No. 3, Sch. 3,
13 column H, line 7)

14

15 **Late Payment Revenue**

16 **Q. WHAT ARE LATE PAYMENT FEES?**

17 A. A public utility such as PPL typically assesses a separate charge for any customers
18 who do not pay their bill on time. The term late payment revenue refers to the
19 revenue received by the Company as a result of this charge.

20

21 **Q. WHAT IS THE COMPANY'S CLAIM FOR LATE PAYMENT REVENUE?**

1 A. The Company is claiming \$8,923,000 for late payment revenue for the year ending
2 December 31, 2007 (PPL Ex. Future 1, Sch. D-3, p. 1, line 10).

3

4 **Q. HOW DID THE COMPANY DETERMINE THE \$8,923,000 CLAIM?**

5 A. The Company's response to OCA Set VII-3 indicates that the Company used the
6 actual three-year weighted average of revenue and late payment revenue received
7 in 2003, 2004, and 2005 to determine the \$8,923,000 claim (OTS Ex. No. 3, Sch.
8 4).

9

10 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

11 A. No.

12

13 **Q. WHAT PROJECTED AMOUNT OF LATE PAYMENT REVENUE DO**
14 **YOU RECOMMEND?**

15 A. I recommend that the Company reflect \$9,430,000 of late payment for the year
16 ending December 31, 2007, which is an increase of \$507,000 over the \$8,923,000
17 claimed by the Company.

18

19 **Q. HOW DID YOU DETERMINE THE \$9,430,000 LATE PAYMENT**
20 **REVENUE PROJECTION?**

1 A. My calculation used the same methodology as the Company used to determine the
2 \$8,923,000 except that I used the actual three-year weighted average of revenue
3 and late payment revenue received in 2004, 2005, and 2006 to determine the
4 \$9,430,000 late payment revenue for the year ending December 31, 2007 (OTS Ex.
5 No. 3, Sch. 5, column C, line 9).

6

7 **Q. WHY DID YOU USE DATA FROM 2004, 2005 AND 2006 TO PROJECT**
8 **THE LEVEL OF LATE PAYMENT REVENUE?**

9 A. In my professional opinion, data from the years 2004, 2005, and 2006 is more
10 recent and a better indicator of what is likely to occur in 2007. Also, in the
11 Company's last base rate case at Docket No. R-00049255, Commission order
12 entered December 22, 2004, the Commission accepted the use of the most recent
13 three years worth of data to project late payment revenue.

14

15 **Gain on Sale of Land**

16 **Q. DID THE COMPANY REALIZE A GAIN ON THE SALE OF LAND IN**
17 **2007?**

18 A. Yes. The Company's responses to OCA Set I-1 and OCA Set VI-3 indicates that
19 the Company realized a \$2,460,000 gain on the sale of land in the first quarter of
20 2007 (OTS Ex. No. 3. Sch. 6).

1 **Q. DID THE COMPANY REFLECT ANY GAIN ON THE SALE OF**
2 **PROPERTY ON THE INCOME STATEMENT IN THIS CASE?**

3 A. No.

4
5 **Q. WHAT DO YOU RECOMMEND CONCERNING THIS \$2,460,000 GAIN**
6 **ON THE SALE OF LAND?**

7 A. I recommend that the Company reflect the gain on the sale of land in the income
8 statement. Specifically I recommend that the \$2,460,000 gain be amortized over
9 three years resulting in \$820,000 of gain being reflected in Account 411.6 - Gains
10 From The Disposition of Utility Plant on PPL Ex. Future 1, Sch. B-2, p. 1). The
11 amortization period would begin January 1, 2008.

12
13 **Q. WHY DO YOU RECOMMEND THAT THE GAIN FROM THE SALE OF**
14 **LAND BE INCLUDED AS INCOME?**

15 A. My recommendation is based upon the provisions of 18 C.F.R Pt. 101, 25, Electric
16 Plant Instructions 7. E. that describes the need to record the gain or loss resulting
17 in the sale of land, where it provides in full:¹

¹ In full, Title 18: Conservation of Power and Water Resources, Part 101—Uniform System Of Accounts Prescribed For Public Utilities And Licensees Subject To The Provisions Of The Federal Power Act, General Instructions, 25.Accounting for asset retirement obligations, Electric Plant Instructions, 7. Land and Land Rights, Subsection E.

1 E. Any difference between the amount received from the sale of land or
2 land rights, less agents' commissions and other costs incident to the sale,
3 and the book cost of such land or rights, shall be included in account 411.6,
4 Gains from Disposition of Utility Plant, or 411.7, Losses from Disposition
5 of Utility Plant when such property has been recorded in account 105,
6 Electric Plant Held for Future Use, otherwise to account 421.1, Gain on
7 Disposition of Property or 421.2, Loss on Disposition of Property, as
8 appropriate, unless a reserve therefore has been authorized and provided.
9 Appropriate adjustments of the accounts shall be made with respect to any
10 structures or improvements located on land sold.
11

12 **Q. WHY DO YOU RECOMMEND THE AMOUNT BE AMORTIZED OVER**
13 **THREE YEARS?**

14 A. Because this is a non-recurring event, it will not reoccur each year that rates are in
15 effect. Therefore, I recommend a three-year amortization period to match the
16 three-year period that rates are likely to be in affect, allowing the Company to
17 spread the gain from the sale of the land over the same three-year period. The
18 selection of a three-year period is also supported by the Company's use of a three-
19 year normalization period for rate case expense.
20

21 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

22 A. Yes.

JOSEPH KUBAS

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
PO BOX 3265
HARRISBURG, PA 17105-3265**

Education: Bachelor of Science in Civil Engineering Technology, 1985, University of Pittsburgh at Johnstown, Johnstown, PA.

Continuing

Education: Legal Principles and Practices of Surveying at the University of Maryland. Economics, Accounting, Lotus, at the Howard Community College. 33 Credit hours of accounting at the University of Pittsburgh at Johnstown. Managing Multiple Priorities at the Pennsylvania State University. Various PA-PUC and Utility Company Seminars.

Professional Exams: Engineer In Training, 1985,
Uniform Certified Public Accounting Exam, 1993.

Experience: **FIXED UTILITY VALUATION ENGINEER III**
December 1999 - Present

Pennsylvania Public Utility Commission
Office of Trial Staff

Duties: Perform the duties of a Fixed Utility Valuation Engineer III in the Office of Trial Staff (OTS).

Analyze and review valuation engineering, and rate structure data submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates or alternative forms of regulation, by researching, analyzing, and reviewing rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues. Recommend adjustments to rate base, depreciation, revenue and rate

structure and other issues concerning utilities. Prepare testimony and exhibits for the purpose of establishing the OTS positions in formal and informal proceedings before the Commission. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

Experience: FIXED UTILITY VALUATION ENGINEER II
April 1996 - December 1999

Pennsylvania Public Utility Commission
Office of Trial Staff and Bureau of Fixed Utility Services

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Office of Trail Staff (OTS) and Bureau of Fixed Utility Services.

Experience: FIXED UTILITY VALUATION ENGINEER TRAINEE, I & II May 1993 -
March 1996

Pennsylvania Public Utility Commission
Office of Trial Staff
Telecommunications and Water Division

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Rate Structure/Engineering Section of the Telecommunications and Water Division of the Office of Trial Staff (OTS).

Experience: CIVIL ENGINEER
May 1985 - January 1991

Clark Finefrock & Sackett Inc.
7135 Minstrel Way
Columbia, MD 21045

Duties: Engineering, Surveying, Computer, and Field Inspection work related to land development projects in Maryland.

Testimony Before the Pennsylvania Public Utility Commission

1.	National Utilities Inc. (Water)	R-00953416	April 1996
2.	Consumer Pennsylvania Water Company - Roaring Creek Division	R-00973869	May 1997
3.	Philadelphia Suburban Water Company	R-00973952	August 1997
4.	Bell Atlantic - Pennsylvania Inc.	P-00971307	March 1998
5.	City of Bethlehem- Bureau of Water	R-00984375	September 1998
6.	Pennsylvania Telephone Association - Chapter 30 Plan	P-00981425	December 1998
7.	GTE North Inc. Telephone Chapter 30 Plan	P-00981449	February 1999
8.	Pennsylvania American Water Co.	R-00994638	August 1999
9.	Philadelphia Suburban Water Co.	R-00994868	February 2000
10.	PG Energy (Gas)	R-00005119	June 2000
11.	Pennsylvania American Water - Coatesville Acquisition	A-212285-F07201	July 2000
12.	T. W Phillips Gas and Oil Company	R-00005459	October 2000
13.	Verizon North - Chapter 30 Plan	P-00001854	January 2001
14.	Philadelphia Gas Works	R-00006042	April 2001
15.	PFG Gas Inc. & Penn Fuels Gas Co.	R-00013679	July 2001
16.	Pennsylvania American Water Co.	R-00016339	August 2001
17.	Philadelphia Suburban Water Co.	R-00016750	February 2002
18.	Philadelphia Gas Works	R-00017034	May 2002
19.	PFG Gas Inc. & Penn Fuels Gas Co	R-00027389	July 2002
20.	Verizon - Pennsylvania, Inc.	P-00021973	September 2002
21.	Verizon - Pennsylvania, Inc.	P-00937105-F0002	January 2003
22.	Pennsylvania American Water Co.	R-00027982	April 2003
23.	Dominion Peoples 1307(f)	R-00038170	May 2003
24.	Verizon PA / Verizon North	C-20027195	July 2003
25.	National Fuel Gas Distribution, Inc.	R-00038168	July 2003
26.	Aqua Pennsylvania Inc.	R-00038805	February 2004
27.	Dominion Peoples 1307 (f)	R-00049153	May 2004
28.	PPL Electric Utilities	R-00049255	June 2004
29.	National Fuel Gas Distribution, Inc.	R-00049656	December 2004
30.	City of Lancaster - Sewer	R-00049862	March 2005
31.	Dominion Peoples 1307(f)	R-00050267	May 2005
32.	Verizon PA / Verizon North	C-20027195	June 2005
33.	PPL Gas Utilites Inc. 1307(f)	R-00050540	July 2005
34.	United Telephone	A-313200-F0007	February 2006
35.	Aqua Pa	R-00051030	February 2006

36.	T.W. Phillips 1307(f)	R-00051134	March 2006
37.	City of Dubois	R-00050671	May 2006
38.	T.W. Phillips	R-00051178	May 2006
39.	The Peoples Natural Gas Co. 1307(f)	R-00061301	June 2006
40.	Meted/Penelec	R-00061366	July 2006
		R-00061367	
41.	The York Water Company	R-00061322	July 2006
42.	PPL Gas Utilities Corporation	R-00061398	August 2006
43.	National Fuel Gas Distribution, Inc.	R-00061493	September 2006
44.	Pennsylvania American Water Co.	P-00062241	January 2007
45.	Philadelphia Gas Works	R-00061931	March 2007

OTS Exhibit No. 3
Witness: Joseph Kubas

Hbg TX AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

**Exhibits to Accompany the
Direct Testimony**

of

Joseph Kubas

Office of Trial Staff

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

Present Rate Revenue

J. M. Kleha
D. R. Woodruff

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set I,
Dated April 16, 2007**

Docket No. R-00072155

Q.OTS-RE-3-D. Refer to the actual number of customers by class shown on PPL Exhibit JMK-1, page 158 for the year ending December 2006 and the projected number of customers for the year ending December 2007 shown on PPL Exhibit JMK-2, page 162. Provide an explanation and all supporting information used to project each of the following changes in the number of customers by rate class during 2007:

A. RS:	4,020;
B. RTS:	275;
C. GTS-1, BL:	503;
D. GS-3, IS-1:	193;
E. LP-4:	-14;
F. LP-5:	-3;
G. GH:	92;
H. SL/AL:	-20.

A.OTS.RE-3-D. The customer count forecast provided for Exhibit JMK 2 was incorrect. It was a mid-year 2007 customer count forecast, rather than an end-of-year 2007 customer count forecast. In addition, adjustments for closed rates were not correctly applied. This correction primarily affects the 2007 annualization adjustment shown in Exhibit DRW 1, pages 5 and 6. Accordingly, PPL Electric is providing a corrected 2007 annualization as Attachment 1. The correct changes in the number of customers by rate class during 2007 are as follows:

A. RS:	9,805;
B. RTS:	-81;
C. GS-1, BL:	1,482;
D. GS-3, IS-1:	90;
E. LP-4:	26;
F. LP-5:	0;
G. GH:	-52;
H. SL/AL:	26.

**PPL Electric Utilities Corporation
2007 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	\$ 389,428,996	13,782,978,000	\$ 0.0283	62,775,787	\$ 1,773,689	\$ 0.0175	56,566,444	\$ 988,197	119,342,231	\$ 2,761,885
RTS	\$ 3,704,805	385,602,000	\$ 0.0096	(214,973)	\$ (2,065)	\$ (0.0004)	(1,128,224)	\$ 443	(1,343,197)	\$ (1,622)
RTD	\$ 137,526	5,013,000	\$ 0.0274	21,430	\$ 588	\$ 0.0162	(28,810)	\$ (466)	(7,381)	\$ 122
GS-1	\$ 75,277,490	1,949,520,000	\$ 0.0386	(3,466,091)	\$ (133,837)	\$ 0.0112	9,873,247	\$ 111,056	6,407,157	\$ (22,781)
GS-3	\$ 116,047,630	8,693,918,000	\$ 0.0133	22,994,658	\$ 306,936	\$ 0.0049	17,510,017	\$ 86,374	40,504,675	\$ 393,310
LP-4	\$ 30,559,230	5,868,659,000	\$ 0.0052	(13,702,319)	\$ (71,351)	\$ 0.0044	73,499,583	\$ 321,704	59,797,264	\$ 250,353
ISP	\$ 1,817,693	343,821,000	\$ 0.0053	3,117,262	\$ 16,480	\$ 0.0044	-	\$ -	3,117,262	\$ 16,480
LP-5	\$ 1,719,341	3,194,563,000	\$ 0.0005	(12,603,034)	\$ (6,783)	\$ 0.0007	14,789,644	\$ 9,843	2,186,609	\$ 3,060
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	(57,881)	\$ (399)	\$ 0.0071	-	\$ -	(57,881)	\$ (399)
LP-6	\$ 139,013	363,650,000	\$ 0.0004	(9,497,044)	\$ (3,630)	\$ 0.0004	-	\$ -	(9,497,044)	\$ (3,630)
LPEP	\$ 331,971	72,000,000	\$ 0.0046	620,000	\$ 2,859	\$ -	-	\$ -	620,000	\$ 2,859
ISM	\$ 537,964	426,000,000	\$ 0.0013	4,821,148	\$ 6,088	\$ -	-	\$ -	4,821,148	\$ 6,088
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	(258,922)	\$ (11,279)	\$ -	(875,875)	\$ -	(1,134,797)	\$ (11,279)
SA	\$ 3,393,093	22,878,000	\$ 0.1483	-	\$ -	\$ 0.1483	-	\$ -	-	\$ -
SM	\$ 890,277	5,699,000	\$ 0.1562	208,490	\$ 32,570	\$ 0.1562	(88,129)	\$ (13,767)	120,361	\$ 18,802
SHS	\$ 10,988,709	48,496,000	\$ 0.2266	(3,007,551)	\$ (681,481)	\$ 0.2266	514,165	\$ 116,505	(2,493,386)	\$ (564,976)
SE	\$ 1,399,587	35,699,000	\$ 0.0392	2,206,692	\$ 86,514	\$ 0.0392	939,447	\$ 36,831	3,146,140	\$ 123,345
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	277,937,000	\$ 0.0207	(2,094,018)	\$ (43,328)	\$ 0.0124	(2,268,256)	\$ (28,229)	(4,362,274)	\$ (71,557)
GH-2	\$ 1,357,692	64,352,000	\$ 0.0211	(110,761)	\$ (2,337)	\$ 0.0009	(483,648)	\$ (442)	(594,409)	\$ (2,778)
Total	\$ 644,815,113	37,535,979,000		85,150,108	\$ 1,282,000		168,819,604	\$ 1,628,048	253,969,712	\$ 2,910,049

Note: Excludes Company Use

J. M. Kleha
D. R. Woodruff

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set I,
Dated April 16, 2007**

Docket No. R-00072155

Q.OTS-RE-2-D. Provide a schedule showing the actual number of customers by rate class for the calendar years ending 2004 and 2005 in the same format as the schedule shown on PPL Exhibit JMK-1, page 158.

A.OTS-RE-2-D. See Attachment 1.

PPL ELECTRIC UTILITIES CORPORATION
 DETERMINATION OF CUSTOMER ALLOCATORS
 FOR COST ALLOCATION PURPOSES
 12 MONTHS ENDED 12/31/04

<u>RATE CLASS</u>	<u>ALLOCATOR LABEL</u>	<u>END OF YEAR CUSTOMERS C10</u>	<u>SECONDARY CUSTOMERS C30</u>
1 RS, RTD		1,166,597	1,166,597
2 RTS		14,044	14,044
3 GS-1, BL		142,651	142,651
4 GS-3, IS-1		22,121	22,121
5 LP-4		974	0
6 IS-P		29	0
7 LP-5		109	0
8 IS-T		29	0
9 LP-6		3	0
10 LPEP		1	0
11 ISA		2	0
12 GH		3,442	3,442
13 SL/AL		1,317	1,317
14 L5-S		7	0
15 TOTAL PPUC		1,351,326	1,350,172
16 66 KV RESALE		10	
17 12 KV RESALE		8	
18 TOTAL SYSTEM		<u>1,351,344</u>	<u>1,350,172</u>

PPL ELECTRIC UTILITIES CORPORATION
 DETERMINATION OF CUSTOMER ALLOCATORS
 FOR COST ALLOCATION PURPOSES
 12 MONTHS ENDED 12/31/05

<u>RATE CLASS</u>	<u>ALLOCATOR LABEL</u>	<u>END OF YEAR CUSTOMERS C10</u>	<u>SECONDARY CUSTOMERS C30</u>
1 RS, RTD		1,178,502	1,178,502
2 RTS		13,987	13,987
3 GS-1, BL		144,869	144,869
4 GS-3, IS-1		22,253	22,253
5 LP-4		1,000	0
6 IS-P		28	0
7 LP-5		107	0
8 IS-T		18	0
9 LP-6		3	0
10 LPEP		1	0
11 ISA		1	0
12 GH		3,391	3,391
13 SL/AL		1,353	1,353
14 L5-S		6	0
15 TOTAL PPUC		1,365,519	1,364,355
16 66 KV RESALE		10	
17 12 KV RESALE		8	
18 TOTAL SYSTEM		<u>1,365,537</u>	<u>1,364,355</u>

PPL Electric Utilities Corporation

**Additional OTS Revenue As A Result of Additional Residential Customers
R-00072155**

	Units	Rate	Revenue	Average Number of Customers	Usage Per Customer Per Month	OTS Additional Customers	OTS Additional Annual Revenue
(A)	(B)	(C)	(D)	(E = B/12)	(F = I/B/12)	(G)	(H = C*F*G*12)
1	<u>Residential Distribution</u>						
2	Total Bills	14,082,483	\$7.96	\$112,096,565	1,173,540	1,848	\$176,521
3	First 200 kWh	2,668,989,214	\$0.02183	\$58,264,035	1,173,540	190	\$91,750
4	Next 600 kWh	5,714,018,120	\$0.01975	\$112,851,858	1,173,540	406	\$177,710
5	Over 800 kWh	4,924,090,966	\$0.01855	\$91,341,887	1,173,540	350	\$143,838
6	Subtotal Distribution	<u>13,307,098,300</u>		<u>\$262,457,780</u>	<u>945</u>		<u>\$413,298</u>
7	Total Distribution			\$374,554,345			<u>\$589,819</u>

D. A. Cunningham

**PPL Electric Utilities Corporation
 Response to Interrogatories of the
 Office of Consumer Advocate, Set VII,
 Dated June 1, 2007**

Docket No. R-00072155

Q.3. With reference to the response to OTS-RE-33-D, please provide documentation showing the derivation of the \$8,923,000 late payment revenues.

A.3.

(Thousands of Dollars)			
12 months ended	Total Revenue Net of Provision For Refund	Late Payment Revenue	Three-year weighted average
12/31/05	\$ 3,100,200	\$ 8,784	
12/31/04	2,795,962	8,165	
12/31/03	2,739,050	7,728	
	\$ 8,635,212	\$ 24,674	0.2857%
2007 Projection for Late Payment Revenue			
Projected Sales Revenue	\$ 3,125,767		
Less: Sales to PPL Generation	3,079		
Adjusted Revenue Projection	\$ 3,122,688	\$ 8,923	0.2857%

PPL Electric Utilities Corporation

**Actual Historic and Projected Late Payment Revenue
 R-00072155
 (\$1,000)**

	Year	Actual Revenue	Actual Late Payment Revenue	Average Late Payment Percent
	(A)	(B)	(C)	(D)
1	2004	\$2,795,962	\$8,165	0.292%
2	2005	\$3,100,200	\$8,784	0.283%
3	2006	\$3,063,338	\$10,107	0.330%
4	Totals	<u>\$8,959,500</u>	<u>\$27,056</u>	0.302%
5	Projected 2007 Present Rate Revenue (PPL Ex. Fut. D-3, page 1)		\$3,125,920	
6	Sales to PPL Generation		<u>-\$3,079</u>	
7	Adjusted Revenue Projection		\$3,122,841	
8	Three Year Average Percent From Above		0.302%	
9	OTS Projected Late Payment Revenue		<u>\$9,430</u>	
10	Company Claim		\$8,923	
11	OTS Adjustment		<u>\$507</u>	

J. R. Schadt

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set I,
Dated April 25, 2007**

Docket No. R-00072155

Q.1. With reference to page 15, lines 10 to 12 of Mr. Schadt's direct testimony, please indicate the tentative dates on which quarterly comparisons of actual results to budget will be available. To the extent that the actual to budget comparison for the first quarter of 2007 is available, please provide it.

A.1. See Attachment 1 for the 1st quarter update. Tentative dates for the availability of actual to budget comparisons for the remaining quarters of 2007 are:

2nd quarter – August 2, 2007

3rd quarter – November 1, 2007

4th quarter – February 28, 2008

Attachment 1

PPL ELECTRIC UTILITIES CORPORATION
Budget to Actual Comparison - March 31, 2007
(Thousands of Dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Electric Revenue	\$741,287	\$772,313	\$31,026 (A)
Wholesale & Energy Trading	750	639	(111)
Energy Related Businesses-Revenue		5	5
Intercompany Sales	37,115	36,772	(343)
Total Operating Revenues	<u>779,152</u>	<u>809,729</u>	<u>30,577</u>
Operating Expenses			
Electric Fuel			
Cost of Natural Gas & Propane			
Energy Purchases - External	52,349	51,029	(1,320)
Energy Purchases - Internal	485,917	480,948	15,031 (A)
O&M Expense	91,872	92,064	392
Amort. of Transition Costs/Def Credits	412	(337)	(749)
Depreciation	32,289	32,359	60
Taxes Other Than Income	52,143	53,901	1,758 (A)
Energy Related Businesses		1	1
Total Operating Expenses	<u>684,762</u>	<u>708,688</u>	<u>18,173</u>
Income from Operations	<u>84,360</u>	<u>99,784</u>	<u>15,404</u>
Other Income and (Deductions)	3,120	6,825	3,705 (B)
Interest Expense	<u>23,941</u>	<u>25,108</u>	<u>1,167</u>
Income Before Income Taxes	63,539	81,481	17,942
Income Taxes	24,767	30,324	5,557 (C)
Minority Interest			
Income Before Extraordinary Items and Preferred Dividends	38,772	61,157	12,385
Extraordinary Item, net of income taxes			
Preferred and Preference Stock Dividend Requirements	4,518	4,517	(1)
Net Income	<u>\$34,254</u>	<u>\$46,640</u>	<u>\$12,386</u>

(A) Electric revenues, purchased power costs and gross receipts taxes were higher due to favorable weather impacts.

(B) Other income was higher due to the unbudgeted gain on the sale of land.

(C) Income tax variance caused by variance in income.

J. R. Schadt

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set VI,
Dated May 24, 2007**

Docket No. R-00072155

- Q.3. With regard to the sale of land shown on Attachment 1 to the response to OCA I-1,**
- A. Please identify the account in which the land was recorded prior to the sale.**
 - B. Please indicate whether this was land on which the Company was allowed to accrue AFUDC.**
 - C. Please identify the amount of the gain on the sale of the land and what amount the Company plans to pass through to ratepayers.**
- A.3. A. Account 121 - Nonutility Property.**
- B. AFUDC was not accrued for this property.**
 - C. The gain on the sale of this property was \$2,460,058. This gain was recorded in Other Income and (Deductions) and is not included in the Company's cost of service claim.**

OTS Statement No. 3-SR

Witness: Joseph Kubas

Hyg JK AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Surrebuttal Testimony

of

Joseph Kubas

Office of Trial Staff

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

**REVENUE
PRESENT RATE REVENUE**

1 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Joseph Kubas and my business address is Pennsylvania Public Utility
3 Commission, P.O. Box 3265 Harrisburg, PA 17105-3265.

4
5 **Q. ARE YOU THE SAME JOSEPH KUBAS WHO FILED OTS STATEMENT
6 NO. 3 ON JULY 6, 2007?**

7 A. Yes.

8
9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony filed by
11 Joseph R. Schadt and David F. Woodruff on behalf of PPL Electric Utilities
12 Corporation (PPL or Company) concerning the number of residential customers, late
13 payment revenue, and gain on sale of land.

14
15 **Number of Customer**

16 **Q. HOW MANY RESIDENTIAL CUSTOMERS DID THE COMPANY
17 PROJECT IT WILL ADD IN 2007?**

18 A. The Company projected that it will add 9,805 residential customers in 2007.

1 **Q. WHAT DID YOU RECOMMEND CONCERNING THE NUMBER OF**
2 **CUSTOMERS AND CORRESPONDING INCREASE TO PRESENT RATE**
3 **REVENUE?**

4 A. I determined based on a two year historical average that it is more likely that the
5 Company would add 11,653 customers, which is 1,848 more residential customers
6 than the Company projects. Therefore, I recommended that that present rate
7 revenue be increased by \$589,800 to reflect the additional 1,848 customers the
8 Company will have in January 2008 (OTS St. No. 3, p. 7).

9
10 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION?**

11 A. Yes. PPL Witness David R. Woodruff disagreed with my recommendation and
12 stated that he believes that PPL should only reflect 9,805 residential customers.
13 He provided three arguments attempting to support his claim that the Commission
14 should accept the 9,805 residential customer growth projection (PPL St. 4-R, p 4).

15
16 **Q. WHAT IS THE FIRST ARGUMENT MR. WOODRUFF SUBMITS FOR**
17 **RECOMMENDING AN ADDITIONAL 9,805 RESIDENTIAL**
18 **CUSTOMERS AS APPROPRIATE?**

19 A. Mr. Woodruff claims that the growth in residential housing has decreased 32
20 percent since 2004, and recognition of this trend should be the basis for the
21 Company's pessimistic projection (PPL St. 4-R, p. 3).

1 **Q. WHY DID YOU NOT CONSIDER THE NUMBER OF RESIDENTIAL**
2 **CUSTOMERS ADDED IN 2004?**

3 A. Ordinarily, I would recommend the use of actual 2004, 2005 and 2006 (three years
4 worth of data) to project the number of customers expected to be added in 2007.

5 However, as stated in my direct testimony, I determined that to include the 16,672
6 residential customers added in 2004 would have resulted in a projected number of
7 customers that I believed would have been too large (OTS St No. 3. p 7).

8 Therefore, in order to be conservative, I selected the most recent two years of
9 2005-2006 to project the number of residential customers to be added. In addition,
10 the fact that the 11,904 residential customers were added in 2005, and 11,400
11 customer were added in 2006 indicates that the number of residential customers
12 added were almost equal (within 4 %) over the most recent two years actual data is
13 available. Therefore, I believe the number of additional customers is not "falling
14 off significantly" as claimed by Mr. Woodruff (PPL St. 4-R, p.3).

15
16 **Q. WHAT IS THE SECOND ARGUMENT MR. WOODRUFF SUBMITS FOR**
17 **RECOMMENDING THAT THE COMPANY ONLY REFLECT AN**
18 **ADDITIONAL 9,805 RESIDENTIAL CUSTOMERS?**

19 A. Mr. Woodruff second argument is premised on the claim that the Company uses an
20 economic model from MoodysEconomy.com and regression analysis to project the
21 number of customer (PPL St. 4-R, p. 4).

1 **Q. DID THE COMPANY PROVIDE THIS MODEL OR ANY INFORMATION**
2 **TO SUPPORT THEIR CALCULATION USED TO PROJECT THE 9,805**
3 **CUSTOMERS?**

4 A. No. And as such, the parties have no way to verify the Company's input data
5 and/or calculation, and the Commission has no way to verify the accuracy of the
6 9,805 residential customer projection.

7
8 **Q. WHAT IS THE THIRD ARGUMENT MR. WOODRUFF SUBMITS FOR**
9 **RECOMMENDING THAT THE COMPANY ONLY REFLECT AN**
10 **ADDITIONAL 9,805 RESIDENTIAL CUSTOMERS?**

11 A. Mr. Woodruff's third argument is premised on the claim that the Company has
12 only added 7,235 residential customers in the first half of 2007, and since the
13 Company typically adds most of its customers in the first half of a calendar year,
14 its projection of 9,805 additional residential customers is more reasonable.

15
16 **Q. SHOULD THE COMMISSION RELY ON THE NUMBER OF CUSTOMER**
17 **ADDED ANY GIVEN MONTH OR PERIOD OF MONTHS TO PROJECT**
18 **THE NUMBER OF ADDITIONAL RESIDENTIAL CUSTOMERS?**

19 A. No. The Company's estimate of 9,805 additional residential customers is only a
20 projection. Over a twelve month period, the number of customers added will vary
21 by week and by month. Therefore, the Commission should only rely upon actual

1 historic annual or test year data to project customers similar to other revenue and
2 expense based on annual historic data in this filing.

3
4 **Q. HAS THE COMPANY PROVIDED ANY VALID REASON WHY PPL**
5 **SHOULD NOT REFLECT AN ADDITIONAL 1,848 RESIDENTIAL**
6 **CUSTOMERS AND \$589,800 IN ADDITIONAL PRESENT RATE**
7 **REVENUE?**

8 A. No. And as such, those additional present rate revenues should be recognized by
9 the Commission.

10
11 **Late Payment Revenue**

12 **Q. WHAT ARE LATE PAYMENT FEES?**

13 A. A public utility such as PPL typically assesses a separate charge for any customers
14 who do not pay their bill on time. The term late payment revenue refers to the
15 revenue received by the Company as a result of this charge.

16
17 **Q. WHAT IS THE COMPANY'S CLAIM FOR LATE PAYMENT REVENUE?**

18 A. The Company is claiming \$8,923,000 for late payment revenue for the year ending
19 December 31, 2007 (PPL Ex. Future 1, Sch. D-3, p. 1, line 10).

1 **Q. WHAT DID YOU RECOMMEND CONCERNING LATE PAYMENT**
2 **REVENUE?**

3 A. I recommended that Late Payment Revenue be increased by \$507,000 (OTS St.
4 No. 3, p. 9).

5
6 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION?**

7 A. Yes. PPL Witness Joseph R. Schadt stated in his rebuttal testimony that the
8 Company should have reflected the most recent three year average (PPL St. 2-R, p.
9 4).

10
11 **Q. DID COMPANY WITNESS SCHADT AGREE WITH YOUR \$507,000**
12 **RECOMMENDED INCREASE IN LATE PAYMENT REVENUE?**

13 A. No. Mr. Schadt recalculated the projected late payment revenue using the most
14 recent three year period and determined that the \$8,923,000 originally claimed by
15 the Company should be increased by \$339,000 to \$9,262,000 (PPL St. 2-R, 3, and
16 Sch.1, Document 1).

17
18 **Q. HOW DID THE COMPANY DETERMINE A DIFFERENT NUMBER**
19 **USING DATA FROM THE SAME TIME PERIOD?**

1 A. The Company included revenue from the Intangible Transition Charge (ITC) in the
2 2006 revenue total which lowered the average percentage of late payment revenue
3 received and corresponding projected late payment revenue for 2007 (PPL St. 2-
4 R, 3, and Sch.1, Document 1).

5
6 **Q. DO YOU ACCEPT THE COMPANY \$339,000 INCREASE TO THE**
7 **ORIGINALLY PROJECTED LATE PAYMENT REVENUE OF \$8,923,000?**

8 A. Yes. I believe the Company's revised calculation of \$9,262,000 in Late Payment
9 revenue for the test year ending December 31, 2007 is reasonable and appropriate
10 for this proceeding.

11
12 **Gain on Sale of Land**

13 **Q. WHAT DID YOU RECOMMEND CONCERNING THE PROCEEDS**
14 **FROM THE SALE OF LAND?**

15 A. In my direct testimony, I recommended that the proceeds from the sale of land
16 formally owned by PPL Electric Utilities be amortized over a three year period
17 beginning January 2008. The annual amortization would be \$820,000 (OTS St.
18 No. 3, p. 11).

19
20 **Q. DID A COMPANY WITNESS ADDRESS YOUR RECOMMENDATION?**

1 A. Yes. PPL Witness Joseph R. Schadt disagreed with my recommendation and
2 apparently believes that PPL should keep the \$2,460,000 proceeds from the sale of
3 land for itself rather than having it attributed to revenues for ratemaking purposes.
4 He provided two arguments as to why the Commission should permit PPL to retain
5 the proceeds from the sale of this land (PPL St. 2-R, p. 16).

6

7 **Q. WHAT IS THE FIRST ARGUMENT MR. SCHADT SUBMITS FOR**
8 **RECOMMENDING THAT THE COMPANY BE PERMITTED TO KEEP**
9 **THE \$2,460,000 IN PROCEEDS FOR ITSELF?**

10 A. Mr. Schadt stated his belief that my recommendation is based upon my
11 understanding that the property sold was listed in FERC account 101 or 105. He
12 goes on to state that since PPL listed the plant in FERC account 121 it is not
13 covered under the applicable provision of the Code of Federal Regulations¹
14 identified in my direct testimony (PPL St. 2-R, p. 16).

15

16 **Q. DID YOU BASE YOUR ADJUSTMENT ON WHICH ACCOUNT THE**
17 **COMPANY USED TO FORMALLY LIST THE PROCEEDS?**

¹ In full, Title 18: Conservation of Power and Water Resources, Part 101—Uniform System Of Accounts Prescribed For Public Utilities And Licensees Subject To The Provisions Of The Federal Power Act, General Instructions, 25.Accounting for asset retirement obligations, Electric Plant Instructions, 7. Land and Land Rights, Subsection E.

1 A. No. Rather, my recommendation was based upon my reading of the requirements
2 of 18 C.F.R Pt. 101, 25, Electric Plant Instructions 7. E. that describes the need to
3 record the gain or loss resulting in the sale of land, which I believe does not
4 specify that the land must have been in any specific account. Therefore, I believe
5 that the account in which the utility had the property listed is not relevant to the
6 issue of whether the accompanying proceeds are included as revenue for
7 ratemaking purposes. Rather, what is relevant is that PPL owned the property and
8 received the proceeds from the sale of this land and therefore should be required to
9 reflect the proceeds from the sale of this land as income for ratemaking purposes.

10

11 **Q. WHAT IS THE SECOND ARGUMENT MR. SCHADT SUBMITS FOR**
12 **RECOMMENDING THAT THE COMPANY BE PERMITTED TO KEEP**
13 **THE \$2,460,000 IN PROCEEDS FOR ITSELF?**

14 A. Mr. Schadt's second argument is that the proceeds should not be deemed to be
15 income for ratemaking purposes because the Company never included the subject
16 land in its rate base claim (PPL St. 2-R, p. 16).

17

18 **Q. DOES IT MATTER THAT THE COMPANY NEVER CLAIMED THE**
19 **ORIGINAL COST OF THE LAND IN THE COMPANY RATE BASE?**

1 A. No. Utilities often exclude plant from rate base that they own but is not considered
2 "used and useful" in the provision of utility service. Similarly in this case, PPL
3 owned the property otherwise it would have not received the proceeds from the
4 sale of the property. The provisions of 18 C.F.R Pt. 101, 25, Electric Plant
5 Instructions 7. E. that I relied upon does not provide an exception for land that was
6 never included in rate base. Therefore, whether or not this property was ever
7 included in rate base is also not relevant in how the proceeds should be recorded.

8

9 **Q. HAS THE COMPANY PROVIDED ANY VALID REASON WHY PPL**
10 **SHOULD BE PERMITTED TO KEEP \$2,460,000 IN PROCEEDS FROM**
11 **THE SALE OF LAND?**

12 A. No. For the reasons stated in this and my direct testimony, that amount should be
13 included as income for purposes of this proceeding.

14

15 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

16 A. Yes.

OTS Statement No. 4
Witness: Amanda Gordon
Hbg JDC AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Direct Testimony

of

Amanda Gordon

Office of Trial Staff

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

Concerning:

UNIVERSAL SERVICE AND ENERGY CONSERVATION PLAN

1 **Q. PLEASE STATE YOUR FULL NAME, OCCUPATION AND**
2 **BUSINESS ADDRESS.**

3 A. My name is Amanda Gordon. I am employed by the Public Utility
4 Commission in the Office of Trial Staff as a Fixed Utility Financial
5 Analyst. My business address is Commonwealth Keystone Building, P.O.
6 Box 3625, Harrisburg, PA 17105-3265.

7

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
9 **EXPERIENCE IN UTILITY REGULATION.**

10 A. My education and professional background are set forth in Appendix A,
11 which is attached.

12

13 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE**
14 **THE COMMISSION?**

15 A. Yes. Also in my Appendix A is listing of cases I have submitted testimony
16 in.

17

18 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE**
19 **PROCEEDINGS.**

1 A. OTS was established by the legislature and is responsible for protecting the
2 public interest in rate proceedings. The OTS analysis in this proceeding is
3 based on its responsibility to represent the public interest. This
4 responsibility requires the balancing of the interests of ratepayers and the
5 Company.

6

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. The purpose of my testimony is to evaluate PPL Electric Utilities
10 Corporation's ("PPL Electric" or the "Company") proposed change in
11 recovery method for Universal Service and Energy Conservation costs.

12

13 **Q. PLEASE DESCRIBE PPL'S UNIVERSAL SERVICE PROGRAM.**

14 A. PPL has a four part universal service program including OnTrack, Winter
15 Relief Assistance Program (WRAP), Operation HELP and Customer
16 Assistance and Referral Evaluation Services (CARES). OnTrack is PPL's
17 CAP program, offering a reduced payment plan and arrearage forgiveness
18 for low-income customers. WRAP provides weatherization measures and
19 energy conservation education. Operation HELP is a hardship fund that
20 helps customers at all income levels pay their home heating bills. CARES
21 is an evaluation and referral service for customers with temporary
22 hardships.

1 **Q. WHAT IS THE PURPOSE OF ONTRACK?**

2 A. OnTrack is a payment program for low-income customers at or below
3 150% of the federal poverty level who are payment-troubled. Features of
4 OnTrack include a reduced payment arrangement based on ability to pay,
5 arrearage forgiveness, and protection against electric service shutoff. PPL
6 uses the amount of a customer's outstanding balance at the time of
7 enrollment to establish an arrearage forgiveness timetable. PPL's OnTrack
8 program had 20,721 participants as of December 31, 2006.

9

10 **Q. HOW DID THE COMPANY DEVELOP THE PROPOSED BUDGET**
11 **FOR ONTRACK?**

12 A. The Company developed its proposed OnTrack budget of \$19,000,000, by
13 first looking at the likely future participation levels. The Company
14 identified 40,000 low-income households who could be eligible for
15 OnTrack, then reduced this amount by about 50% as a result of previous
16 experience with successful enrollment. Their resulting estimate of future
17 participation is a range between 22,000 and 24,000 customers. The
18 Company then considered historic costs from 2003 through 2006 to
19 determine the levels of CAP credits, arrearage forgiveness and CAP
20 administration needed to support future participation (OTS Ex. No. 4, Sch.
21 1 and 2).

1 **Q. WHAT IS THE PURPOSE OF WRAP?**

2 A. WRAP is a weatherization program designed to help customers reduce
3 energy bills and provide energy education. To qualify for WRAP, the
4 customer must be at or below 200% of the federal poverty level, be 18
5 years old, the customers home must have an electric meter, the home being
6 weatherized must be a primary home, and WRAP services may not have
7 been performed in the past seven years (Company Exhibit TRD 3, WRAP
8 pg 1). There are three types of WRAP jobs; full cost, low cost and
9 baseload. A full cost job means that the customer uses installed electric
10 heat as the primary heating source. Low cost job means the customer has an
11 electric water heater and there is potential to install water heating measures.
12 A baseload job means the customer uses a minimum of 6,000 kWh
13 annually. The services employed by WRAP depend on the individual
14 customer's use of electricity and the result of a home energy audit
15 (Company Exhibit TRD 3, WRAP page 1).

16
17 **Q. HOW WAS THE PROPOSED BUDGET FOR WRAP DEVELOPED?**

18 A. PPL used previous years' participation levels at each tier of the WRAP
19 jobs, their respective costs, and previous outreach efforts to develop a
20 participation level of 3,100 annually and a budget of \$7,250,000 to
21 complete full cost jobs, low cost jobs, baseload jobs and energy
22 conservation education (OTS Ex. No. 4, Sch. 1).

1 **Q. WHAT IS THE PURPOSE OF OPERATION HELP?**

2 A. Operation HELP is a hardship fund that provides direct assistance for
3 overdue energy bills, protection against shut offs and referrals to other
4 programs and services. The eligibility criteria for Operation HELP
5 applicants are flexible. Generally, a customer must have limited income
6 and a hardship and may not have received Operation HELP assistance
7 within the past year. Additionally criteria for Operation HELP applicants
8 include: death of the primary wage earner, serious injury or illness of the
9 primary wage earner, life/health threatening situations, eligibility for
10 LIHEAP, families with infants or elderly members and the customer's
11 payment history and overdue amount. During 2006, Operation HELP
12 assisted 3,868 customers. Operation HELP is funded by donations from
13 ratepayers, Company employees and the Company (Company Exhibit TRD
14 3, Operation HELP page 1).

15
16 **Q. HOW WAS THE PROPOSED BUDGET FOR OPERATION HELP
17 DEVELOPED?**

18 A. The proposed budget was developed by looking at donation totals of 2003-
19 2006 from customers and employees and then adding the future corporate
20 donation. The participation levels of Operation HELP are a function of the
21 amount of donations received. With a donation level of \$1,425,000, PPL is
22 projecting that it will assist 4,000 customers (OTS Ex. No. 4, Sch. 1 and 3).

1 **Q. WHAT IS THE PURPOSE OF CARES?**

2 A. CARES is a referral service for customers with temporary hardships such
3 as illness or the loss of a job. CARES protects customers against shutoffs,
4 makes referrals to other programs and services and offers possible financial
5 assistance for overdue energy bills. CARES program has established
6 partnerships with community-based organizations to ensure tailored
7 referrals and provide customers with timely information and resources.
8 CARES also acts as an internal advocate for payment-troubled customers
9 (Company Exhibit TRD 3, CARES, page 1)

10

11 **Q. HOW WAS THE PROPOSED BUDGET FOR CARES**
12 **DEVELOPED?**

13 A. The CARES budget is broken down into \$30,000 of CARES Credits which
14 is funded by PPL's corporate donation to Operation HELP and \$52,000 for
15 wages of PPL Electric employees who administer the program. The
16 CARES credits budget of \$30,000 is designed to give to customers who are
17 in need but do not qualify for other existing programs. PPL used past
18 performance to determine the level of CARES participation (OTS OTS Ex.
19 No. 4, Sch. 1 and Ex. 4).

20

21 **Q. HAS THE COMMISSION ADDRESSED COST RECOVERY FOR**
22 **UNIVERSAL SERVICE COSTS IN ANY RECENT PROCEEDINGS?**

1 A. Yes. The Commission addressed cost recovery for Universal Service costs
2 in its Final Investigatory Order at Docket No. M-00051923 entered
3 December 18, 2006.

4

5 **Q. WHAT DID THE COMMISSION STATE IN ITS FINAL**
6 **INVESTIGATORY ORDER CONCERNING THE COST**
7 **RECOVERY OF UNIVERSAL SERVICE AND ENERGY**
8 **CONSERVATION COSTS?**

9 A. The Commission states, at p.13-15, the following regarding cost recovery
10 and appropriate funding for CAP costs:

11 ... (1) reconciled periodically to recover the actual
12 level of costs, or (2) adjusted prospectively on a quarterly
13 basis to track changes in the costs.... Accordingly, the
14 Commission must allow recovery through a surcharge that is
15 either reconciled or adjusted frequently to track changes in
16 the level of CAP costs consistent with the direction given by
17 the Competition Acts.

18

19 **Q. HOW DOES THE COMPANY CURRENTLY RECOVER ITS**
20 **UNIVERSAL SERVICE AND ENERGY CONSERVATION COSTS?**

21 A. The Company currently recovers its Universal Service and Energy
22 Conservation costs in base rates.

23

1 **Q. HOW HAS THE COMPANY PROPOSED TO RECOVER ITS**
2 **UNIVERSAL SERVICE AND ENERGY CONSERVATION COSTS**
3 **IN THE FUTURE?**

4 A. The Company has proposed to recover CAP costs related to its OnTrack
5 and WRAP programs through an annually reconcilable surcharge,
6 Universal Services Rider (USR), which applies only to residential
7 customers. The Company would annually estimate the total costs for
8 OnTrack and WRAP and then reconcile any over or under collections at the
9 end of each 12 month period. Any over or under collections would be
10 included in the next 12 month period's estimate calculation (Company
11 Statement 6, page 23).

12
13 **Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSED**
14 **CHANGE IN RECOVERY METHODS?**

15 A. The Company has proposed to change its recovery method because the
16 Commission indicated that "requiring recovery of universal service costs
17 through base rates cannot be reconciled with the statutory mandate of full
18 cost recovery" (Company Statement 8, page 10).

19
20 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED CHANGE**
21 **IN RECOVERY METHODS?**

1 A. No. I recommend the Company's request for annual reconciliation be
2 denied and that instead the surcharge be adjusted prospectively on a
3 quarterly basis to track changes in the costs.

4

5 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

6 A. An annual reconciliation provides no incentive for the Company to
7 prudently incur costs or create more cost effective measures. The Company
8 has no incentive to keep CAP costs prudent if it is guaranteed dollar for
9 dollar recovery. The Public Utility Code requires rates to be just and
10 reasonable and a reconcilable surcharge would not meet that standard.

11

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 A. Yes.

APPENDIX A
PROFESSIONAL AND EDUCATIONAL EXPERIENCE
AMANDA L. GORDON

Professional Experience

November 2005 – Present: Office of Trial Staff, Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

Fixed Utility Financial Analyst (November 2006-Present) – Responsible for the analysis and review of revenues and expense claims in formal and informal base rate filings and 1307(f) proceedings.

Fixed Utility Financial Analyst Trainee (November 2005-October 2006) – Assisting in the analysis and review of revenues and expense claims in formal and informal base rate filings and 1307(f) proceedings.

August 2003 - October 2005: Commerce Bank, Harrisburg, Pennsylvania

Commercial Credit Analyst (September 2004 – October 2005) - Evaluate and assess company and individual financial statements, revenues, expenses, cash flow, and credit worthiness. Collect and compile financial data from clients. Aid in determining the most appropriate lending instrument for a variety of client types. Analyze the current and ongoing risks of different loan instruments. Research clients' previous loan performance.

Customer Service Representative (August 2003 – September 2004) - Open and close bank accounts and aid in personal loans applications and approvals. Perform account maintenance and compile customer information. Troubleshoot customer difficulties and advise customers.

Education

Robert E. Cook Honors College at Indiana University of Pennsylvania, Indiana, Pennsylvania
Bachelor of Science; Major in International Business, 2003

Attended IPU NARUC Utility Rate School
Attended IPU Annual Regulatory Policy Conference

Testimony submitted

National Fuel Gas Distribution Corporation, 1307(f) proceeding – Docket R-00072043

Columbia Gas of Pennsylvania, Inc., 1307(f) proceeding – Docket R-00072175

Equitable Gas Company – Docket P-00062240; M-00051923

OTS Exhibit No. 4
Witness: Amanda Gordon

Hbg DK AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Exhibit to Accompany

the

Direct Testimony

of

Amanda Gordon

Office of Trial Staff

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

UNIVERSAL SERVICE AND ENERGY CONSERVATION PLAN

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XII,
Dated April 25, 2007**

Docket No. R-00072155

Q.OTS-RE-81-D. How were the estimated participation levels for the following programs developed? Provide supporting calculations.

- A. OnTrack
- B. WRAP
- C. Operation HELP
- D. CARES

A.OTS-RE-81-D. A. PPL Electric determined its estimated participation level for OnTrack by looking at the number of low-income households (i.e., at or below 150 percent of the federal poverty level) that are struggling to pay their electric bills. The Company identified a pool of approximately 40,000 customers who could be eligible for OnTrack. However, PPL Electric knows from years of experience with OnTrack that fewer than 50 percent of all referrals to the program result in successful enrollment. PPL Electric estimated that 22,000 to 24,000 customers – those who are struggling, but are unable to make their full payments – would benefit from participation in OnTrack. The Company calculated this pool of potentially eligible customers as follows.

Customer Categories	Pool of Eligible Customers
Customers at or below 150% of the federal poverty level (2000 U. S. Census)	200,000
Low-income customers without overdue balances	(160,000)
Estimated eligible pool of low-income customers	40,000

As of April 30, 2007, PPL Electric had 20,792 active OnTrack accounts. The Company is attempting to strike a balance between serving customers who need CAP benefits and the overall cost impact on all residential customers, particularly the non-eligible customers.

B. Based on data from the 2000 U.S. Census, PPL Electric believes that there are still thousands of customers who may

qualify for WRAP services. However, the Company also knows that low-income customers may not follow through on referrals to WRAP or they may be ineligible (i.e., property owners refuse permission for weatherization work or annual kWh usage is too low). PPL Electric determined its estimated participation level by considering the following factors: historical costs of WRAP jobs, types of WRAP jobs completed and previous outreach results. PPL Electric estimates that a proposed budget of \$7.25 million would allow the Company to assist 3,100 customers annually. The following table shows the calculation for this estimate.

Type of Job	Estimated Expenditures	Avg. Cost per Job	Number of Jobs
Full Cost	\$3,855,600	\$2,835	1,360
Low Cost	163,956	1,051	184
Baseload	1,707,657	1,047	1,631
Total	\$5,727,213	\$1,815	3,155

The remaining \$1.52 million is earmarked for program administration, job inspections, energy conservation education, WRAP materials/forms, contractor training, solar water heating installations and computer enhancements.

- C. The annual participation level for Operation HELP is a function of donations to the program. Based on estimated donations of \$1,425,000 million for 2008 (\$1 million from PPL Corporation and \$425,000 from customers and employees), the Company projects that approximately 4,000 customers will receive assistance from the program. The following table shows the calculation for this estimate.

2008 Estimated Budget	
Funding Elements	Est. Funding Amounts
Agency Administration	\$ 170,000
Cash Grants	600,000
Matching Energy Credits	200,000
CARES Credits	30,000
Customer Donations	378,000
Employee Donations	47,000
Total	\$1,425,000

From the above total, the Operation HELP agencies will receive approximately \$1,025,000 in funding for payments of home energy bills for eligible customers. The funding comes from two sources: \$600,000 in cash grants and \$425,000 in customer and employee donations. With an expected average grant of

\$250 per household, the agencies will assist about 4,000 customers (\$1,025,000/\$250).

PPL Electric will disburse \$170,000 in administration funding to the 14 Operation HELP organizations based on their historic numbers of customers assisted. The agencies use the \$200,000 in matching energy credits to provide additional assistance to customers paying overdue electric bills. PPL Electric's Customer Programs Directors use the \$30,000 in CARES Credits to pay electric bills for customers who need extra assistance or who do not qualify for existing programs (e.g., Low Income Home Energy Assistance Program).

- D. PPL Electric uses past performance to determine its participation level for CARES. For the past three years (2004 through 2006), approximately 800 residential customers received some type of assistance through CARES. The Company has used CARES more for customers who are not low-income and have a temporary hardship, or for low-income customers who need short-term assistance. For most low-income customers, PPL Electric has relied more on OnTrack rather than CARES because OnTrack usually offers a better solution (e.g., affordable payments over a longer period of time).

**PPL Electric Utilities Corporation
 Response to Interrogatories of the
 Office of Trial Staff, Set XVI,
 Dated April 30, 2007**

Docket No. R-00072155

Q.OTS-RE-140-D. Reference Direct Testimony Statement 8 of Timothy R. Dahl. Provide the following information for the OnTrack program:

- A. Provide a breakdown of expenses for the twelve months ending 12/31/06, 12/31/04, and 12/31/03 to include CAP credits (billing deficiency), arrearage forgiveness, intake costs, administrative costs, and evaluation costs.
- B. Explain how the expense items in the future test year were forecasted. Provide supporting calculations.
- C. Provide the amount of CAP credits (billing deficiency) by month for the years 2003, 2004, 2005, and 2006.
- D. Provide the amount of arrearage forgiveness by month for the years 2003, 2004, 2005, and 2006.

A.OTS-RE-140-D. A. The following table provides a breakdown of CAP expenses for 2003 through 2006. Administrative costs also include intake and any evaluation costs.

(Thousands of Dollars)

Year	CAP Credits	Arrearage Forgiveness	Administrative
2003	\$ 7,795	\$2,700	\$1,317
2004	9,225	3,700	871
2005	10,588	3,700	795
2006	9,802	3,700	1,032

B. To forecast expense items in the future test year, PPL Electric looked at total OnTrack expenditures from 2003 through 2006 and developed percentages of expenditures by type (i.e., CAP credits, arrearage forgiveness and administrative). The Company used these percentages as a guide in forecasting CAP expenses in the future test year. On average, the percentages by expenditure type were 68 percent for CAP credits, 25 percent for arrearage forgiveness and 7 percent for administration. The following table shows the calculation.

(Thousands of Dollars)

OnTrack Expenditures: 2003 - 2008		
Expenditure Type	Expenditure Total	% of Total
CAP Credits	\$37,410	68%
Arrearage Forgiveness	13,800	25%
Administration	4,015	7%
Total	\$55,225	100%

C. The following table shows CAP credits by month for 2003 through 2006.

(Thousands of Dollars)

Month	2003	2004	2005	2006
January	\$1,011	\$1,157	\$1,451	\$980
February	1,008	1,232	1,597	758
March	923	1,069	1,580	915
April	693	850	1,054	515
May	446	584	801	424
June	386	530	598	483
July	495	588	698	733
August	548	666	645	894
September	516	590	533	1,728
October	438	480	456	459
November	509	563	434	782
December	848	936	963	1,133

D. The following table shows expenditures for arrearage forgiveness by month for 2003 through 2006.

(Thousands of Dollars)

Month	2003	2004	2005	2006
January	\$225	\$308	\$308	\$308
February	225	308	308	308
March	225	309	309	309
April	225	308	308	308
May	225	308	308	308
June	225	309	309	309
July	225	308	308	308
August	225	308	308	308
September	225	309	309	309
October	225	308	308	308
November	225	308	308	308
December	225	309	309	309

**PPL Electric Utilities Corporation
 Response to Interrogatories of the
 Office of Trial Staff, Set XVI,
 Dated April 30, 2007**

Docket No. R-00072155

Q.OTS-RE-139-D. Reference Direct Testimony Statement 8 of Timothy R. Dahl. Provide the following information for Operation HELP:

- A. Provide a breakdown of the funding sources between funds from customers, funds from employees and Company contributions for the twelve months ending 12/31/03, 12/31/04, 12/31/05, and 12/31/06.
- B. Provide a breakdown of the funding sources for forecasted future test year 12/13/07 between funds from customers, funds from employees and Company contributions. Provide supporting calculations.
- C. Provide a breakdown of the expenses for the twelve months ending 12/31/03, 12/31/04, 12/31/05, and 12/31/06.
- D. Provide a breakdown of the expenses for forecasted future test year 12/13/07. Provide supporting calculations.

A.OTS-RE-139-D. A. The following table shows a breakdown of funding sources and amounts for Operation HELP from 2003 through 2006.

Year	PPL Donations	Customer Donations	Employee Donations	Total
2003	\$440,000	\$388,211	\$44,319	\$ 870,530
2004	440,000	380,777	44,192	844,969
2005	500,000	388,783	45,085	911,868
2006	700,000	388,898	46,805	1,135,703

B. The following table shows a breakdown of estimated funding by source in 2007 for Operation HELP.

Year	PPL Donations	Customer Donations	Employee Donations	Total
2007	\$700,000	\$388,000	\$47,000	\$1,135,000

PPL Electric used actual funding results from 2006 to forecast 2007 funding levels by source for Operation HELP.

C. The following table shows a breakdown of expenses for Operation HELP from 2003 through 2006.

Year	PPL Electric Payroll	Other Expenses	Total
2003	\$78,093	\$20,379	\$98,472
2004	42,933	4,540	47,473
2005	37,722	9,989	47,711
2006	41,014	52,419	93,433

Other expenses include items such as postage, printing and program materials.

D. The following table shows a breakdown of estimated expenses in 2007 for Operation HELP.

Year	PPL Electric Payroll	Other Expenses	Total
2007	\$46,685	\$59,418	\$106,103

PPL Electric used actual expenditure results from 2006 to forecast 2007 expenditures for Operation HELP. Other expenses include items such as postage, printing and program materials.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XII,
Dated April 25, 2007**

Docket No. R-00072155

Q.OTS-RE-78-D. Reference Direct Testimony Statement 8 of Timothy R. Dahl page 9. Provide a breakdown by expense item for the following projected budgets:

- A. OnTrack - \$19,000,000
- B. WRAP - \$7,250,000
- C. Operation HELP - \$1,425,000
- D. CARES - \$82,000

A.OTS-RE-78-D. A. The breakdown of OnTrack projected expenses appears in the following table.

Expense Type	Projected Expenditure
CAP Credits	\$12,500,000
Arrearage Forgiveness	4,500,000
Program Administration	2,000,000
Total	\$19,000,000

B. The breakdown of WRAP projected expenses appears in the following table.

Expense Type	Projected Expenditure
CBO Payments	\$8,090,000
Program Administration	1,160,000
Total	\$7,250,000

C. The \$1,425,000 represents estimated donations to Operation HELP in 2008. The breakdown of the donations appears in the following table.

Donation Source	Projected Amount
PPL Corporation	\$1,000,000
Customers	378,000
Employees	47,000
Total	\$1,425,000

- D. The breakdown of CARES projected expenses appears in the following table.

<i>Expense Type</i>	<i>Projected Expenditure</i>
Salaries and Benefits	\$52,000
CARES Credits	30,000
Total	\$82,000

The \$30,000 in CARES Credits is included in PPL Corporation's \$1,000,000 donation to Operation HELP in 2008. PPL Electric's Customer Programs Directors use the CARES Credits to help pay electric bills for customers who need additional assistance or who do not qualify for existing programs (e.g., Low Income Home Energy Assistance Program).

OTS Statement No. 4-SR
Witness: Amanda Gordon

Hbg *ik* AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

DOCUMENT
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Surrebuttal Testimony

of

Amanda Gordon

Office of Trial Staff

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AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

UNIVERSAL SERVICE AND ENERGY CONSERVATION PLAN

1 **Q. PLEASE STATE YOUR FULL NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Amanda Gordon. I am employed by the Public Utility Commission in
4 the Office of Trial Staff as a Fixed Utility Financial Analyst. My business address
5 is Commonwealth Keystone Building, P.O. Box 3625, Harrisburg, PA 17105-
6 3265.

7
8 **Q. ARE YOU THE SAME AMANDA GORDON WHO IS RESPONSIBLE**
9 **FOR THE DIRECT TESTIMONY CONTAINED IN OTS STATEMENT**
10 **NO. 4?**

11 A. Yes.

12
13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**
14 **THIS PROCEEDING?**

15 A. The purpose of my surrebuttal testimony is to address comments made by PPL
16 Electric Utilities Corporation's (PPL or the Company) witness Mr. Timothy R.
17 Dahl concerning the proposed change in recovery method for Universal Service
18 and Energy Conservation costs.

19
20 **Q. DID WITNESS DAHL ADDRESS THE ISSUE OF LACK OF COMPANY**
21 **INCENTIVE WITH THE PROPOSED ANNUAL RECONCILIATION?**

1 A. No. Witness Dahl did not specifically address my main concern of the annual
2 reconciliation method creating a lack of incentive for the Company to be prudent
3 in its universal service and energy conservation spending. The Company did
4 however present three reasons in support of the annual reconciliation method and
5 one reason disparaging the adjusted prospectively on a quarterly basis method
6 (quarterly adjusted method).

7
8 **Q. WHAT DOES THE COMPANY STATE IN SUPPORT OF THE**
9 **PROPOSED ANNUAL RECONCILIATION METHOD?**

10 A. The Company states three reasons in support of the proposed annual reconciliation
11 method. First, the Company states that the annual reconciliation method is
12 superior because its calculation lacks estimates. Second, the Company states that
13 the reconciliation method has been used before for other Commission approved
14 recoveries and thus produced just and reasonable rates. Third and finally, the
15 Company states that the Commission has many opportunities to eliminate
16 imprudent practices, obviating their responsibility to review and adjust such
17 practices (PPL Statement No. 8-R, page 32-34).

18
19 **Q. DO YOU AGREE WITH WITNESS DAHL THAT AN ANNUAL “TRUE-**
20 **UP” IS A SUPERIOR METHOD AS IT DOES NOT USE ESTIMATES?**

1 A. No. The annual reconciliation method is not entirely free of the use of estimates,
2 and the use of estimates in the quarterly adjusted method does not mitigate its
3 advantages.

4
5 **Q. WHY DO YOU DISAGREE THAT THE LACK OF ESTIMATES IN THE**
6 **ANNUAL TRUE-UP METHOD MAKES IT A SUPERIOR METHOD?**

7 A. Although the amount of Customer Assistance Program expense incurred for an
8 annual reconciliation method may not be estimated, the Kwh units the CAP
9 amount is spread across is estimated for the following year's usage. Witness Dahl
10 states that the expenditure estimates in the quarterly adjusted method would be
11 subject to the uncertainties of weather, and customer participation levels.
12 However, the units the CAP expense amount is spread over in the annual
13 reconciliation method are also subject to the same uncertainty.

14
15 **Q. WHY DO YOU BELIEVE THE ADJUSTED PROSPECTIVELY ON A**
16 **QUARTERLY BASIS METHOD IS SUPERIOR?**

17 A. The use of estimates in an adjusted quarterly approach attempts to attach
18 periodicity to the CAP expenses. Instead of waiting a year to collect CAP
19 expenses, quarterly adjustments track more closely the changes in weather,
20 customer participation and CBO expense. This moderates the effect of a change in
21 rates by increasing it in smaller increments instead of a larger increase all at once
22 with the annual reconciliation method.

1 **Q. DO YOU AGREE WITH WITNESS DAHL THAT THE ANNUAL**
2 **RECONCILIATION MODEL'S PREVIOUS APPROVAL BY THE**
3 **COMMISSION MEANS IT ALWAYS PRODUCES JUST AND**
4 **REASONABLE RATES?**

5 A. No. Simply because a rate model worked well for the other types of costs and was
6 Commission approved in the past does not mean it will always produce just and
7 reasonable rates.

8
9 **Q. WHY DO YOU DISAGREE THAT A RECONCILIATION MODEL**
10 **ALWAYS PRODUCES JUST AND REASONABLE RATES?**

11 A. The application of the reconciliation model must be examined on a case by case
12 basis as the Commission did in the examples Witness Dahl provided; the Energy
13 Cost Rate, and the Transition charges. To determine if a rate is just and
14 reasonable, one must determine who is benefiting from the expense and who is
15 paying the cost. The Energy Cost Rate recovered energy costs that were created
16 by all customer classes and charged back according to their usage. In contrast, the
17 proposed Universal Service Rider would recover costs created by one part of the
18 residential customer class and charge the expenses to another part of the
19 residential customer class. Clearly, the simple existence and prior approval of the
20 reconciliation model cannot warrant its repeated usage in all situations. The
21 appropriateness of such a model must also be addressed on a case by case basis.

1 **Q. DO YOU AGREE THAT THE COMMISSION HAS MANY**
2 **OPPORTUNITIES TO IDENTIFY AND ELIMINATE IMPRUDENT**
3 **PRACTICES?**

4 A. No. While the Commission receives detailed reports on various issues surrounding
5 customer assistance programs, they are not sufficient to be characterized as many
6 opportunities to eliminate imprudent practices. Moreover, the Company has an
7 independent responsibility to review and eliminate imprudent practices.

8
9 **Q. WHY DO YOU DISAGREE THAT THE COMMISSION HAS AMPLE**
10 **OPPORTUNITIES TO ELIMINATE IMPRUDENT PRACTICES?**

11 A. While the Commission and statutory parties receive many reports on the status of
12 different CAP issues, these reports are not opportunities for litigation and policy
13 modification. The universal service plans are received every three years and
14 impact evaluation reports every six years. This does not provide many
15 opportunities for the Commission to review and eliminate practices.
16 Furthermore, it is not just the Commission's responsibility to police CAP
17 expenditures, the Company is also responsible. The reports and evaluations are
18 not Company reviews but third-party or Commission staff statements. However,
19 the three year universal service plan is one of the only Company created
20 statements that would include modification to imprudent practices.

1 **Q. WHAT DOES THE COMPANY STATE IN CHALLENGE OF THE**
2 **ADJUSTED PROSPECTIVELY ON A QUARTERLY BASIS METHOD OF**
3 **RECOVERING UNIVERSAL SERVICE COSTS?**

4 A. The Company states that the adjusted quarterly method is administratively more
5 complex and time consuming (PPL Statement No. 8-R, page 33, lines 3-4).

6
7 **Q. DO YOU AGREE THAT THE ADJUSTED QUARTERLY METHOD IS**
8 **MORE COMPLEX AND TIME CONSUMING THAN THE ANNUAL**
9 **RECONCILIATION METHOD?**

10 A. No. The Company is already planning to do quarterly expenditure reports that
11 would facilitate adjusting quarterly on a prospective basis (PPL Statement No. 8-
12 R, page 32, line 21).

13
14 **Q. WHY DO YOU DISAGREE THAT THE SURCHARGE IS MORE**
15 **COMPLEX THAN THE ANNUAL RECONCILIATION METHOD?**

16 A. The annual reconciliation method also requires estimating in the reconciliation
17 process. As a result, the annual reconciliation process is no less complex than the
18 adjusted quarterly method. Annually ensuring the correct true-up amount is
19 collected in the next recovery period and that the correct amount was collected in
20 the previous period is also time consuming and complex. If the Company is
21 already planning quarterly expenditure reports, it can also adjust the Universal
22 Service Rider quarterly on a prospective basis at the same time.

1 **Q. WHY DO YOU DISAGREE THAT THE ADJUSTED QUARTERLY**
2 **METHOD IS MORE TIME CONSUMING?**

3 A. With annual reconciliation, the Company is already planning on producing
4 quarterly expenditure reports. If the Company is already planning quarterly
5 expenditure reports, it can also adjust the Universal Service Rider quarterly on a
6 prospective basis at the same time.

7
8 **Q. DOES THE ANNUAL RECONCILIATION METHOD ENCOURAGE THE**
9 **COMPANY TO REVIEW ITS OWN CAP PRACTICES AND EXPENSES?**

10 A. No. As I stated in my direct testimony, the annual reconciliation method does not
11 encourage the Company to review and eliminate its own imprudent CAP practices
12 and expenses. The annual reconciliation method allows dollar for dollar recovery
13 of CAP expenses, providing no incentive to make improvements, since all
14 expenses, prudent or not, will be recovered.

15 In contrast, the adjusted prospectively on a quarterly basis method calls the
16 Company to action by having the Company review the most recent data, adjust for
17 imprudent practices and create a better forecast for the next quarter.

18
19 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

20 A. Yes.

OTS Statement No. 5
Witness: Debra J. Backer

Hbg TX AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

DOCUMENT
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Direct Testimony

of

Debra J. Backer

Office of Trial Staff

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AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

CASH WORKING CAPITAL

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Debra J. Backer. I am a Fixed Utility Financial Analyst in the
4 *Technical Division of the Pennsylvania Public Utility Commission's Office*
5 of Trial Staff. My business address is P.O. Box 3265, Harrisburg, PA
6 17105-3265.

7
8 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
9 **BACKGROUND?**

10 A. This information is provided in Appendix A, which is attached to my
11 *testimony.*

12
13 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY?**

14 A. No.

15
16 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE**
17 **PROCEEDINGS.**

18 A. OTS was established by the legislature and is responsible for protecting the
19 public interest in rate proceedings. The OTS analysis in this proceeding is
20 based on its responsibility to represent the public interest. This
21 responsibility requires the balancing of the interests of the ratepayers and
22 the Companies.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to address PPL Electric Corporation's (PPL
3 or Company) claim for Cash Working Capital.

4

5 **Q. WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE**
6 **FOR RATEMAKING PURPOSES?**

7 A. CWC is the amount of funds necessary to operate a utility during the
8 interim between the rendition of service, including the payment of related
9 expenses and the receipt of revenue in payment of services rendered. A
10 lead/lag study measures the differences in time between: (1) the time
11 services are rendered until payment of those services is received; and (2)
12 the time between when a utility has incurred an expense and the actual
13 payment of the expense. Stated another way, the lead/lag measures how
14 many days exist on the average between the midpoint of the service period
15 and the date the payment is made.

16

17 **Q. WOULD YOU EXPLAIN THE DIFFERENCE BETWEEN THE**
18 **RATEMAKING AND ACCOUNTING CONCEPTS OF WORKING**
19 **CAPITAL?**

20 A. Yes. Outside the arena of utility ratemaking, accountants define working
21 capital as the difference between current assets and current liabilities, which
22 is a measure of a business' liquidity at a given point in time. On the other

1 hand, the ratemaking concept defines CWC as the amount of capital that a
2 utility requires to cover the gap between the payment of operating expenses
3 and taxes and the receipt of revenue from utility ratepayers.

4
5 **Q. WHAT IS THE COMPANY'S CLAIM FOR CWC?**

6 A. The total Company claim for CWC is \$26,931,000 (PPL Exhibit Future 1,
7 C-4, Page 1). The five major components that comprise the Company's
8 total CWC claim are as follows:

9	1.	Operation and maintenance expense	\$16,211,000
10	2.	Average prepayments	2,470,000
11	3.	Accrued taxes	17,245,000
12	4.	Interest payments	(9,005,000)
13	5.	Preferred dividend payments	<u>10,000</u>
14			\$26,931,000

15 **Q. WHAT IS YOUR PROPOSED ALLOWANCE FOR CASH**
16 **WORKING CAPITAL?**

17 A. I recommend a CWC allowance of \$7,053,000. This represents a reduction
18 of \$19,878,000 to the Company's claim of \$26,931,000. OTS Exhibit No.
19 5, Schedule 3, summarizes my proposed allowance. I am recommending
20 five adjustments to the Company's claim for Other Operating Expenses.

1 **Q. HOW DID THE COMPANY CALCULATE ITS CWC CLAIM FOR**
2 **O&M EXPENSES?**

3 A. First, the Company calculated the O&M daily expense by dividing the net
4 pro-forma O&M expense claims by 365 days. The Company then
5 multiplied the daily expense by a net lag of 10.7 days to produce its claim
6 of \$16,211,000 (PPL Exhibit Future 1, C-4, Page 2). The net lag of 10.7
7 days is the difference in the average lag in days between payment of O&M
8 expenses and the lag in receipt of revenue.

9

10 **Q. WHAT ISSUES DO YOU HAVE WITH REGARD TO THE**
11 **COMPANY'S CWC CLAIM FOR O&M EXPENSES?**

12 A. The Company's net lag of 10.7 days is the revenue lag of 45.2 days less the
13 expense lag of 34.5 days. My issue is with the calculation of the expense
14 lag calculation of 34.5 days.

15

16 **Q. HOW DID THE COMPANY CALCULATE THE OPERATING**
17 **EXPENSE LAG OF 34.5 DAYS?**

18 A. The Company's operating expense lag of 34.5 days is the weighted average
19 of the following four expense groupings: Payroll, Employee Benefits,
20 Affiliate Support Costs, and Other Operating Expenses. The Company's

1 calculated lags for the four expense groups are 12, 35, 35, and 40 days,
2 respectively (PPL Exhibit Historic 1, C-4, Page 2).

3

4 **Q. HOW DID THE COMPANY CALCULATE THE WEIGHTED**
5 **AVERAGE LAG OF 40 DAYS FOR OTHER OPERATING**
6 **EXPENSES?**

7 A. The lag for Other Operating Expenses is a weighted average calculation for
8 eleven various expense categories, which are detailed at PPL Attachment
9 II-B-4, Page 3 of 13.

10

11 **Q. DO YOU AGREE WITH HOW THE COMPANY DETERMINED**
12 **THEIR LAG CALCULATIONS FOR OTHER OPERATING**
13 **EXPENSES?**

14 A. No. The Company's sample was deficient.

15

16 **Q. HOW WAS THE SAMPLE FOR OTHER OPERATING EXPENSES**
17 **SELECTED?**

18 A. The Company used a "selection sample of invoices to determine the lag on
19 other operating expenses that was determined initially on a random basis,
20 with a higher percentage of material transactions chosen and some minor

1 adjustments made to include a variety of payees in the sample” (OTS Exhibit
2 No. 5, Schedule 10).

3
4 **Q. DID YOU QUESTION THE COMPANY’S REASONING FOR USING**
5 **THE 3 MONTHS ENDED SEPTEMBER 30, 2006 AND IF IT WAS A**
6 **GOOD REPRESENTATION FOR A LAG CALCULATION FOR THE**
7 **YEAR?**

8 A. Yes, see OTS Exhibit No. 5, Schedule 11.

9
10 **Q. WHAT WAS THE COMPANY’S RESPONSE TO THE ABOVE**
11 **QUESTION?**

12 A. The Company responded to the question as follows:

13 Based upon an examination of the types of expenses incurred
14 during the three month period ended September 30, 2006, and
15 the types of expenses incurred for the twelve months ended
16 December 31, 2006, PPL Electric believes that the 3-month
17 period ended September 30, 2006 provides a reasonable and
18 accurate approximation of the O&M expense leads and rate
19 revenue lags for the full 12 months of its historic test year
20 ended December 31, 2006. Moreover, PPL Electric historically
21 has used, and this Commission traditionally has accepted, a 3-
22 month period, completed no more than 6 months prior to a rate
23 filing, as a representative sample for analysis of O&M expense
24 payments and rate revenue receipts for a filed lead-lag study.
25 (OTS Exhibit No. 5, Schedule 11)

1 **Q. WHAT CONCERNS DO YOU HAVE WITH THE COMPANY'S**
2 **METHODOLOGY?**

3 A. The Company claims to have provided a complete 3-month period ended
4 September 30, 2006, as the basis for its lead/lag study. However, my analysis
5 reveals that the Company only submitted select invoice information of their
6 choosing in that three month period, not a complete three month study. The
7 Company used its 3-month selective invoice data and based its O&M expense
8 lead/lags and rate revenue lags for the full 12 months of its historic test year
9 ended December 31, 2006, upon such data. Since the Company did not
10 calculate a complete 3-month study with all of their invoices, their 3-month
11 selective sample cannot provide a reasonable or accurate approximation of the
12 O&M expenses for the historic test year. Lead/lag days are properly
13 determined by payment amounts and lead/lag dates which are as accurate as
14 possible; the elimination of invoice information with larger/smaller amounts
15 and larger/smaller payment lag days will produce a distorted lead/lag study.
16

17 **Q. DID YOU ATTEMPT TO ACQUIRE THE CORRECT DATA FROM**
18 **THE COMPANY?**

19 A. Yes. On three lead/lag calculations in the current case that seemed to vary
20 *significantly from PPL's Electric Rate filing at Docket No.*
21 *R-00049255*, OTS asked the Company to provide an updated schedule to
22 reflect the twelve months data for 2006 and the Company responded that the

1 information OTS requested is not available and would take several months to
2 prepare and could not be completed by the end of litigation in this proceeding
3 (OTS Exhibit No. 5, Schedules 12, 13, and 14).

4
5 **Q. HAVE YOU RECENTLY REVIEWED LEAD/LAG STUDIES IN**
6 **OTHER COMPANIES BASE RATE FILINGS??**

7 A. Yes. I recently reviewed National Fuel Gas's (NFG) Base Rate filing at
8 Docket No. R-00061493.

9
10 **Q. HOW DID NFG SUPPORT ITS EXPENSE LAG CALCULATIONS?**

11 A. NFG provided a full twelve months of data on 62 pages containing
12 approximately 3,600 invoice dates and amounts to support its expense lag
13 calculations.

14
15 **Q. HOW DID PPL SUPPORT ITS EXPENSE LEAD/LAG**
16 **CALCULATIONS?**

17 A. PPL only provided a select sample of it's choosing for its three month
18 snapshot period, with ten pages of data containing approximately 171
19 invoice dates and amounts to support its expense lag calculations.

1 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE
2 COMPANY'S CALCULATION OF THE OTHER OPERATING
3 EXPENSE LAG?

4 A. Since PPL has failed to properly support its proposed lag, I am proposing to
5 increase the lag for Other Operating Expenses from 40 days to 60.79 lag
6 days. The increase is due to the corrections to five of the eleven sub-
7 categories of expense: Tree Trimming, Work by Outsiders, Services, Rents,
8 and Miscellaneous Expenses (OTS Exhibit No. 5, Schedule 4). The reasons
9 for the corrections are discussed in the following sections of my testimony.

10

11 **TREE TRIMMING**

12 Q. WHAT IS YOUR ADJUSTMENT TO THE LAG FOR TREE
13 TRIMMING?

14 A. I recommend the lag for tree trimming be increased from 45.02 to 89.73 (PPL
15 Attachment II-B-4, page 5 of 13).

16

17 Q. WHAT IS THE BASIS FOR YOUR ADJUSTMENT TO THE TREE
18 TRIMMING EXPENSE LAG?

19 A. My adjustment is based on information provided by the Company in response
20 to OTS-RE-113-D, Part A (OTS Exhibit No. 5, Schedule 15). The Company
21 did not report the actual information it had during its random selected sample

1 snapshot of the three month period. The Company claimed there was billing
2 problems during its sample snapshot period, so it submitted select information
3 that it assumed to be representative instead of the actual data it had from its
4 invoices (OTS Exhibit No. 5, Schedule 15).

5
6 **Q. WHY DO YOU DISAGREE WITH THE COMPANY'S REPORTED**
7 **DATA?**

8 A. I disagree with the Company's data because the Company's choice of using a
9 sample snapshot requires that it use actual data. By changing the data to give
10 more favorable lead/lag results, the Company is making the assumption that
11 all future expenses will not have any billing problems. This is an unrealistic
12 assumption and has led to biased expense lag results (OTS Exhibit No. 5,
13 Schedule 15).

14
15 **Q. HOW DID YOU DETERMINE THE CORRECT INFORMATION?**

16 A. I requested the tree trimming invoices from the Company and used the
17 amounts the Company provided along with the correct payment dates from
18 the invoices (OTS Exhibit No. 5, Schedule 16). Unfortunately, the invoices
19 only listed the end of the service period so the mid-point of the service period
20 could not be determined (OTS Exhibit No. 5, Schedule 5).

1 Q. **WHAT WOULD THE DIFFERENCE BE IF YOU HAD THE MID-**
2 **POINT OF THE SERVICE PERIOD?**

3 A. The mid-point of the service period that is customarily used in lead/lag
4 calculations would have resulted in an even higher lag calculation for tree
5 trimming. Therefore, the lags which I calculated from the Company's data
6 are conservative.

7
8 **WORK BY OUTSIDERS**

9 Q. **WHAT IS YOUR ADJUSTMENT TO WORK BY OUTSIDERS?**

10 A. I recommend an increase in the lag for Work by Outsiders from 67.26 to
11 83.49 (PPL Attachment II-B-4, Page 7 of 13).

12
13 Q. **WHAT IS THE BASIS FOR THE ADJUSTMENT TO WORK BY**
14 **OUTSIDERS?**

15 A. The basis for my adjustment to Work by Outsiders is the payment dates of
16 seven of the items the Company listed on PPL Attachment II B-4, Page 7.
17 The sample snapshot period the Company provided was for the period ended
18 September 30, 2006. The seven items I am objecting to were paid in October
19 2006, which is outside the snapshot period and should be removed from this
20 schedule and the calculation of lag days (OTS Exhibit No. 5, Schedule 6).

1 **SERVICES**

2 **Q. WHAT IS YOUR ADJUSTMENT TO SERVICES?**

3 A. I recommend an increase in the lag for Services from 20.91 to 24.82 (PPL
4 Attachment II-B-4, Page 8 of 13).

5
6 **Q. WHAT IS THE BASIS FOR YOUR ADJUSTMENT TO SERVICES?**

7 A. The basis for my adjustment is the payment dates of three of the items the
8 Company listed on PPL Attachment II B-4, Page 8. The sample snapshot
9 period the Company provided was for the period ended September 30, 2006.
10 The three items I am objecting to were paid in October 2006, which is outside
11 the snapshot period and should be removed from this schedule and the
12 calculation of lag days (OTS Exhibit No. 5, Schedule 7).

13
14 **Q. WERE THERE ANY OTHER ADJUSTMENTS TO SERVICES?**

15 A. Yes. The other adjustment I made concerns the yearly invoice to Electrocon
16 International Inc. The Company reported an amount of \$12,637.32, but the
17 invoice the Company provided in response to OTS-RE-115-D shows the
18 yearly amount due is \$11,922.00. Since this was a yearly invoice, it was
19 necessary to divide the amount by four to get an accurate quarterly amount for
20 the lead/lag calculation ($\$11,922/4 = \$2,980.50$) (OTS Exhibit No. 5,
21 Schedule 12).

1 **RENTS**

2 **Q. WHAT IS YOUR ADJUSTMENT TO RENTS?**

3 A. I recommend an increase in the lag for Rents from 17.74 to 23.78 (PPL
4 Attachment II-B-4, Page 11 of 13).

6 **Q. WHAT IS THE BASIS FOR YOUR ADJUSTMENT TO RENTS?**

7 A. The basis for my adjustment is the payment of two yearly invoices in their
8 quarterly select invoice snapshot. The Company's use of yearly invoices in
9 this instance is improper because it is not representative of yearly data.

10 Yearly data should be divided by four to give an accurate quarterly view of
11 the information. I have corrected the Jeddo-Highland Coal Co. and Freya
12 Land Company data to more accurately represent a quarterly snapshot. The
13 table below identifies the correct amount to be used in the Rents lag
14 calculation:

15

Vendor	Yearly Amt (A)	Quarterly Amt (B)	Lag Days (C)	PPL Weighted Amt (A) X (C)	Weighted Amt (B) X (C)
Jeddo	\$1,471	\$367.75	(182)	(\$267,722)	(\$66,930)
Freya	\$ 897	\$224.25	(184)	(\$165,048)	(\$41,262)

16

17 The Rents lag schedule with the above corrections is reflected at OTS Exhibit
18 No. 5, Schedule 8.

1 **MISCELLANEOUS EXPENSES**

2 **Q. WHAT IS YOUR ADJUSTMENT TO MISCELLANEOUS**
3 **EXPENSES?**

4 A. I recommend an increase in the lag for Miscellaneous Expenses from 10.00 to
5 34.54 (PPL Attachment II-B-4, Page 13 of 13).

6
7 **Q. WHAT IS THE BASIS FOR YOUR ADJUSTMENT TO**
8 **MISCELLANEOUS EXPENSES?**

9 A. The basis for my adjustment is the result of a payment date of October 2,
10 2006 to The Lamar Companies that PPL listed on Attachment II B-4, Page
11 13. The sample snapshot period the Company provided was for the period
12 ended September 30, 2006. The item I am objecting to was outside the
13 snapshot period and should be removed from this schedule and calculation of
14 lag days (OTS Exhibit No. 5, Schedule 9).

15
16 **Q. WOULD YOU SUMMARIZE YOUR ADJUSTMENTS?**

17 A. Yes. I am proposing an increase in the lags for five sub-categories of the
18 Other Operating Expense lag summarized in the table below. The net affect
19 is an increase in the lag of Other Operating Expenses from 40 days to 60.79
20 days (OTS Exhibit No. 5, Schedule 4). When carried through the entire
21 lead/lag study, the net effect is a reduction to CWC of \$19,878,000 (OTS
22 Exhibit No 6, Schedule 3).

<u>Operating Expense</u>	<u>Company claimed lag</u>	<u>OTS calculated lag</u>
Tree Trimming	45.02	89.73
Work by Outsiders	67.26	83.49
Services	20.91	24.82
Rents	17.74	23.78
Miscellaneous	10.00	34.54

1

2 **Q. DO YOU HAVE ANY OTHER COMMENTS RELATED TO THE**
3 **COMPANY'S CWC CLAIMS?**

4 A. Yes. OTS does not agree with the Company's calculation of its CWC
5 requirement for accrued taxes. However, at this time the rate impact of
6 adjusting the CWC claim for accrued taxes would be de minimis. Therefore,
7 OTS is not proposing an adjustment.

8

9 **Q. DOES YOUR RECOMMENDED CWC ALLOWANCE OF \$7,053,000**
10 **REPRESENT A FINAL RECOMMENDED ALLOWANCE FOR**
11 **CWC?**

12 A. No. All adjustments to the Company's claims for revenues, expenses, taxes
13 and rate base must be consistently brought together in the ALJ's
14 Recommended Decision, and again in the Commission's Final Order. This
15 process, which is known as "iteration", effectively prevents the determination
16 of a precise calculation until such time as all adjustments have been made to
17 the Company's claim.

1 Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A. Yes.

APPENDIX A

PROFESSIONAL AND EDUCATION EXPERIENCE

DEBRA J. BACKER

Professional Experience

December 2005 to Present: Office of Trial Staff, Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania.

Fixed Utility Financial Analyst – Responsible, primarily, for the review of operating and maintenance expense and cash working capital as part of the evaluation and recommendation process for utility base rate and purchase gas costs filings.

November 2004 to December 2005: Pennsylvania Department of Labor and Industry, Harrisburg, Pennsylvania.

Unemployment Compensation Tax Technician – Responsible, primarily, for reviewing and maintaining employer's accounts and ensuring the accounts were in compliance with the Pennsylvania Unemployment Compensation Law and making proper adjustments necessary to ensure compliance.

Education

Edinboro University of Pennsylvania, Edinboro, Pennsylvania
Bachelor of Science; Major in Business Administration, 1993

Attended P.U.C. Rate School

OTS Exhibit No. 5
Witness: Debra J. Backer
Hog JX AUG 13 2007

DOCUMENT
FOLDER

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

Exhibit to Accompany

the

Direct Testimony

of

Debra J. Backer

RECEIVED

AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

CASH WORKING CAPITAL

PPL Electric Utilities Corporation
 Working Capital Required for Operation and Maintenance Expenses
 As of December 31, 2007
 (Thousands of Dollars)

OTS Exhibit No. 5
 Schedule 1, Page 1 of 2

Line No.	Description	Amount (c)	Avg. Days	Weighted Amount
	Average Lag in Receipt of Operating revenue			
1	Revenue from 15-day due date customers	\$342,219	34 (a)	\$11,635,446
2	Revenue from 20-day due date customers	463,377	57 (a)	\$26,412,489
3	Revenue from 30-day due date customers	226,039	38 (a)	\$8,677,637
4	Total Revenue (D-3)	<u>\$1,031,635</u>		<u>\$46,725,572</u>
	Average Lag in Payment of Operation and Maintenance Expense			
		(d)		
5	Payroll	\$83,701	12.00	\$1,004,412.00
6	Employee benefits	27,922	35.00	977,270.00
7	Affiliate support costs	94,124	35.00	3,294,340.00
8	Other operating expenses	347,278	60.79	21,111,029.62
9	Total pro forma O&M expense (b)	<u>\$553,025</u>		<u>\$26,387,051.62</u>
10	Average lag in receipt of revenue			45.29
11	Average lag in payment of operating expense			47.71
12	Average lag in days between payment of operating expense and receipt of revenue (line 10-11)			<u>(2.42)</u>
13	Operating expense per day (line 9/365 days)			\$1,515
14	Working capital requirement (line 13 X line 12)			(\$3,667)

		Customer Due Date		
		15 Days	20 Days	30 Days
(a)	Midpoint of 30-day service period	15	15	15
	Lag between meter reading and billing date	1	1	1
	Lag between billing date and payment date	18	41	22
		<u>34</u>	<u>57</u>	<u>38</u>
(b)	Pro forma operating and maintenance expense	\$579,291		
	Less: Non-cash items			
	Uncollectible accounts	20,155		
	On Track uncollectible expense	4,500		
	Amortization of Ice and Snow Storm costs (D-9)	1,611		
	Total pro forma O&M expense	<u>\$553,025</u>		
(c)	FTY Revenues OTS Exhibit No. 5, Schedule 17			
(d)	FTY Expense OTS Exhibit No. 5, Schedule 18			

PPL Electric Utilities Corporation
R-00071555

OTS Exhibit No. 5
Schedule 2

Working Capital Required for Operation and Maintenance Expenses
As of December 31, 2007
(Thousands of Dollars)

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Net pro forma O&M expense (a)	\$553,025
2	O&M expense per day (line 1 divided by 365 days)	1,515
3	Average lag in days between payment of O&M expenses and receipt of revenue (b)	(2.42)
4	Working capital requirement (line 2 X line 3)	(3,667)
	(a) Total pro forma operation and maintenance expense (D-1)	\$579,291
	Less: Non-cash items	
	Uncollectible accounts	20,155
	On Track uncollectible expense	4,500
	Amortization of Ice and Snow Storm costs (D-9)	1,611
	Net pro forma O&M expense	<u>\$553,025</u>

(b) OTS Exhibit No. 5, Schedule 1, Page 1

PPL ELECTRIC UTILITIES CORPORATION
R-00072155
Cash Working Capital
As of December 31, 2007
(Thousands of Dollars)

Line No.	Description	Claim per Company (a)	Allowance per OTS	OTS Recommended Adjustment
1	Operation and maintenance expense	\$16,211	(\$3,667) (b)	\$19,878
2	Average prepayments	2,470	2,470	0
3	Accrued taxes	17,245	17,245	0
4	Interest payments	(9,005)	(9,005)	0
5	Preferred and preference dividend payments	10	10	0
6	Total cash working capital requirement	<u>\$ 26,931</u>	<u>\$7,053</u>	<u>\$ 19,878</u>

(a) Reference Co. Exhibit Future 1, C-4 page 1

(b) Reference OTS Exhibit No. 5, Schedule 1

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Other Expenses
3 Months Ended in September 30, 2006

OTS Exhibit No. 5
Schedule 4

Category	Amount	Days Lag	Weighted Amount per OTS	PPL's Claim	Difference
Employee Expenses	\$ 562,871	12	\$ 6,754,452	6,754,452	0
Materials & Supplies	488,233	32.6	15,916,396	15,916,396	0
Printing & Office Supplies	161,382	35.96	5,803,297	5,803,297	0
Tree Trimming	7,282,572	89.73 (a)	653,465,186	327,861,391	325,603,795
Work by Outsiders	7,581,220	83.49 (b)	632,956,058	509,912,857	123,043,201
Services	1,537,331	24.82 (c)	38,156,555	32,145,591	6,010,964
Postage	1,319,124	(7.01)	(9,247,059)	(9,247,059)	0
Telephone & Leased Wires	908,779	35.12	31,916,318	31,916,318	0
Rents	3,438,660	23.78 (d)	81,771,335	61,001,828	20,769,507
Advertising	66,462	36.93	2,454,442	2,454,442	0
Miscellaneous	1,554,308	34.54 (e)	53,685,798	15,543,080	38,142,718
Total	<u>\$ 24,900,942</u>		<u>\$1,513,632,778</u>	<u>\$1,000,062,593</u>	<u>\$ 513,570,185</u>

60.79 lag days

(a) OTS Exhibit No. 5, Schedule 5
(b) OTS Exhibit No. 5, Schedule 6
(c) OTS Exhibit No. 5, Schedule 7

(d) OTS Exhibit No. 5, Schedule 8
(e) OTS Exhibit No. 5, Schedule 9

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Work by Tree Trimming
3 Months Ended September 30, 2006

OTS Exhibit No. 5
Schedule 5

Vendor Name	Voucher	Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Asplundh Tree Expert Co.	2408597	4/29/2006	8/14/2006	\$12,510.00	107	\$1,338,570 (c)
Asplundh Tree Expert Co.	2408522	4/29/2006	8/14/2006	108,272.91	107	11,585,201 (c)
JAFLO Inc.		6/24/2006	8/21/2006	46,000.50	58	2,668,029 (b)
JAFLO Inc.		6/24/2006	8/21/2006	22,878.75	58	1,326,968 (b)
Asplundh Tree Expert Co.	2431283	7/8/2006	9/20/2006	10,135.18	74	750,003 (c)
JAFLO Inc.		6/24/2006	8/21/2006	8,915.50	58	517,099 (b)
JAFLO Inc.		7/5/2006	8/28/2006	5,883.62	54	317,715
Asplundh Tree Expert Co.	2434307	6/10/2006	9/20/2006	272,639.00	102	27,809,178 (c)
Asplundh Tree Expert Co.	2446817	5/31/2006	10/10/2006	0.00	132	0 (a)
PNC Bank NA	2446427	7/29/2006	9/25/2006	83,228.12	58	4,827,231
JAFLO Inc.		8/16/2006	10/6/2006	0.00	51	0 (a)
Asplundh Tree Expert Co.	2431313	5/13/2006	9/20/2006	26,015.00	130	3,381,950 (c)
Asplundh Tree Expert Co.	2431314	7/22/2006	9/20/2006	18,951.48	60	1,137,089 (c)
Asplundh Tree Expert Co.	2431299	7/22/2006	9/20/2006	14,760.00	60	885,600 (c)
Asplundh Tree Expert Co.	2431327	7/8/2006	9/20/2006	7,973.88	74	590,067 (c)
Asplundh Tree Expert Co.	2431313	8/9/2006	9/20/2006	6,743.00	130	876,590 (c)
Asplundh Tree Expert Co.	2431314	8/9/2006	9/20/2006	4,755.70	60	285,342 (c)
				\$649,662.64		<u>\$58,296,632</u>

89.73

- (a) outside of Company's selected snapshot period
- (b) Company's response to OTS-RE-113-D, Part D stated tree trimming dates were week ended June 24, 2006 (OTS Exhibit No. 5, Schedule 15).
- (c) Service Date should be the middle of the service period. Company provided invoices for Asplundh showing only the end of the service period, so we had to use that date which gives them a lower lag than if the middle of the service period date was used (OTS Exhibit No. 5, Schedule 16).

PPL Electric Utilities Corporation
R-00072155

OTS Exhibit No. 5
Schedule 6

Lag in Payment of Work by Outsiders
3 Months Ended September 30, 2006

Vendor Name	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Utilities International Inc.	3/15/2006	7/13/2006	\$30,683.80	120	\$3,682,056
East Coast Drilling	6/22/2006	7/24/2006	\$24,999.00	32	799,968
Henkels & McCoy Inc.	6/6/2006	7/7/2006	\$23,121.50	31	716,767
TREHAB Center	6/15/2006	7/31/2006	\$20,097.00	46	924,462
Henkels & McCoy Inc.	5/16/2006	7/13/2006	\$17,268.01	58	1,001,545
Duggan & Marcon Inc	7/11/2006	8/10/2006	\$16,500.00	30	495,000
Osrose Utilities Services Inc.	4/12/2006	7/26/2006	\$15,219.37	105	1,598,034
KT Power Inc.	5/18/2006	7/27/2006	\$12,482.74	70	873,792
Henkels & McCoy Inc.	4/26/2006	9/1/2006	\$25,729.38	37	951,987
Waste Management of PA, Inc.	7/5/2006	9/11/2006	\$13,594.11	68	924,399
Agrotors Inc	8/4/2006	9/11/2006	\$13,500.00	38	513,000
Everhart & Hoover Power Line	7/29/2006	9/6/2006	\$11,648.71	39	454,300
Lineal Industries Inc.	7/21/2006	9/1/2006	\$10,406.00	42	437,052
Miller Bros	3/8/2006	9/14/2006	\$68,691.00	190	13,051,290
Henkels & McCoy Inc.	9/6/2006	10/6/2006	\$0.00	30	0 (a)
Pavemasters	8/15/2006	10/4/2006	\$0.00	50	0 (a)
Agrotors Inc	9/13/2006	10/16/2006	\$0.00	33	0 (a)
TREHAB Center	8/15/2006	10/2/2006	\$0.00	48	0 (a)
Agrotors Inc	8/16/2006	9/20/2006	\$21,600.00	35	756,000
Henkels & McCoy Inc.	9/6/2006	10/6/2006	\$0.00	30	0 (a)
Henkels & McCoy Inc.	9/6/2006	10/6/2006	\$0.00	30	0 (a)
D. L. Fry, Inc.	9/1/2006	10/2/2006	\$0.00	31	0 (a)
			<u>\$325,540.62</u>		<u>\$27,179,652</u>

83.49

(a) outside of Company's selected snapshot period

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Services
3 Months Ended September 30, 2006

OTS Exhibit No. 5
Schedule 7

Vendor Name	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Accenture	8/15/2006	7/31/2006	\$ 335,507.63	(15)	\$ (5,032,614)
EPRI	8/15/2006	7/31/2006	26,447.00	(15)	(396,705)
Davies Consulting Inc.	4/15/2006	7/31/2006	18,332.12	107	1,961,537
ICR	8/15/2006	8/4/2006	11,472.50	(11)	(126,198)
Executive Relocation Corp.	5/15/2006	7/14/2006	5,357.76	60	321,466
Davies Consulting Inc.	7/1/2006	8/30/2006	27,901.72	60	1,674,103
PA One Call System Inc.	7/31/2006	8/30/2006	3,115.80	30	93,474
Accenture	7/1/2006	9/26/2006	150,000.00	87	13,050,000
Accenture	9/1/2006	9/26/2006	117,250.00	25	2,931,250
J D Power and Assoc.	8/22/2006	9/21/2006	74,200.00	30	2,226,000
Accenture	9/1/2006	9/26/2006	57,750.00	25	1,443,750
Siemens Power Transmission & Dist Inc.	9/1/2006	10/2/2006	0.00	31	0 (a)
J D Power and Assoc.	7/31/2006	9/14/2006	47,700.00	45	2,146,500
Executive Relocation Corp.	6/15/2006	9/5/2006	31,685.46	82	2,598,208
Electron International Inc.	3/1/2007	9/25/2006	2,980.50	(157)	(467,939) (b)
General Electric International Inc.	6/30/2007	10/2/2006	0.00	(271)	0 (a)
Executive Relocation Corp.	6/15/2006	9/5/2006	2,755.01	82	225,911
PA One Call System Inc.	8/31/2006	10/2/2006	0.00	32	0 (a)
			<u>\$ 912,455.50</u>		<u>\$ 22,648,743</u>

24.82 lag days

(a) outside of Company's selected snapshot period

(b) Invoice provided by Company shows annual amount billed was \$11,922, divided amount by 4 to get accurate quarterly information (OTS Exhibit No. 5, Schedule 12).

PPL Electric Utilities Corporation
R-00072155

OTS Exhibit No. 5
Schedule 8

Lag in Payment of Rents
3 Months Ended September 30, 2006

Vendor Name	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Jeddo-Highland Coal Co.	1/1/2007	7/3/2006	\$367.75	(182.00)	(\$66,931) (a)
Freya Land Co.	1/1/2007	7/1/2006	224.25	(184.00)	(\$41,262) (a)
Met-Ed	8/15/2006	7/27/2006	806.00	(19.00)	(\$15,314)
HV Diagnostics	7/15/2006	8/1/2006	2,609.66	17	44,364
Doble Engineering	7/15/2006	8/1/2006	1,400.53	17	23,809
DILO Co.	7/15/2006	8/1/2006	1,235.74	17	21,008
IPC Informational System	7/15/2006	7/31/2006	1,164.38	16	18,630
IPC Informational System	7/15/2006	7/31/2006	4,540.27	16	72,644
HV Technologies	7/15/2006	7/31/2006	2,082.54	16	33,321
Doble Equipment	7/15/2006	8/1/2006	1,495.30	17	25,420
Cleveland Bros.	7/15/2006	8/1/2006	1,411.90	17	24,002
Central Penn Directional Drilling	7/19/2006	8/18/2006	5,778.00	30	173,340
D L Fry Inc.	7/25/2006	9/1/2006	1,372.28	38	52,147
D L Fry Inc.	7/19/2006	8/25/2006	7,847.00	37	290,339
DILO Co.	8/15/2006	9/1/2006	1,622.76	17	27,587
IPC Informational System	8/15/2006	8/31/2006	4,531.84	16	72,509
HV Technologies	8/15/2006	8/31/2006	2,086.47	16	33,384
Doble Equipment	8/15/2006	9/1/2006	1,491.52	17	25,356
Cleveland Bros.	8/15/2006	9/1/2006	1,407.62	17	23,930
City of Harrisburg	8/1/2006	9/21/2006	3,969.00	51	202,419
Cleveland Bros Equip Co Inc	9/12/2006	10/2/2006	3,705.00	20	74,100
United Rentals Inc	8/17/2006	9/18/2006	2,508.24	32	80,264
Hertz Equipment Rental	8/24/2006	10/10/2006	1,908.00	47	89,676
Hertz Equipment Rental	7/15/2006	8/29/2006	1,200.00	45	54,000
AAT Communications Sys.	8/22/2006	9/20/2006	2,146.44	29	62,247
			<u>\$58,912.49</u>		<u>\$1,400,989</u>

23.78 Lag days

(a) Yearly payment, divided Company's amount by 4 to get accurate quarterly information

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Miscellaneous Expenses
3 Months Ended September 30, 2006

OTS Exhibit No. 5
Schedule 9

Vendor Name	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Encompass Insurance	4/24/2006	7/21/2006	\$4,791.70	88	\$421,670
Pocono Rabbit Farm	7/13/2006	7/24/2006	4,750.00	11	52,250
Liberty Mutual	6/21/2006	7/6/2006	3,906.34	15	58,595
Allen C. Hench	6/15/2006	7/7/2006	2,730.08	22	60,062
Robert R Palmer	5/23/2006	7/18/2006	2,728.10	56	152,774
Merchants Mutual Insurance Co.	2/7/2006	7/28/2006	2,676.13	171	457,618
Can Do Inc	6/23/2006	7/13/2006	2,500.00	20	50,000
Can Do Inc	7/12/2006	7/26/2006	2,500.00	14	35,000
Commonwealth of PA	6/4/2006	7/14/2006	1,782.00	40	71,280
PJM Bill	8/15/2006	9/20/2006	25,177.99	36	906,408
Commonwealth of PA	7/7/2006	8/28/2006	24,880.25	52	1,293,773
Lori Pearson	8/8/2006	8/21/2006	4,292.00	13	55,796
Angel Riephoff	7/25/2006	8/10/2006	3,889.11	16	62,226
BKK Communications Inc	7/6/2006	8/10/2006	2,188.37	35	76,593
Glenn G Holzmann	8/10/2006	8/21/2006	2,166.67	11	23,833
Reliability First Corporation	11/15/2006	10/2/2006	0.00	(44)	0 (a)
PJM Bill	9/15/2006	10/20/2006	0.00	35	0 (a)
Raymond Passante	8/24/2006	9/22/2006	5,302.87	29	153,783
Premiere Speakers Bureau Inc	12/8/2006	9/8/2006	3,250.00	(91)	(295,750)
Dale Roth	9/25/2006	9/29/2006	3,200.00	4	12,800
Westfield Insurance	9/6/2006	9/21/2006	2,475.00	15	37,125
Paul Panzera	8/31/2006	9/13/2006	2,455.83	13	31,926
			<u>\$107,642.44</u>		<u>\$3,717,762</u>

34.54 lag days

(a) outside of Company's selected snapshot period

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set I,
Dated April 25, 2007**

Docket No. R-00072155

- Q.5.** With reference to the lag on other operating expenses, please explain the method used to select the invoices used to calculate the lag days.
- A.5.** The selection sample of invoices used to determine the lag on other operating expenses was determined initially on a random basis, with a higher percentage of material transactions chosen and some minor adjustments made to include a variety of payees in the sample.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

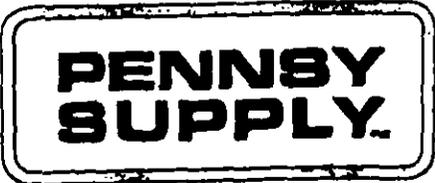
- Q.OTS-RE-111-D.** Reference Attachment II-B-4, page 4 of 13, Materials and Supplies.
- A.** Explain your reasoning for using the 3 Months Ended September 30, 2006 and how this is a good representation for a lag calculation for the year.
 - B.** Explain how the mid-point of the service date was determined for Materials and Supplies. Does this date represent the date the materials were received, the mid-point of a service period or is the mid-point date actually the invoice date?
 - C.** Explain the nature of and provide the invoice for the transaction to Pennsy Supply Inc, paid on July 17, 2006 and why it has a 58 lag day calculation.
 - D.** Explain the nature and provide the invoices for the two transactions to Signalcrafters Tech Inc, for \$26,800 paid September 14, 2006 and August 24, 2006.
 - E.** Explain the nature of and provide the invoice for the transaction to GE Parts Super Center for \$24,890.73 paid on September 7, 2006.
 - F.** Provide an explanation for the Materials and Supplies lag dropping from 55.35 in the last PPL Electric Rate filing Docket No. R-00049255 to 32.60 in this case.
- A.OTS-RE-111-D.** **A.** See Question II-B-4 of Exhibit Regs., § 53.53, Part II, which requires a utility making a claim for working capital to "provide a lead-lag study of working capital, completed no more than 6 months prior to the rate increase filing." Because PPL Electric filed its proposed base rate increase on March 29, 2007, the 6-month period prior to the filing ended on, or about, September 30, 2006. As a result, PPL Electric appropriately used the 3-month period ended September 30, 2006 as the basis for its lead-lag study.

Based upon an examination of the types of expenses incurred during the three month period ended September 30,

2006, and the types of expenses incurred for the twelve months ended December 31, 2006, PPL Electric believes that the 3-month period ended September 30, 2006 provides a reasonable and accurate approximation of the O&M expense leads and rate revenue lags for the full 12 months of its historic test year ended December 31, 2006. Moreover, PPL Electric historically has used, and this Commission traditionally has accepted, a 3-month period, completed no more than 6 months prior to a rate filing, as a representative sample for analysis of O&M expense payments and rate revenue receipts for a filed lead-lag study.

- B. The mid-point of the service date for Materials and Supplies is the invoice date.
- C. The transaction to Pennsy Supply, Inc. was for paid on July 17, 2006 and had a 58 lag-day calculation. This purchase was for PennDot flowable fill, a material consisting of cement, fly ash and fine aggregate that is used as backfill for utility trenches. The purchase of this material was covered under an existing purchase order. Internal controls for purchases made under purchase orders require matching of invoice to purchase order terms. Matching revealed that the invoice terms of this transaction were not consistent with the purchase order, which subsequently was revised prior to payment. See Attachment 1 for copy of invoice.
- D. The invoices for Signalcrafters are for voltmeters. The second invoice (dated July 20, 2006) inadvertently was included in the sample; the initial request for payment was denied and the invoice was resubmitted on August 15, 2006, upon which payment was made on September 14, 2006. See Attachment 1 for copy of invoices.
- E. The invoice for GE Parts Super Center was for a control valve. See Attachment 1.
- F. The Materials and Supplies lag calculation in PPL Electric's most recent base rate proceeding at Docket No. R-00049255 was heavily influenced by several transactions with one vendor that had large days lags. This vendor was not part of the Materials and Supplies sample population for this filing.

INVOICE



Phone: 717-233-4511

FED.ID# 23-2729496

THIS IS YOUR INVOICE

MONTHLY STATEMENTS WILL NOT BE ITEMIZED.
 ALL CLAIMS AND RETURNED GOODS MUST BE
 ACCOMPANIED BY THIS INVOICE.
 ALL GOODS RETURNED WILL BE SUBJECT TO A
 10% HANDLING CHARGE.

Page 1

05/20/06	1511781
	143940

SOLD TO P.P. & L. Co-Brookwood St
 Mobile Work Force
 1801 Brookwood St.
 Harrisburg, PA 17104

FOR

JOB: REL 406

P.O.: 2464749

DESCRIPTION	QUANTITY	UNIT	SALES TAX CODE	TAX CODE	UNIT PRICE	TOTAL	AMOUNT
Tickets For 5/16/2006							
C0016	8.00	CY	Penn DOT Flowable Fill SALES TAX CODE:	PAN	48933675	89.25	714.00
FUELSCH	1.00	EA	Fuel Surcharge (Conc) SALES TAX CODE:	PAN	48933675	8.00	8.00
C0016	8.00	CY	Penn DOT Flowable Fill SALES TAX CODE:	PAN	48933679	89.25	714.00
FUELSCH	1.00	EA	Fuel Surcharge (Conc) SALES TAX CODE:	PAN	48933679	8.00	8.00
C0016	8.00	CY	Penn DOT Flowable Fill SALES TAX CODE:	PAN	48933681	89.25	714.00
FUELSCH	1.00	EA	Fuel Surcharge (Conc) SALES TAX CODE:	PAN	48933681	8.00	8.00



Net Amount 2,166.00 Sales Tax 0.00 Total Amount 2,166.00

NO FINANCE CHARGES MADE. DELINQUENT CHARGE OF 18 % PER ANNUM ON PAST DUE ACCOUNTS.
 IF PAID BY 06/10/2006 YOU MAY DEDUCT \$ 24.00 DISCOUNT

DETACH AND RETURN THIS PORTION WITH YOUR REMITTANCE

REMITTANCE COPY

Pennsy Supply, Inc
 P.O. Box 3331
 Harrisburg, PA 17105

143940	1511781
--------	---------

▶	2,166.00
---	----------

Discount \$24.00

VISA® MasterCard® Expire: /

Account#

Amount Paid \$

Signature _____ Date _____

(required if using credit card)

Signalcrafters

TECH, INC

57 EAGLE ROCK AVENUE
 EAST HANOVER, NJ 07936-3144
 TEL: (973) 781-0880 • FAX (973) 781-9044
 www.signalcrafters.com

INVOICE

INVOICE NO. 3334
 INVOICE DATE 08/15/06
 PAGE 1

Your Business Is Appreciated

PPL Services Corporation
 PO Box 25223
 Lehigh Valley, PA 18002-5223

ATTN: Accounts Payable GENTW13

PPL Electric Utilities Corp
 Humboldt Regional Warehouse
 1 Scotch Pine Drive
 Hazelton, PA 18202-9761

Sales Order No: 12238
 Order Date: 06/30/06
 Account Code: PPLELE1
 Salesperson: 3

Taxable: N
 Our Terms: NET 30
 Shipper No: 1834
 Ship Date: 08/15/06

P.O. No: 00351786
 Ship Via: UPS GROUND
 F.O.B.: EAST HANOVER
 Job No:

**EXTENDED
 PRICE**

Line	Quantity Shipped	Backordered	Part Number / Description	Price	UM	
	4		0 MODEL 110 Frequency Selective Voltmeter	0.00	\$6,700.0000	EA \$26,800.00

Serial Number
499
500
501
502

NOTES
 Shipped via UPS on account # 172377

Subtotal: \$26,800.00
 Freight: \$0.00
 Total: \$26,800.00

Signalcrafters

TECH, INC

57 EAGLE ROCK AVENUE
EAST HANOVER, NJ 07936-3144
TEL: (973) 781-0880 • FAX (973) 781-9044
www.signalcrafters.com

02432314
index

NAA

(E)
8/23/06
[Signature]

INVOICE

INVOICE NO. 3324
INVOICE DATE 07/20/06
PAGE 1

Your Business is Appreciated

PPL Services Corporation
PO Box 25223
Lehigh Valley, PA 18002-5223

ATTN: Accounts Payable GENTW13

PPL Electric Utilities Corp
Humboldt Regional Warehouse
1 Scotch Pine Drive
Hazleton, PA 18202-9761

QC'd
8/24/06
SK

Sales Order No: 12238
Order Date: 08/30/08
Account Code: PPLELE1
Salesperson: 3

Taxable: N
Our Terms: NET 30
Shipper No: 0
Ship Date: 07/20/06

P.O. No: 00351766
Ship Via: UPS GROUND
F.O.B.: EAST HANOVER
Job No:

Line	Quantity Shipped	Backordered	Part Number / Description	Price UM	EXTENDED PRICE
	4		0 MODEL 110 Frequency Selective Voltmeter	0.00 \$6,700.0000 EA	\$26,800.00

---NOTES---
Shipping via UPS on account # 172377
Expected ship date 08/03/08

Bad Copy
Original on File

R&T 8/25
WASE 8/28

Subtotal: \$28,800.00
Freight: \$0.00
Total: \$28,800.00

V# 0243 1449



GE Parts Super Center

GENERAL ELECTRIC COMPANY
 CREDIT OPERATIONS
 600 S ROYAL LANE SUITE 150
 COPPELL, TX 75019-3847
 ADDRESS SERVICE REQUESTED

OTS Exhibit No. 5

Schedule 11

Page 6 of 6

SEND PAYMENT SHOWING INVOICE NUMBER & INVOICE DATE TO:

GE Parts Super Center
 P.O. BOX 404862
 ATLANTA GA 30384
 D-U-N-S 01-809-219

SEND
 PAYMENT
 TO: >>>>

000010

BILLED TO:

G05XT60001543 1002884
 PENN POWER & LIGHT CO
 PO BOX 25223
 LEHIGH VALLEY PA 18002-5223

SHIPPED TO:

PPL ELECTRIC UTILITIES CORP
 BLOOMSBURG
 RD 5 4001 SAWMILL RD
 BLOOMSBURG PA 17815

CUSTOMER ORDER NUMBER AND DATE	GE SUPPLY JOB NO.	G.E. REFERENCE NUMBER	INVOICE NUMBER	INVOICE DATE	PAGE
00346051/TD343883		405439	884-165399	08/08/06	1

PAYMENT TERMS
 *CASH DISCOUNT AS INDICATED BELOW SYSTEM -
 NET 30 DAYS

PAYMENT TERMS

SHIPPING REFERENCE NUMBER	DATE SHIPPED	SHIPPED FROM	SHIPPED VIA	TRANSPORTATION TERMS
884	08/07/06	GE PARTS SUP	PSC USF HO	PREPAID - ALLOW.

NAED NO.	DESCRIPTION	QUANTITY	%CD	UNIT PRICE	UM % T.D.	EXTENDED AMOUNT
78005153012	PO# 00346051 PP&L CENT PAYABLES TW-10 0238C0216711 CONTROL VALVE CUSTOMER LINE # 0001	1	0.0	24,890.73	E 0.00	24,890.73
	SUB TOTAL					24,890.73
*****	TOTAL AMOUNT BILLED					24,890.73

gesupply.com

CUSTNO.
 884-5228408

PLEASE SEE REVERSE SIDE OF PAGE ONE FOR STANDARD CONDITIONS APPLYING TO ALL TRANSACTIONS

FOR CUSTOMER FINANCIAL

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

- Q.OTS-RE-115-D.** Reference Attachment II-B-4, page 8 of 13, Services.
- A.** Revise the schedule to reflect the twelve months data for 2006.
 - B.** Explain how the mid-point of the service date was determined for Services. Does this date represent the date the work was performed, the mid-point of a service period or is the mid-point date actually the invoice date?
 - C.** Provide the invoice for Davies Consulting Inc., payment date July 31, 2006.
 - D.** Provide the three invoices for Accenture payment date July 31, 2006, in the amount of \$335,507.63 and the two with payment dates of September 26, 2006, in the amounts of \$150,000 and \$117,250.
 - E.** Explain the nature of and provide the invoices of the transactions with Electrocon International Inc., in the amount of \$12,637.32 with a Lag of (157) and General Electric International Inc., in the amount of \$8,400 with a lag of (271).
 - F.** Explain the nature of and provide the invoices for the transactions for EPRI, payment date July 31, 2006, in the amount of \$26,447, with a lag of (15) and ICR, payment date August 4, 2006, in the amount of \$11,472.50 with a lag of (11).

- A.OTS-RE-115-D.** **A.** See Question II-B-4 of Exhibit Regs., § 53.53, Part II, which requires a utility making a claim for working capital to "provide a lead-lag study of working capital, completed no more than 6 months prior to the rate increase filing." Because PPL Electric filed its proposed base rate increase on March 29, 2007, the 6-month period prior to the filing ended on, or about, September 30, 2006. As a result, PPL Electric appropriately used the 3-month period ended September 30, 2006 as the basis for its lead-lag study.

Based upon an examination of the types of expenses incurred during the three month period ended September 30, 2006, and the types of expenses incurred for the twelve months ended December 31, 2006, PPL Electric believes that the 3-month

period ended September 30, 2006 provides a reasonable and accurate approximation of the O&M expense leads and rate revenue lags for the full 12 months of its historic test year ended December 31, 2006. PPL Electric historically has used, and this Commission traditionally has accepted, a 3-month period, completed no more than 6 months prior to a rate filing, as a representative sample for analysis of O&M expense payments and rate revenue receipts for a filed lead-lag study. Moreover, the requested information is not available, and would take several months to prepare, and could not be completed by the end of litigation in this proceeding.

- B. The mid-point of service date for Services generally is the mid-point of the service period, if applicable and ascertainable. Otherwise, the mid-point of service date is assumed to be the invoice date.
- C. See Attachment 1.
- D. See Attachment 1.
- E. The invoice from Electrocon International, in the amount of \$12,637.32, was a prepayment for an annual software maintenance contract. The invoice from General Electric International Inc., in the amount of \$8,400, was for a support and maintenance contract for the year 2007. See Attachment 1.
- F. The transaction with EPRI, payment date July 31, 2006, in the amount of \$26,447 with a lag of (15) is a prepayment for EPRI membership. The transaction with ICR, payment date August 4, 2006, in the amount of \$11,472.50 with a lag of (11), also is a prepayment for market research services. See Attachment 1.



Contract #
332070

June 30, 2006

Mr. Gregory Smith
Manager, Asset Operations Evaluation
2 North, 9th Street
Allentown, PA 18101-1179

Sent via electronic mail to Gregory Smith

Invoice: # 06-698
Project: PPL 83-03 Capital Prioritization
Support

DUE ON RECEIPT

Description	Amount
Consulting Fees	\$ 17,650.00
Reimbursable Expenses	\$ 682.12
Ground Travel \$ 598.05	
Meals Travel \$ 13.00	
Communications & Other direct cost \$ 71.07	
Total	\$ 18,332.12

Please make payment upon receipt to:

Davies Consulting, Inc.
6935 Wisconsin Avenue, Suite 600
Chevy Chase, MD 20815-6109

PPL ELECTRIC UTILITIES

Parvinder Kaur date 7/13/06

VERIFY / EMPL#

Gregory Smith date 7/13/06

APPROVAL EMPL#

BI 33 RC 601 ACCT/LOC 802001-092

BI _____ RC _____ ACCT/LOC _____

Thank you!



Accenture LLP
 161 W. Clark St.
 Chicago, IL 60601
 USA
 Tel: 312-693-0161

06/30/2006

INVOICE 1000086984

Ms. Joanne Hilty
 Manager - Customer Service - IT Support
 PPL Electric Utilities
 2 North 9th Street, GENGALL
 ALLENTOWN, PA 18101
 USA

Customer ID: 10003352

Contract # 125311-C

Professional Services - July plus 3.5%
 ECI Adj \$223,671.75
 Professional Services - August plus
 3.5% ECI Adj \$223,671.75
 Professional Services - September plus
 3.5% ECI Adj \$223,671.75

Tax Rate		
0%	USD	671,015.25

Total Amount

USD	671,015.25
-----	------------

Please remit by payment due date: 07/30/2006

Invoice Reference: 1000086984
 Amount: US Dollar 671,015.25

Federal Tax Identification Number: 720542904

Please remit Electronic Payment with above invoice information to:

Accenture LLP
 JP Morgan Chase
 Account Number: 5311314
 ABA Number: 071000013
 Qualifier: Invoice 1000086984

33-148-717037-455 - \$ 167,753.81
 33-148-717044-203 - \$ 167,753.81
 33-707-786118-001 - \$ 335,507.63

Verified:

Joanne M. Hilty 7/11/06
 #776060

DPW

Approved:

[Signature]

#04409



Accenture LLP
161 N. Clark St.
Chicago, IL 60601
USA
Tel: 312-693-0161

Contract # 125311

08/21/2006

INVOICE 1000094209

Ms. Joanne Hilty
Manager - Customer Service - IT Support
PPL Electric Utilities
2 North 9th Street, GENGALL
ALLENTOWN, PA 18101
USA

Customer ID: 10003352

Professional Services - Half of Contract Extension Service Fee \$300,000.00	Tax Rate 0%	USD	300,000.00
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Total Amount	USD	300,000.00
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33-148-717037-455 — \$75,000
 33-148-717044-203 — \$75,000
 33-707-786118-001 — \$150,000

Please remit by payment due date: 09/20/2006

Invoice Reference: 1000094209
Amount: US Dollar 300,000.00

Federal Tax Identification Number: 720542904

Please remit Electronic Payment with above invoice information to:

Accenture LLP
JP Morgan Chase
Account Number: 5311314
ABA Number: 071000013
Qualifier: Invoice 1000094209

Verified: Joanne M. Hilty #70060
 DPW a.506
 Approved: [Signature] #04409



REQUEST FOR PAYMENT

Payee Name Accenture	Vendor code	Company (required) PPL ELECTRIC UTILITIES	Date (mm/yyyy) 09/14/08
Address P.O. Box 70629		NOTE: Please refer to the appropriate Financial Department Manual (FDM) Chapter. • FDM Chapter 200 – Delegation of Authority • FDM Chapter 610 – Accounts Payable • FDM Chapter 702 – Treasurer's Working Fund	
Address			
City / State / Zip Chicago, IL 60673-0629			

Reason for Payment:
 Billing for consulting services rendered in relation to "PPL Customer Care Quality Review Program" Agreement #125311.
SERVICE ORDER CONTRACT# 0125311

Special Instructions (Optional):

Invoice Reference (30 char. Maximum) 1000096484	Invoice Date (mm/yyyy) 09/01/08	Purchase Order/Contract No. 0125311	PA Use Tax Code / Amt (AP Use Only)
Net Payment \$ 175,000.00	Date Check Required (mm/yyyy)	Pay Code Chk	

Distribution Amount \$ 57,750.00	Resrc./BI 33	SR/CCA 701	Project/ Rptd Acct/ GLAD 781403	Sub-project/ Loo 004	Account	Facility		
T.C (AP only)	CRC	Empl ID	Work Order	WO Task	Customer	Product	Activity	Speed Chart

Distribution Amount \$ 117,250.00	Resrc./BI 33	SR/CCA 707	Project/ Rptd Acct/ GLAD 786233	Sub-project/ Loo 001	Account	Facility		
T.C (AP only)	CRC	Empl ID	Work Order	WO Task	Customer	Product	Activity	Speed Chart

Distribution Amount	Resrc./BI	SR/CCA	Project/ Rptd Acct/ GLAD	Sub-project/ Loo	Account	Facility		
T.C (AP only)	CRC	Empl ID	Work Order	WO Task	Customer	Product	Activity	Speed Chart

Distribution Amount	Resrc./BI	SR/CCA	Project/ Rptd Acct/ GLAD	Sub-project/ Loo	Account	Facility		
T.C (AP only)	CRC	Empl ID	Work Order	WO Task	Customer	Product	Activity	Speed Chart

Distribution Amount	Resrc./BI	SR/CCA	Project/ Rptd Acct/ GLAD	Sub-project/ Loo	Account	Facility
---------------------	-----------	--------	--------------------------	------------------	---------	----------

Verified / Received By:	Empl No 027359	Approved By:	
<i>Amy Dahl</i>	Date (mm/yyyy) 09/14/08	<i>Robert M. Hennecke</i>	Empl No. 010700
		<i>[Signature]</i>	080310

September 1st, 2006

Dear David:

Per our amended Arrangement Letter dated August 28, 2006, please find enclosed our one-time lump sum billing for consulting services rendered in relation to the *PPL Customer Care Improve Workforce Management Extension*. This invoice includes the full project fixed fee amount for the extension.

If you have any questions, please feel free to contact me at (215) 776-1292.

Very truly yours,



Robert J. Campanile
Title: Senior Manager

Attachment

September 1st, 2006

Invoice #: 1000095484

Billing for consulting services rendered in relation to the *PPL Customer Care Quality Review Program*.

Extension Full Billing Installment:

Billed Fees	\$ 175,000.00
Total Professional Billed Fees	<u>\$ 175,000.00</u>

Federal Tax Identification Number 72-0542904

Remittance

Invoice #: 100095484

Please submit your remittance by 9/30/2006 to:

Accenture

By Electronic Transfer:

Bank:	Bank One
Routing Number:	071 000 013
Account Number:	5311314
Invoice Qualifier:	IV
Invoice Number:	100095484
Customer ID	10003352
Mailing Address:	Bank One
	Accenture #70629
	525 W. Monroe, 8th Floor Mailroom
	Chicago, IL 60661

Amount Due: \$ 175,000.00



405 Little Lake Drive, Suite C
Ann Arbor, Michigan 48103

Tel: (734)761-8812
Fax: (734)761-8078
Email: el@electrocon.com
Web: www.electrocon.com

TO: PPL Electric Utilities
Attn: Accounts Payable
Two North Ninth Street
Allentown, PA 18101-1179

INVOICE: 5868

DATE: August 25, 2006

REFERENCE: Contract No. 319674

TERMS: Net 30 days

**A 1-1/2% per month or 18%
annual service charge will be
billed on any past due amount.**

Quantity	Item Description	Unit Price	Total
1	Annual software maintenance contract covering four copies of the Electrocon CAPE Package and unlimited copies of the CAPE Breaker Duty module for the period of September 5, 2006, through September 4, 2007 (inclusive).		\$11,922.00
TOTAL AMOUNT DUE			\$11,922.00

**GE
 Energy**

Contract # 323918

INVOICE NUMBER	INVOICE DATE	PAGE
PSLF-0044-07	09-01-06	1 of 1

BILL TO:

Pennsylvania Power & Light
 2 North 9th St. -TW15 Floor
 Allentown, PA 18101-1179

ATTN: Mr. Jim Robinson

SEND PAYMENT SHOWING INV. NO. INV. DATE

General Electric International, Inc.
 1 River Road, Bldg 2-617
 Schenectady, NY 12345 USA

ATTN: CLAUDIA MURDOCH

TERMS: Net 60 Days

DESCRIPTION	EXTENDED AMT.
-------------	---------------

PSLF Annual Update, Support, & Maintenance Fee for Decem^r 31, 2006
 thru December 30, 2007

1 Platform(s) - (WNT/2000/XP)

TOTAL AMOUNT BILLED - US \$ 8400

PPL ELECTRIC UTILITIES
Tracy D. Resman date 9/14/06
 VERIFY / EMPL#
Smith 79397 date 9/15/06
 APPROVAL EMPL#
 BI 33 RC 601 ACCT/LOC 80700 1-200
 BI RC ACCT/LOC

**If paid by December 31, 2006, pay the 2006 rate of US \$ 8400

All payments of POs, wire transfers, or checks must be postmarked by December 31, 2006 to obtain the discounted rate. Payments made after December 31, 2006 must pay the 2007 invoiced rate or you will be invoiced for the balance due.

TOTAL AMOUNT BILLED:	US \$ 8400
-----------------------------	-------------------

ORIGINAL





INVOICE

Invoice: EP00290781
Invoice Date: July 1, 2008
Page: 1 of 1

Please Remit To:
EPRI
13014 Collections Center Drive
Chicago IL 60893
United States

Customer No: 204300
Payment Terms: Net 30
Due Date: July 31, 2008
Customer Ref: 335173-C

AMOUNT DUE: 26,447.00 USD

Customer: PPL Corporation
Gregory J. Smith
C/O PPL Electric Utilities Cor
PPL (EINV)
PO BOX 26233
Lehigh Valley PA 18002-5233
United States

For billing questions, please call 860-855-2689

Duplicate

Description	Net Amount
EPRI Membership Third Quarter 2006	26,447.00
AMOUNT DUE:	26,447.00 US

New Wiring Instructions:
Bank of America, New York, NY
ABA# 026009593
Acct. No.: 1233954313
SWIFT Address: BOFAUS3N

Tax I.D. # 23-7176376
EPRI is a non-profit United States Corporation
Please include an invoice copy with your remittance



53 West Baltimore Pike • Media, PA 19063-5898 • Phone 484-840-4300 • info@icrsurvey.com • www.icrsurvey.com

PPL (EINV)
P.O. Box 26233
Lehigh Valley, PA 18002-5233

Invoice Number 008869
Invoice Date July 05, 2008
PO Number 318744-C
Contract
Project F1221
Page 1 of 1
Incorporated FID# 23-2778958
www.icrsurvey.com Cust # 401629
Consultant: JOSEPH P. JENNINGS
JJ
(484) 840-4300

PPL CSAT Qtr 3, 2008
Total Study Price: \$35,300
Initial 50% Billing: \$17,650

Project F1221 PPL CSAT Qtr 3

Market Research Services

\$17,850.00

Invoice Total

\$17,850.00

Remit Checks to:

ICR
P.O. Box 1060
Moorestown, NJ 08067-1060

Remit Wire to:

AUS, Inc. at Wachovia Bank, Account 2000010815063, ABA # 031201467; ACH# 021200026, International Swift PNBPU533

Invoice due in US dollars upon presentation

1.5% interest per month on balances over 30 days old may be charged.

Paper questionnaires will be destroyed 90 days after the final invoice date unless ICR is notified otherwise in writing.

International Communications Research



**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

Q.OTS-RE-117-D. Reference Attachment II-B-4, page 11 of 13, Rents.

- A. Revise the schedule to reflect the twelve months data for 2006.
- B. Provide the invoices for Jeddo-Highland Coal Co. in the amount of \$1,471, Freya Land Company in the amount of \$897 and Met-Ed in the amount of \$806.

A.OTS-RE-117-D. A. See Question II-B-4 of Exhibit Regs., § 53.53, Part II, which requires a utility making a claim for working capital to "provide a lead-lag study of working capital, completed no more than 6 months prior to the rate increase filing." Because PPL Electric filed its proposed base rate increase on March 29, 2007, the 6-month period prior to the filing ended on, or about, September 30, 2006. As a result, PPL Electric appropriately used the 3-month period ended September 30, 2006 as the basis for its lead-lag study.

Based upon an examination of the types of expenses incurred during the three month period ended September 30, 2006, and the types of expenses incurred for the twelve months ended December 31, 2006, PPL Electric believes that the 3-month period ended September 30, 2006 provides a reasonable and accurate approximation of the O&M expense leads and rate revenue lags for the full 12 months of its historic test year ended December 31, 2006. PPL Electric historically has used, and this Commission traditionally has accepted, a 3-month period, completed no more than 6 months prior to a rate filing, as a representative sample for analysis of O&M expense payments and rate revenue receipts for a filed lead-lag study. Moreover, the requested information is not available, and would take several months to prepare, and could not be completed by the end of litigation in this proceeding.

- B. The rent payments for Jeddo-Highland Coal Co. in the amount of \$1,471 and Freya Land Company in the amount of \$897 are recurring rent payments for which no invoice is received. Attachment 1 provides a copy of the remaining payment schedules, as well as the invoice from Met-Ed.

Contract	Unit	Vendor	Vendor ID	Name	Invoice	Date	Payment Status	Subscribed In Prog	Gross Amt	Method	Vendor Location	Resulting Addr	BI	ERIC	Project	Sub Proj	Account
				JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-4	2011-07-01	N		1,471.50	CHK						010	000000
				JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-4	2012-07-01	N		1,471.50	CHK						010	000000
				JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-4	2013-07-01	N		1,471.50	CHK						010	000000
				JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-4	2014-07-01	N		1,471.50	CHK						010	000000
				JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-4	2015-07-01	N		1,471.50	CHK						010	000000
000000112		02018248	0000018248	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-8	2011-07-01	N	2011-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000
000000114		02018241	0000018241	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-8	2012-07-01	N	2012-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000
000000114		02018241	0000018241	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-8	2013-07-01	N	2013-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000
000000114		02018242	0000018242	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-8	2013-07-01	N	2013-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000
000000114		02018243	0000018243	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-11	2014-07-01	N	2014-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000
000000114		02018243	0000018243	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-11	2014-07-01	N	2014-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000
000000114		02018244	0000018244	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-12	2015-07-01	N	2015-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000
000000114		02018244	0000018244	JEDDO-HIGHLAND COAL CO	LAND RENTS ROW-12	2015-07-01	N	2015-07-01	1,471.50	CHK	000001		30000	0028	000002	010	000000



RECURRING VOUCHER PAYMENT

Enter if known / available.

Vendor Name JEDDO-HIGHLAND COAL COMPANY	Contract No. 000000114
---	----------------------------------

Payment Address <i>46 Public Square, Suite 600, Wilkes Barre Pa</i>	Agreement No.
--	---------------

PPL Company Name PPL ELECTRIC UTILITIES CORPORATION	
---	--

Resp. Ctr. 0526	Responsible Manager THOMAS C. STATHOS	Job Title MGR - RESOURCE MANAGEMENT
---------------------------	---	---

Payment Interval <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Semi-Annual <input checked="" type="checkbox"/> Annual <input type="checkbox"/> Number of Times _____ <input type="checkbox"/> Other _____	Payment Interval Amount 1,471.00
	Start Payment Date 07/01/2004
	Final Payment Date

Check one and Complete <input type="checkbox"/> New Document <input type="checkbox"/> Renewal <input checked="" type="checkbox"/> Change <input type="checkbox"/> Cancellation	Expiration Information LIFE OF CORPORATION OR LICENSE AGREEMENT. <input type="checkbox"/> Change (specify) _____	Initial Document Date Effective Date _____ Expiration Date _____	Records Retention Period <input checked="" type="checkbox"/> Life of Corporation <input type="checkbox"/> 25 Years After Expiration <input type="checkbox"/> 20 Years <input type="checkbox"/> 10 Years After Expiration <input type="checkbox"/> 10 Years <input type="checkbox"/> 5 Years After Expiration <input type="checkbox"/> 5 Years
--	---	--	--

Purpose of Document, Change, Renewal, Cancellation
CHANGE OF RESPONSIBILITY CENTER FROM 0882 TO 0526

Distribution Amount	Resrc./BJ	SRC/CA	Project/Rptd Acct/GLAD	Sub-Project/Loc	Account	Work Order
1471.00	036	0526	808002	010		

Payment Terms	Payment Method <input checked="" type="checkbox"/> System Check <input type="checkbox"/> EFT <input type="checkbox"/> Wire Report	Payment Code
---------------	--	--------------

Prepared By: <i>Alicia Schleder</i>	Empl No. 70996	Approved By: <i>[Signature]</i>	Empl No. 42260
Date 3/18/04		Date 3/18/04	

FOR CORPORATE DISBURSEMENT USE ONLY

A/P Vendor Code 21649	Purpose of Contract (30 Character Max.)
Tax Code Not Taxable Use Tax Sales Tax	Master Contract No. 93

Notes:
opened acct 011 rounded 02019533 to 02019544 *closed Vouchers 02019494 to 02019505 on 11/17/04*

Frays Land Company Receipts

Contract	Unit	Voucher	Vendor ID	Name	Invoice	Date	Payment Description Status	Submitted to Pay	Check Amt	Method	Vendor Location	Receiving Addr	SI	SPC	Project	Sub Proj	Account
																	600000
																	600000
																	600000
																	600000



RECURRING VOUCHER PAYMENT

Enter if known / available.

Vendor Name REYA LAND COMPANY	Contract No. 000000108 ✓
---	------------------------------------

Payment Address <i>46 Public Square Suite 600 Wilkes Barre Pa</i>	Agreement No.
--	---------------

PL Company Name PL ELECTRIC UTILITIES CORPORATION	181701
---	---------------

Emp. Ctr. 626	Responsible Manager THOMAS C. STATHOS	Job Title MGR - RESOURCE MANAGEMENT
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Payment Interval <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Semi-Annual <input checked="" type="checkbox"/> Annual <input type="checkbox"/> Number of Times _____ <input type="checkbox"/> Other _____	Payment Interval Amount 897.00 ✓
	Start Payment Date 0701/2004 ✓
	Final Payment Date

Check one and Complete <input type="checkbox"/> New Document <input type="checkbox"/> Renewal <input checked="" type="checkbox"/> Change <input type="checkbox"/> Cancellation	Expiration Information LIFE OF CORPORATION OR LICENSE AGREEMENT <input type="checkbox"/> Change (specify) _____	Initial Document Date Effective Date _____ Expiration Date _____	Records Retention Period <input checked="" type="checkbox"/> Life of Corporation <input type="checkbox"/> 25 Years After Expiration <input type="checkbox"/> 20 Years After Expiration <input type="checkbox"/> 15 Years After Expiration <input type="checkbox"/> 10 Years <input type="checkbox"/> 5 Years After Expiration <input type="checkbox"/> 6 Years
--	--	--	---

Purpose of Document, Change, Renewal, Cancellation
CHANGE OF RESPONSIBILITY CENTER FROM 0882 TO 0626

Distribution Amount	Resrc./BI	SRC/CA	Project/Rptd Acct/GLAD	Sub-Project/Loc.	Account	Work Order
897.00	036	0526	808002	010		

Payment Terms	Payment Method <input checked="" type="checkbox"/> System Check <input type="checkbox"/> EFT <input type="checkbox"/> Wire Report	Payment Code
---------------	--	--------------

Prepared By: <i>Alivi Schleder</i>	Empl No 70996	Approved By: <i>[Signature]</i>	Empl No 42260
	Date 3/18/04		Date 3/18/04

FOR CORPORATE DISBURSEMENT USE ONLY

AP Vendor Code 19487	Purpose of Contract (30 Character Max)
Tax Code Not Taxable Use Tax Sales Tax	Master Contract No. 89

zapped accounts Vouchers 00404298 to 00404304 for 6/23/04



07/02/2008

Invoice No. **80144832**

Bill for:
PPL ELECTRIC UTILITIES
CORPORATION
ATTN: G. LACZO GENN 4
2 NORTH NINTH ST
ALLENTOWN PA 18101

Total due by 08/01/2008

To avoid a possible Late Payment Charge being added to your bill, please pay by the due date.

MONTHLY CARRYING CHARGE OF \$808.00 FOR PROVIDING USE, OPERATION AND MAINTENANCE OF A SECTION OF LINE 822, AND BACK UP SERVICE TO PPL'S SHILLINGTON SUBSTATION, AS DETAILED IN A LETTER OF UNDERSTANDING DATED AUGUST 27, 1975.

QUESTIONS REGARDING THIS INVOICE MAY BE DIRECTED TO:

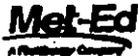
DAVE CARDY
(330)-384-5443

Item	Description	Qty	Total
1	LEASE - LINE 822 & BACK UP SERVICE	1.000	808.00
Subtotal			808.00
Total Amount Due			808.00



Written correspondence may be mailed to:
Business Services
Met-Ed
PO Box 18001 2800 Pottsville Pike
Reading PA 19612

Questions regarding this
Invoice may be directed to
Accounts Receivable:
1-610-821-6827



Return this part with a check or money order payable to:
MET-ED

Write name, phone, or address changes on back and check here.

Invoice No.	Customer PO No.	Your Check Number/Date	Contract No.
80144832	YFA		120000000071

Amount Paid	
-------------	--

Please Pay	808.00
Due By	08/01/2008

PPL ELECTRIC UTILITIES CORPORATION
ATTN: G. LACZO GENN 4
2 NORTH NINTH ST
ALLENTOWN PA 18101

MET-ED
PO BOX 3687
AKRON OH 44308-3687

0212000000007100000000901448328000000806000000806000

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

- Q.OTS-RE-119-D.** Reference Attachment II-B-4, page 13 of 13, Miscellaneous Expenses.
- A.** Revise the schedule to reflect the twelve months data for 2006.
 - B.** Explain how the mid-point of the service date was determined for Miscellaneous Expenses. Does this date represent the date the purchase was made or the invoice date?
 - C.** Explain the nature of and provide the invoice of Pocono Rabbit Farm, payment date July 24, 2006 in the amount of \$4,750 and how the 11 lag days were calculated.
 - D.** Explain the nature of and provide the invoice for the transaction involving Reliability First Corporation, payment date of October 2, 2006, in the amount of \$71,069.14 and how the (44) lag days were calculated.
 - E.** Explain the nature of and provide the invoice for the transaction involving Premiere Speakers Bureau Inc, with a payment date of September 8, 2006, in the amount of \$3,250 and how the (91) lag days were calculated.
 - F.** Explain the nature of and provide the invoice for the transaction involving Dale Roth, payment date September 29, 2006, in the amount of \$3,200 and how the 4 lag days were calculated.
 - G.** Explain the nature of and provide the invoice for the Commonwealth of PA transaction in the amount of \$1,782.
 - H.** Provide an explanation for the Miscellaneous lag dropping from 34.49 in the last PPL Electric Rate filing Docket No. R-00049255 to 10.00 in this case.
- A.OTS-RE-119-D.** **A.** See Question II-B-4 of Exhibit Regs., § 53.53, Part II, which requires a utility making a claim for working capital to "provide a lead-lag study of working capital, completed no more than 6 months prior to the rate increase filing." Because PPL Electric filed its proposed base rate increase on March 29, 2007, the 6-month period prior to the filing ended on, or about, September 30, 2006. As a result, PPL Electric appropriately used the 3-month period ended September 30, 2006 as the basis for its lead-lag study.

Based upon an examination of the types of expenses incurred during the three month period ended September 30, 2006, and the types of expenses incurred for the twelve months ended December 31, 2006, PPL Electric believes that the 3-month period ended September 30, 2006 provides a reasonable and accurate approximation of the O&M expense leads and rate revenue lags for the full 12 months of its historic test year ended December 31, 2006. PPL Electric historically has used, and this Commission traditionally has accepted, a 3-month period, completed no more than 6 months prior to a rate filing, as a representative sample for analysis of O&M expense payments and rate revenue receipts for a filed lead-lag study. Moreover, the requested information is not available, and would take several months to prepare, and could not be completed by the end of litigation in this proceeding.

- B. The mid-point of the service date for Miscellaneous Expenses is determined for each transaction based on the details of the transaction.
- C. The invoice of Pocono Rabbit Farm, payment date July 24, 2006 in the amount of \$4,750, is for a property damage claim. For these types of expenses, the date of investigation is selected as the mid-point of service. The 11 lag days is the time between the investigation date of July 13, 2006 and the payment date of July 24, 2006. See Attachment 1.
- D. The invoice for the transaction involving Reliability First Corporation, payment date of October 2, 2006 in the amount of \$71,069.14, is for the prepayment of a quarterly assessment for the 4th quarter of 2006. The mid-point of the 4th quarter is November 15. The (44) lag days is the time between the prepayment date of October 2, 2006 and November 15, 2006. See Attachment 1.
- E. The invoice for the transaction involving Premiere Speakers Bureau Inc, with a payment date of September 8, 2006 in the amount of \$3,250, is a prepayment of a speaker fee. The mid-point of service is the event date, December 8, 2006. The (91) lag days is the time between the prepayment date of September 8, 2006 and the event date of December 8, 2006. See Attachment 1.
- F. The transaction involving Dale Roth, payment date September 29, 2006, in the amount of \$3,200, is for a property damage claim. For these types of expenses, the date of investigation is selected as the mid-point of service. The 4 lag days is the time between the investigation date of September 25, 2006 and the payment date of September 29, 2006. See Attachment 1.

- G. The Commonwealth of PA transaction, in the amount of \$1,782, is a payment made to the Pennsylvania Department of Labor and Industry for boiler and vessel certificates. See Attachment 1.**
- H. As denoted by the category "Miscellaneous", this category represents many different types of transactions. The drop in the Miscellaneous lag from 34.49 in the Company's most recent base rate case to 10.00 in this proceeding is attributable to the inclusion of the most material transaction, the prepayment to Reliability First Corporation, in the sample.**



REPORT OF DAMAGE TO PROPERTY OF OTHERS

Region Sequence No.

(Refer to OGC Claims Manual Instruction No. 4 for completion)

Property Owner POCONO RABBIT FARM	Customer # 78165-14009	Day TUES	Date of Damage 5-30-06	Time Damage Occurred 7:13 PM
Address P.O. BOX 240		Incident Location (if different) DUTCH HILL RD RR1 CANADENCS		W.O. #
City / Boro / Twp CANADENCS	State PA	Zip 17814	Claimant Telephone No. 520-595-7108	Grid Coord. # 68626 P 39045
Property Involved (Check one) <input type="checkbox"/> Residential <input checked="" type="checkbox"/> Commercial <input type="checkbox"/> Industrial <input type="checkbox"/> Seasonal <input type="checkbox"/> Other (Specify)	Weather Conditions (Check all that apply) <input type="checkbox"/> Rain <input type="checkbox"/> Fog <input type="checkbox"/> Other (Explain)		Light Conditions (Check one) <input type="checkbox"/> Daylight <input checked="" type="checkbox"/> Dawn <input checked="" type="checkbox"/> Dusk <input type="checkbox"/> Darkness	

Describe Damage to Property (include type & extent)
Please type

**CHILLER UNIT
COMPRESSOR
SO LOW DEEP FREEZE FREEZER!**

Explain How You Believe Damage Occurred - Please Type

PPL PROVIDED LOW VOLTAGE

Estimate of Damages
\$ 4,750.00

Property Owners' Insurance Co.	Date Reported by Owner	Policy #
Address	Agent	Telephone No.
Witness Name #1 Address	Telephone No.	Witness Name #2 Address
Name of Injured + Address	Telephone No.	Name of Injured + Address
Briefly Describe Injury	Briefly Describe Injury	
Prepared by (Print or Type)	Employee No.	

Recommendation of Investigator (include what was told to property owner)

HONOR THE CLAIM

#4,750.00

Payment Date	BI	Cost Area	Account/ER	Code	Distributed Amount
	49	440	804011	009	\$ 4,750.00
Purpose (max. 32 characters)					
Investigated by (Print name)			Date	Employee No.	
Kevin G George			7-15-06	28224	
Approved for Payment (Signature)			Date	Employee No.	
[Signature]			7/18/06	17849	



ReliabilityFirst

220 Market Ave South, Suite 501
 Canton, OH 44702-2182
 Phone: (330) 580-8002
 Fax: (330) 458-5390

INVOICE	
Invoice No:	0000280
Date:	9/1/2006
Date Due:	10/1/2006

DIANE SNYDER
 PPL ELECTRIC UTILITIES CORP
 2 NORTH 8TH STREET
 ALLENTOWN, PA 18101-1179

Reference	Terms: NET 30 DAYS				
Per Capita (1)					\$1,250.00
Quarterly Assessment (2)					\$2,902.08
Quarterly Assessment (3)					-\$151.17
Quarterly Assessment (4)					-\$152.25
Quarterly Assessment (5)					-\$1,342.31
Quarterly Assessment					
Load	34,389,235	814,922,669	4.20%	\$41,472.69	\$982,779.50
Transmission	400,223	14,519,362	2.80%	\$27,090.10	\$982,779.50
Total				\$68,562.79	
Total Invoice					\$671,089.14

- (1) 4th Quarter Per Capita Fee
- (2) Third of three pro-rata payments of 1st Quarter Assessment true-up.
- (3) 1st Quarter Assessment credit due to increased membership.
- (4) 2nd Quarter Assessment credit due to increased membership.
- (5) 3rd Quarter Assessment credit due to increased membership.

Approved - [Signature]
Date - 9/12/2006
 BI 49, RC 0021
 ACCT 735531-001
Payment due 10/1/06
 King S.
 9/11/06

Not deductible as charitable contribution for federal income tax purposes

Remit checks to:
 ReliabilityFirst Corp.
 P.O. Box 715037
 Columbus, OH 43271-5037

ACH or Wire Transfer to:
 BankOne, Canton, Ohio
 ABA# 044000037
 Account # 685884872

Snyder, Diane S

From: Mammarella, Raymond
Sent: Friday, September 08, 2006 2:13 PM
To: Snyder, Diane S
Cc: Laczko, Gabriel; Relf, Kenneth P
Subject: FW: PPLEU - ReliabilityFirst 4th Quarter 2006 Invoice
Importance: High
Attachments: PPL-EU - RFC 4th Quarter 2006 Invoice.pdf

Diane,

This is OK to pay.

Ray

From: Snyder, Diane S
Sent: Friday, September 08, 2006 1:34 PM
To: Mammarella, Raymond
Subject: FW: PPLEU - ReliabilityFirst 4th Quarter 2006 Invoice
Importance: High

Invoice received...Please verify the Invoice and return to me for processing. Thank!

From: jill.lewton@rfirst.org [mailto:jill.lewton@rfirst.org] On Behalf Of debbie.reed@rfirst.org
Sent: Friday, September 08, 2006 1:28 PM
To: Snyder, Diane S
Cc: jill.lewton@rfirst.org
Subject: PPLEU - ReliabilityFirst 4th Quarter 2006 Invoice
Importance: High

Ms. Snyder,

Attached is your ReliabilityFirst 4th Quarter 2006 invoice due October 1, 2006.

"The Per Capita (set at \$5,000 for each entity for 2006) and Quarterly Assessment" are based upon Total System Utilization as defined in the ReliabilityFirst ByLaws and the 2006 ReliabilityFirst Budget approved by the Board of Directors on December 12, 2005. Members that joined ReliabilityFirst after the 1st quarter of 2006 will have an additional line item to assess for the remainder owed of the \$5,000 "Per Capita" annual fee.

Those entities that joined ReliabilityFirst during the 1st quarter of 2006 will have an additional "Quarterly Assessment" line item which is the third and final of three pro-rata payments of the 1st Quarter Assessment true up; i.e., 2nd, 3rd, and 4th quarter assessments in 2006 will have the same line item. When the 1st Quarter Assessment was e-mailed to Members, the 2006 ReliabilityFirst Budget had not yet been finalized, so the amount invoiced was based on the estimated calculation submitted with Membership Applications. The 1st Quarter Assessment true up was necessary to align 2006 Quarterly Assessments with the 2006 ReliabilityFirst Budget approved by the Board of Directors.

Additional "Quarterly Assessment" line items are credits for previous quarters in 2006 due to increases in membership.

ReliabilityFirst is able to accept bank wire and ACH transfers of invoice payment (see your invoice for instructions). If mailing your payment, please use the following "remit to" address.

ReliabilityFirst Corporation
P.O. Box 715037
Columbus, OH 43271-5037

This is the final Quarterly Assessment you will receive from ReliabilityFirst Corporation. On July 20, 2006 the Federal Energy Regulatory Commission (FERC) issued an order certifying the North American Electric Reliability Corporation as the Electric Reliability Organization (ERO). One of the consequences of this order is a change in the funding, billing, and collection processes for the reliability functions carried out by NERC (ERO) and its regions.

The ERO will commence operations January 1, 2007, consistent with the above mentioned FERC order. As a result, a transition in funding will occur wherein the ERO will now be funding the Regional Entities as opposed to regions funding NERC. The ERO will assess and collect dues instead of the Regional Entities with initial invoices for the first quarter of 2007 expected to be issued in the November 1-15, 2006 timeframe, due January 1, 2007. ERO and Regional Entity funding will be apportioned based only on the pro-rata share of net energy for load served by each load serving entity in North America. *All load serving entities will be required to fund NERC and its Regions, regardless of their membership status.*

As always, my goal is to provide accurate and equitable billings to every ReliabilityFirst Member. If you have any questions regarding your billing, please contact me (330) 704-8183 or Jill Lewton at (330) 580-8015.

Debbie L. Reed
ReliabilityFirst Corp.
Manager, Finance & HR
Cell: (330) 704-8183
Phone: (330) 580-8002
Fax: (330) 458-5390
Email: debbie.reed@rfirst.org

02459900 (18)



Premiere Speakers Bureau, Inc.

1000 Corporate Centre Drive
 Suite 120
 Franklin, TN 37067
 Phone: 615.261.4000

W/2 **Invoice**

Premiere
 SPEAKERS BUREAU

DATE	INVOICE #
8/24/2006	12049

BILL TO
PPL Sharon Fraser 2 North 9th Street - GENN5 Allentown, PA 18101

*VIC
 85677 KRW
 DIS Add
 new
 number*

P.O. NO.	TERMS	DUE DATE	SPEAKER - EVENT DATE
	Net 14	9/7/2006	Rolfe Carawan - 12/8/06

DESCRIPTION	AMOUNT
Speaker Fee - Rolfe Carawan 12/8/06 - Deposit	3,250.00
<p><i>Verified by: Annette Huetkus 13806</i></p> <p><i>Approved: [Signature] 19242</i></p> <p><i>Acct: BI 49 RC 900 805201-002</i></p> <p>WIRING INSTRUCTIONS:</p> <p>This information is to be used only for Wire Transfer Payments. Please remit all other payments to Premiere Speakers Bureau, Inc.</p> <p>Name of Bank: Pinnacle National Bank Bank Phone: 615-744-3789 ABA Number: 064008637 Name of Account: Premiere Speakers Bureau, Inc. Account Number: 1091769</p> <p>Tax ID#65-0966176</p> <p><i>Please use contract number "1111". Thanks. Steve Weide 8/6/06</i></p>	

Total	\$3,250.00
Balance Due	\$3,250.00

Speaker: Rolfe Carawan

Fee: \$6,500 + one coach class airfare, meals, hotel and ground transportation

Event Date: Friday, December 8, 2006

Event Itinerary: (approximate time) 10:00AM- 2 hour program

Event Location: Allentown, PA

Sponsor Organization: PPL

Contact: Sharon Fraser

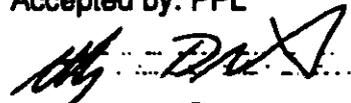
Payment: The signed contract along with a deposit of \$3,250 is due at Premiere Speakers Bureau no later than September 7, 2006. The remaining balance (\$3,250) is to be paid in full by November 24, 2006. Travel expenses to be paid by credit card at the time arrangements are made. Miscellaneous expenses such as meals, taxi or limousine fares and any other expenses made necessary by Speaker's trip to be invoiced following event. Please make checks payable to Premiere Speakers Bureau.

State Taxes: If host organization is required to withhold state income tax on behalf of the speaker, that amount shall be added to the total speaker fee, resulting in the the total gross speaker fee paid to Premiere Speakers Bureau the same amount as agreed to within this contract.

Special Instructions: Terms and conditions of this contract are to remain strictly confidential. This appearance may not be recorded by any means, for any purpose, without written approval.

Accepted by: Premiere Speakers Bureau
(Federal Tax ID #85-0966176)

Accepted by: PPL


ANTHONY DREISBACH

 August 24, 2006

Brian Lord Date

PPL Date

Form 3775 (2-04)



REPORT OF DAMAGE TO PROPERTY OF OTHERS

(Refer to Claims Manual Instruction No. 4 for completion)

OK Sequence No.

Property Owner Date Roth		Customer # 692-9002-028	Day Mon	Date 8/14/06	ML Time 11:55
Address 6336 Jacksonville rd		Incident Location (if different)		W/L # PSP# P167165	
City/State/Zip Bath Pa 18014	Claimed Tels. No. 610-837-3528	State Council # 64923		# 50846	
Property Involved (Check One) <input checked="" type="checkbox"/> Residential <input type="checkbox"/> Commercial <input type="checkbox"/> Industrial <input type="checkbox"/> Seasonal <input type="checkbox"/> Other (Specify)	Weather Conditions (Check all that apply) <input type="checkbox"/> Rain <input checked="" type="checkbox"/> Clear <input type="checkbox"/> Snow/Ice <input type="checkbox"/> Fog <input type="checkbox"/> Cloudy <input type="checkbox"/> Windy <input type="checkbox"/> Other (Specify)		Light Conditions (Check One) <input checked="" type="checkbox"/> Daylight <input type="checkbox"/> Dawn <input type="checkbox"/> Dusk <input type="checkbox"/> Darkness		

Describe Damage to Property Please type
 (Include how & extent)
 Siding on side of house melted due to fire. Area about 4' wide by 6' high. Area damaged from ground level to top of meter base. Shrub was also burnt.

Explain how Damage occurred - Please type
 #4 Service cable connections failed starting bush on fire

Estimate of Damages
\$ 3200.00

Property Owner's Insurance Co. Date Reported by Owner Policy #

Address Agent Title No.

Witness Name #1 **Pat Willey** Title No. **610-837-3528** Witness Name #2

Address **Same as above** Address

Name of Injured # Name of Injured #

Address Address

Briefly Describe Injury Briefly Describe Injury

Prepared by (Print or Type) Employee No. Date Prepared

Recommendation of Investigator (Include what was told to property owner)
 rental property owner **Date Roth** 2159 Patoka Dr Copala 18037
 610-262-4473 Home
 610-360-1150 Cell

Company Liability (Check One)
 Clear Liability
 Probable Liability
 Doubtful Liability
 No Liability

Pay Class (M, S, L, H) Payment Date Member No. **49** Cost Area **440** Account / BR **804 011** Code **109** Estimated Amount **\$ 3,200.00**

Purpose (max. 30 characters) **CONNECTIONS**

Investigated by **[Signature]** Date **9/25/06** Employee No. **45337**
 Approved for Payment (Signature) Date Employee No.

BLRINV-01 REV 7-08

INVOICE

LIST OF OUTSTANDING INVOICES

FILE NO	INVOICE NO	DATE
00117	080187	06/04/06

053579 06/23/05 \$682.00
 078226 05/06/06 \$88.00

LABOR & IND. FEDERAL ID#-23-6003107

RESPONSIBLE PARTY NAME/ADDRESS
 PPL LANCASTER SERVICE CENTER
 881 DELP RD
 LANSC MICHAEL O'NEIL
 LANCASTER PA 17601-3034

OUTSTANDING BALANCE AS OF INVOICE DATE \$770.00
 CURRENT BILLING (SEE BELOW) \$1,782.00
 AMOUNT CREDITED \$.00
 AMOUNT DUE BY 08/04/06 \$2,552.00
 (ENTER BELOW AND REMIT)

INQUIRIES REGARDING INVOICES OR CERTIFICATES, PHONE (717) 787-2929.

LABOR & IND. FEDERAL ID#-23-6003107

CURRENT BILLING

FEEES

A.) BOILER INSPECTIONS		
B.) BOILER CERTIFICATES	1	\$66.00
C.) VESSEL INSPECTIONS		
D.) VESSEL CERTIFICATES	26	\$1,716.00
E.) HYDRO INSPECTIONS		
F.) DUPLICATE CERTIFICATES	1	

THE BUREAU OF OCCUPATIONAL AND INDUSTRIAL SAFETY HAS CONVERTED TO AN AUTOMATED SYSTEM FOR PROCESSING INVOICE PAYMENTS. THIS NEW SYSTEM WILL INCREASE EFFICIENCY AND REDUCE ADMINISTRATIVE COSTS. HOWEVER, FOR THIS NEW SYSTEM TO BE SUCCESSFUL, WE MUST HAVE YOUR COOPERATION IN ACCOMPLISHING THE FOLLOWING:

1. YOU MUST RETURN THE ORIGINAL FEE INVOICE WITH CHECK (DETACHED STUB BELOW)
2. CHECK AMOUNT SHOULD EQUAL INVOICE AMOUNT DUE
3. INVOICE AND CHECK SHOULD BE MAILED TO P.O. BOX 88572 AS SHOWN ON REVERSE SIDE OF INVOICE

YOUR COOPERATION IS GREATLY APPRECIATED

DETACH BELOW AND RETURN WITH PAYMENT. PLEASE DO NOT STAPLE OR TAPE CHECKS TO THE INVOICE STUB.

BLRINV-01 REV 7-08

COMMONWEALTH OF PENNSYLVANIA
 DEPARTMENT OF LABOR AND INDUSTRY
 BUREAU OF OCCUPATIONAL AND INDUSTRIAL SAFETY
 P.O. BOX 88572
 HARRISBURG PA 17108-8572

FEE INVOICE

OUTSTANDING INVOICES
 053579 06/23/05 \$682.00
 078226 05/06/06 \$88.00

OUTSTANDING INVOICE BALANCE \$770.00
 CURRENT BILLING \$1,782.00
 CREDITS \$.00
 AMOUNT DUE \$2,552.00

RESPONSIBLE PARTY NAME/ADDRESS
 PPL LANCASTER SERVICE CENTER
 881 DELP RD
 LANSC MICHAEL O'NEIL
 LANCASTER PA 17601-3034

FILE NO	INVOICE NO	DATE
00117	080187	06/04/06

B

DUE DATE
 08/04/06

\$2,552.00

ENTER PAYMENT AMOUNT. MAIL TO ADDRESS ON REVERSE SIDE OF THIS FORM

AMOUNT ENCLOSED

REMIT BY CHECK OR MONEY ORDER, PAYABLE TO 'PA DEPT OF LABOR & INDUSTRY - B'. TO INSURE CREDIT TO YOUR BOILER ACCOUNT, PLEASE ISSUE CHECK FOR BOILER INVOICES ONLY, AND RETURN THIS PORTION WITH YOUR PAYMENT.

REVENUE NO

CHECK NO

CHECK AMT

00000117008018706040600025520029

BLRNY-04 REV 8-00

STATEMENT OF ACCOUNT

FILE NO	INVOICE NO	DATE
00117	080187	06/04/06

RESPONSIBLE PARTY NAME
 PPL LANCASTER SERVICE CENTER

THE CURRENT BILLING CHARGES DISPLAYED ON THE PRECEDING PAGE ARE FOR THE FOLLOWING EQUIPMENT.
 AN ASTERISK (*) AFTER THE CERTIFICATE NUMBER INDICATES THE EQUIPMENT HAS FAILED INSPECTION.
 CERTIFICATES FOR FAILED EQUIPMENT ARE WITHHELD UNTIL REPAIRS ARE COMPLETED.

LOC #	LOCATION NAME AND ADDRESS	LOC AMOUNT
003	ALBURTIS SUBSTATION SWEETWOOD DR LOWER MACUNGIE TOWNSHIP MACUNGIE PA 18062	\$990.00

PASER	NB NUMBER	INSP FEE	CERT FEE	CERT NUM
483646V	NB2078,2056	\$.00	\$66.00	01560723
590374V	NB2078	\$.00	\$66.00	01560730
270033V	NB2327	\$.00	\$66.00	01560716
483644V	NB2057;2082	\$.00	\$66.00	01560721
270036V	NB204644	\$.00	\$66.00	01560719
270038V	NB204649	\$.00	\$66.00	01560720
543718V	NB203608	\$.00	\$66.00	01560725
590368B	NB675521	\$.00	\$66.00	01560726
590372V	NB2074	\$.00	\$66.00	01560728
270035V	NB2463	\$.00	\$66.00	01560718
483645V	NB3443	\$.00	\$66.00	01560722
483647V	NB3442	\$.00	\$66.00	01560724
590371V	NB2082	\$.00	\$66.00	01560727
270034V	NB2461	\$.00	\$66.00	01560717
590373V	NB2080	\$.00	\$66.00	01560729

LOC #	LOCATION NAME AND ADDRESS	LOC AMOUNT
009	SUNBURY SUBSTATION OLD SUSQUEHANNA TL SHAMOKIN DAM PA 17876	\$.00

PASER	NB NUMBER	INSP FEE	CERT FEE	CERT NUM
572110V	NB745449	\$.00	\$.00	01513179

LOC #	LOCATION NAME AND ADDRESS	LOC AMOUNT
097	SUSQUEHANNA SUBSTATION ROUTE 239 EAST RT WAPWALLOPEN PA 18660	\$792.00

PASER	NB NUMBER	INSP FEE	CERT FEE	CERT NUM
478956V	NB887868	\$.00	\$66.00	01560738
478945V	NB5497	\$.00	\$66.00	01560733
478948V	NB894681	\$.00	\$66.00	01560734
478950V	NB894686	\$.00	\$66.00	01560735
478952V	NB894698	\$.00	\$66.00	01560736
478954V	NB894689	\$.00	\$66.00	01560737
478958V	NB894684	\$.00	\$66.00	01560739
478960V	NB894674	\$.00	\$66.00	01560740
478962V	NB894676	\$.00	\$66.00	01560741
478964V	NB894679	\$.00	\$66.00	01560742
270266V	NB20738	\$.00	\$66.00	01560731

BLRINV-04 REV 8-08

STATEMENT OF ACCOUNT

FILE NO	INVOICE NO	DATE
00117	080187	06/04/06

RESPONSIBLE PARTY NAME

PPL LANCASTER SERVICE CENTER

THE CURRENT BILLING CHARGES DISPLAYED ON THE PRECEDING PAGE ARE FOR THE FOLLOWING EQUIPMENT. AN ASTERISK (*) AFTER THE CERTIFICATE NUMBER INDICATES THE EQUIPMENT HAS FAILED INSPECTION. CERTIFICATES FOR FAILED EQUIPMENT ARE WITHHELD UNTIL REPAIRS ARE COMPLETED.

LOC #	LOCATION NAME AND ADDRESS	LOC AMOUNT
097	SUSQUEHANNA SUBSTATION ROUTE 239 EAST RT WAPWALLOPEN PA 18660	\$792.00

PASER	NB NUMBER	INSP FEE	CERT FEE	CERT NUM
270269V	NB20718	\$.00	\$66.00	01560732

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

Q.OTS-RE-113-D. Reference Attachment II-B-4, page 6 of 13, Tree Trimming.

- A. Explain how the mid-point of the service date was determined for Tree Trimming. Does this date represent the date the tree trimming was done or is the mid-point date actually the invoice date?
- B. Provide the dates of the actual tree removal and invoices for the transactions to Asplundh Tree Expert Co., payment date of September 20, 2006 in the amount of \$272,639 and October 10, 2006 in the amount of \$153,372.
- C. Explain the nature of and provide invoices for the transaction to PNC Bank NA, payment date September 25, 2006 and provide an invoice for this transaction, as well as the actual date, or dates, the work was performed.
- D. Provide the invoices and actual dates of the tree trimming being done for the three transactions involving Jaflo Inc, voucher number 02419774, invoice Number 000931, payment date August 21, 2006.

A.OTS-RE-113-D.

- A. The mid-point of the service date for Tree Trimming generally is determined to be the mid-point of the period the service actually is performed. However, because of billing problems experienced by Asplundh for services prior to September 2006 (which significantly delayed invoicing PPL Electric), the Company conservatively assumed a mid-point of service date of 9 days prior to the invoice date, which is consistent with the Asplundh lag after they resumed normal weekly billing.
- B. The service dates of tree removal and corresponding invoice dates for the Asplundh Tree Expert Co. transactions requested are as follows:

<u>Payment Date</u>	<u>Amount</u>	<u>Service Dates</u>	<u>Invoice Date</u>
September 20, 2006	\$ 272,639	5/29/06 - 8/10/06	8/18/2006
October 10, 2006	\$ 153,372	5/1/06 - 5/13/06	9/8/2006

See Attachment 1 for copies of the invoices.

- C. The transaction to PNC Bank NA, actually was a payment made to Asplundh on September 25, 2006. The aforementioned Asplundh billing problems resulted in an incorrect name, but correct address to appear on the Asplundh letterhead.**

The actual period of service was from July 24, 2006 to August 5, 2006. See Attachment 1 for a copy of the invoice for this transaction.

- D. The actual dates of tree trimming for the Jaflo invoice was for the week ended June 24, 2006. See Attachment 1 for a copy of the invoice for these transactions.**



OTS Exhibit No. 5
 Schedule 15
 Page 3 of 7 INVOICE

PERIOD ENDING
 06/10/06

Attachment 1
 INVOICE DATE INVOICE NO.
 08/18/06 23E055

708 BLAIR MILL ROAD • WILLOW GROVE, PA 18090-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY: ASPLUNDH TREE EXPERT CO.
 ATE TREE TRIMMING

PPL ELECTRIC UTILITIES

TO

DO NOT MAIL THIS BILL

MAKE CHECK PAYABLE TO

02431307

PLEASE REMIT TO

1700 SOLUTIONS CENTER
 CHICAGO, IL 60677-1007

ES2 ES2 TM4 CA4 10 11 0000417 M
 4221014 72 06-32-22 687 Y8Y
 IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRIMMING AND REMOVING TREES

DESCRIPTION	QUANTITY	UNIT	UNIT PRICE	EXTENSION	TAXES	TOTAL
ALL FOREMAN	231.00	PAY	024129-00	202185-0	CHICAGO	

LEHIGH						
INVOICE # 23E055						
DIST						
LINE CLEARANCE	73.360			267764.00		
REMOVAL >12"	25.000			4875.00		
DIST TOTAL	98.360					272639.00
TRAN						
DANGER TREE REMOVAL	50.000			2750.00		
HERBICIDE APPLICATION #	69.610			19490.80		
SIDE TRIM	16416.000			29548.80		
TRAN TOTAL	16535.610					31789.60
LEHIGH TOTAL	16633.970					324428.60

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 Original on File

ANY PROBLEMS? CALL 800-248-TREE TOLL FREE
 ALTHILLER EXT 4492
 WHEN PAYMENT IS MADE PLEASE FORWARD REMITTANCE COPY

PAY THIS AMOUNT

\$ 324,428.60



708 BLAIR MILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY: ASPLUNDBI TREE EXPERT CO.
 475 TREE TRIMMING

PPL ELECTRIC UTILITIES

TO DO NOT MAIL THIS BILL

MAKE CHECK PAYABLE TO

02446817

PLEASE REMIT TO

1700 SOLUTIONS CENTER
 CHICAGO, IL 60677-3007

ES2 ES1 TR4 CAG 1 11 00 0117 P
 4350474 75 06-07-10 637 YB)

IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRAINING AND REMOVING TREES

FOREMAN	CREW NO.	CUSTOMER NO.	PURCHASE ORDER NO.	REQUISITION NO.	TERMS
ALL	231	09121	21795	LANCAST	NET 1 DAY

DESCRIPTION	QUANTITY	UNIT	UNIT PRICE	EXTENSION	TOTAL
LANCASTER - 195033					
DIST					
LINE CLEARANCE	44.06	UNITS		152.77	
HERBICIDE APPLICATIONS	0.74	UNITS		3.7	
REMOVAL > 18"	7			133.2	
DIST TOTAL	51.8				153,679.1
LANCASTER TOTAL					153,679.1

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 Original on File

PAY THIS AMOUNT

\$ 153,679.1

Location	Brief #	Week Ending	Invoice Date	Invoice #
Lehigh	202785-1	8/5/2006	8/11/2006	31E056

ASPLUNDH

708 BLAIR MILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

To: **Pennsylvania Power & Light Co**
Dennis Braun
1802 Brookwood St

Harrisburg PA 17104

Remit To: **PNC**
1700 Solutions Center
Chicago, IL 60677-1007

Crew # Customer # Type of Work
 023100 00412901 Hourly

Code	Description	St	Ot	Db	St	Ot	Db	Amount
90	GFM	160	89	0	\$33.04	\$48.28	\$59.47	\$8,478.34
01	FMN	1213	458	31	\$28.88	\$40.40	\$51.95	\$55,120.83
41	1CL	532	187	7	\$25.53	\$35.74	\$45.85	\$19,872.19
42	2CL	1049	372	26	\$22.17	\$31.04	\$39.91	\$35,840.87
43	3CL	679	257	0	\$20.15	\$28.21	\$38.27	\$20,931.82
20	GRM	0	27	0	\$18.48	\$23.04	\$29.83	\$622.08
	Subtotal	3633	1350	64				\$140,866.13
BMT	BMT	65.5	0	0	\$99.00	\$0.00	\$0.00	\$6,484.50
7CP	7CP	87	0	0	\$23.75	\$0.00	\$0.00	\$2,068.25
5DP	5DP	40	0	0	\$17.75	\$0.00	\$0.00	\$710.00
5DN	5DN	14	0	0	\$17.00	\$0.00	\$0.00	\$238.00
5CP	5CP	404	0	0	\$18.75	\$0.00	\$0.00	\$6,787.00
5CN	5CN	673	0	0	\$16.00	\$0.00	\$0.00	\$10,768.00
UCN	UCN	316	0	0	\$11.30	\$0.00	\$0.00	\$3,570.80
PU4	PU4	483	0	0	\$6.10	\$0.00	\$0.00	\$3,007.30
PU2	PU2	50	0	0	\$5.00	\$0.00	\$0.00	\$250.00
	Subtotal	2142.5	0	0				\$33,861.85
MEA	MEA	997	0	0	\$1.00	\$0.00	\$0.00	\$997.00
	Subtotal	997	0	0				\$997.00

Pay this amount \$175,724.98

Original



- TREE SERVICE
- TREE CARE CENTER

7/21/06
GHA

INVOICE NUMBER 000931---- WEEK 26
INVOICE DATE 07/21/06

PPL UTILITIES
ATTN: GEORGE HAHN
600 LARCH STREET
SCRANTON, PA 18509

CONTRACT #202787-C
DATE 05/06/02
NORTHEAST 2006

W/E 06/24/06 ---- TARGET

DISTRIBUTION

URBAN/RURAL MILES

31.27 \$ 121,751.28

OVER 18

63.00 \$ 11,655.00

TRANSMISSION

HA2

447.29 \$ 87,221.55

SIDE TRIM

18303.0 \$ 22,878.75

RECLEAR

19.10 \$ 10,505.00

DANGER TREES

85.0 \$ 2,890.00

WIDENING

.39 \$ 1,482.00

PLEASE PAY THIS AMOUNT: \$258,383.58

Regional Accounting Summary

27-Jul-08

<u>Invoice #</u>	<u>Account Code</u>	<u>Class</u>	<u>Charges</u> <u>Work Type</u>	<u>Cost</u>
000931	833200 001		\$133,406.28	
		Distribution	Mileage	\$121,751.28
		Distribution	Removal > 18"	\$11,655.00
	833200 469		\$2,890.00	
		Transmission	Danger Tree Removal	\$2,890.00
	833201 469		\$1,589.50	
		Transmission	Reclearing	\$1,589.50
	833201 498		\$8,915.50	
		Transmission	Reclearing	\$8,915.50
	833202 001		\$0.00	
		Distribution	Herbicide Application #2	\$0.00
	833202 469		\$41,221.05	
		Transmission	Herbicide Application #2	\$41,221.05
	833202 498		\$46,000.50	
		Transmission	Herbicide Application #2	\$46,000.50
	833203 469		\$24,360.75	
		Transmission	Side Trim	\$22,878.75
		Transmission	Widening	\$1,482.00
	Invoice Total:		\$258,383.58	

All Accounts to be charged to BI 31
 AND R.C 440.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XXVII,
Dated June 6, 2007**

Docket No. R-00072155

- Q.OTS-RE-180.** Reference Attachment II-B-4, page 6 of 13, Tree Trimming. Provide all invoices for Asplundh Tree Expert including the mislabeled PNC Bank invoice to Asplundh on September 25, 2006.
- A.OTS-RE-180.** See Attachment 1.

ATTACHMENT 1

ASPLUNDH

708 BLAIR MILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

OTS Exhibit No. 5
Schedule 16 INVOICE
Page 3 of 12

PERIOD ENDING
04/29/06

INVOICE DATE INVOICE NO.
07/14/06 175702

02408597

FOR SERVICES PERFORMED BY: ASPLUNDH TREE EXPERT CO.
ATE TREE TRIMMING

MAKE CHECK PAYABLE TO

Judy

PPL ELECTRIC UTILITIES

PLEASE REMIT TO

1700 SOLUTIONS CENTER
CHICAGO, IL 60677-1007

TO

DO NOT MAIL THIS BILL

ES2 ES2 T#4 CA4 1: 12 0000017 H
4270181 75 06-27- 6.697 YBY

IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRIMMING AND REMOVING TREES

FORMAL	CUSTOMER NO.	PURCHASE ORDER NO.	REGISTRATION NO.	TERMS	NET	DAYS
ALL FOREIGN	023107	004124-06-202700-0			HARRISBURG	

INVOICE #					
INVOICE #175702					
DISTRIBUTION					
LINE CLEARANCE / MILE	42.840	MIL	3195.000	135879.20	
REMOVAL > 18" / TREE	33.000	TRE	166.000	54782.00	
DISTRIBUTION TOTAL	75.840				142351.9
TRANSMISSION					
DANGER TREE REMOVAL / TREE	539.000	TRE	45.000	24255.00	
RECLEARING / ACRE	3.620	ACR	775.000	2805.00	
SIDE TRIM / FOOT	750.000	FT	1.770	1327.00	
TRANSMISSION TOTAL	1292.620				28587.00
HARRISBURG TOTAL					170729.9

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ASPLUNDH

OTS Exhibit No. 5
 Schedule 16 INVOICE
 Page 4 of 12

04/29/06
 07/14/06 175705

708 BLAIR MILL ROAD • WILLOW GROVE, PA 18000-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY: ASPLUNDH TREE EXPERT CO.
 ATE TREE TRIMMING

MAKE CHECK PAYABLE TO

02 918522

TO PPL ELECTRIC UTILITIES
 GARY OWENS
 PO BOX 25233
 LEHIGH, PA 18002-5233

PLEASE REMIT TO

1700 SOLUTIONS CENTER
 CHICAGO, IL 60677-1000

ES2 E52 TN4 CA4 2- 11 0000017
 4270178 21 05 27 6 687 Y8
 IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRIMMING AND REMOVING TREES

QUANTITY	UNIT	DESCRIPTION	PRICE	TOTAL
ALL FOREMAN				

DESCRIPTION	AMOUNT	HRS	RATE	TOTAL
FHM	898.000	28.86		25916.28
FHM OVERTIME	258.500	46.40		10443.40
CL	1410.000	25.53		35997.30
CL OVERTIME	546.500	35.74		19531.91
CL	287.000	22.17		5362.79
CL OVERTIME	34.000	31.04		1055.36
CL	263.000	20.15		5298.45
CL OVERTIME	76.500	28.21		2158.07
GFM	120.000	33.04		3964.80
GFM OVERTIME	40.000	46.26		1850.40

STRAIGHT TOTAL 2978.000 77541.62
 OVERTIME TOTAL 955.500 35437.14
 LABOR TOTAL 112579.7

UCN	17.000	HRS	11.300	192.10
PU2	20.000	HRS	5.000	100.00
PU4	359.000	HRS	6.100	2189.90
UDN	424.500	HRS	12.400	5263.80
5CN	110.000	HRS	16.000	1760.00
5DP	459.500	HRS	17.750	8155.13
BHT	88.000	HRS	45.000	3960.00
BHT	54.000	HRS	45.000	2430.00

EQUIPMENT TOTAL 24051.00

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 Original on File**

TOTAL 136091.00

ANY PROBLEMS? CALL 800-248-TREE TOLL FREE
 ALTMILLER EXT 4492
 WHEN PAYMENT IS MADE PLEASE FORWARD REMITTANCE COPY

PAY THIS AMOUNT

\$ 136,091.00

ASPLUNDH

OTS Exhibit No. 5

Schedule 16

Page 5 of 12

INVOICE

PERIOD ENDING

07/08/06

INVOICE DATE

08/18/06

INVOICE NO.

27EG52

708 BLAIR MILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY:

ASPLUNDH TREE EXPERT CO.
ATE TREE TRIMMING

MAKE CHECK PAYABLE TO

02431283

PENNSYLVANIA POWER AND LIGHT COMPAN
ATTN: JEFF BRUNNER
1701 MANHEIM PIKE
LANCASTER, PA 17601

PLEASE SEND TO

170J SOLUTIONS CENTER
CHICAGO, IL 60677-1007

ES2 ES2 TM4 CA4 10 11 0234120 M
4321898 21 06 32 30 238 NBY
IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRIMMING AND REMOVING TREES

LEAFMAN	CREW NO.	CUSTOMER NO.	PURCHASE ORDER NO.	REQUISITION NO.	TREES	DAYS
ALL FOREMEN	023100	PAPL	004121-01	202785-6		

GFM		23.500	HRS	33.040	776.44	
GFM	OVERTIME	32.500	HRS	46.260	1503.45	
GFM	DOUBLETIME	8.500	HRS	59.470	505.50	
FNN		162.500	HRS	28.860	4689.75	
FNN	OVERTIME	73.500	HRS	40.400	2969.40	
FNN	DOUBLETIME	20.500	HRS	51.950	1064.96	
1CL		157.500	HRS	25.530	4020.98	
1CL	OVERTIME	61.000	HRS	35.740	2180.14	
1CL	DOUBLETIME	20.500	HRS	45.950	941.98	
2CL		99.000	HRS	22.170	2194.83	
2CL	OVERTIME	20.500	HRS	31.040	884.64	
2CL	DOUBLETIME	2.500	HRS	39.910	99.78	
3CL		8.000	HRS	20.150	161.20	
3CL	OVERTIME	5.000	HRS	28.210	141.05	
JBTOTAL					22134.12	
7CP		81.500	HRS	23.750	1935.63	
5CN		97.000	HRS	16.000	1352.00	
UCN		15.000	HRS	11.300	169.50	
PU4		80.500	HRS	6.100	491.05	
JBTOTAL					4148.18	

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PROBLEMS? CALL 800-248-TREE TOLL FREE
ALTMILLER EXT 4492
IF PAYMENT IS MADE PLEASE FORWARD REMITTANCE COPY

PAY THIS AMOUNT

\$

26,282.30



708 BLAIR MILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY:

ASPLUNDH TREE EXPERT CO.
ATE TREE TRIMMING

PPL ELECTRIC UTILITIES

TO

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02431307

PLEASE REMIT TO

1700 SOLUTIONS CENTER
CHICAGO, IL 60677-1007

ES2 ES2 TH4 CA4 1> 11 0000017 M
4321014 72 06-32-22 687 YBY
IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRIMMING AND REMOVING TREES

FOREMAN	CREW NO.	CUSTOMER NO.	PURCHASE ORDER NO.	REQUESTION NO.	TERMS	DAYS
ALL FOREMAN	023100	PAP 026129-06	202785-C	LEHIGH	NET	

LEHIGH						
INVOICE # 23E-55						
DIST						
LINE CLEARANCE	73.360			267764.00		
REMOVAL >12"	25.000			4875.00		
DIST TOTAL	98.360					272639.00
TRAN						
DANGER TREE REMOVAL	50.000			2750.00		
HERBICIDE APPLICATION #	69.610			19490.80		
SIDE TRIM	16416.000			29548.80		
TRAN TOTAL	16535.610					51789.60
LEHIGH TOTAL	16633.970					324428.60

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\$

324,428.60



OTS Exhibit No. 5
 Schedule 16 INVOICE
 Page 7 of 12

PERIOD ENDING 05/13/10
 INVOICE DATE 09/03/10
 INVOICE NO. 19533

708 BLAIR MILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

DR SERVICES PERFORMED BY: ASPLUNDH TREE EXPERT CO.
 TREE TRIMMING

MAKE CHECK PAYABLE TO

02446817

PPL ELECTRIC UTILITIES

PLEASE REMIT TO

1700 SOLUTIONS CENTER
 CHICAGO, IL 60677-1007

TO DO NOT MAIL THIS BILL

ES2 ESL TR4 C20 2 11 2010 17 1
 4350474 75 06-37-15 537 Y31

IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRIMMING AND REMOVING TREES

LAN	CREW NO.	CUSTOMER NO.	PURCHASE ORDER NO.	REQUISITION NO.	TERMS	NET	DAY
ALL	231	216	21785	21785	NET		

REGISTERED - 19533

ST
 ST CLEARANCE 44.06 UNITS
 SPICIDE APPLICATIONS 0.74 UNITS
 LEVEL > 10" 7

152 7.
 3 7.
 1 00.

ST TOTAL 51.8

133879.1

REGISTER TOTAL

153379.1

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\$ 153,679.1

Location	Brief #	Week Ending	Invoice Date	Invoices #
Lehigh	202785-1	8/5/2008	8/11/2008	31E058

ASPLUNDH

708 BLAIR HILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

To: Pennsylvania Power & Light Co
 Dennis Braun
 1802 Brookwood St

 Harrisburg PA 17104

Remit To: PNC
 1700 Solutions Center
 Chicago, IL 60677-1007

Crew # **Customer #** **Type of Work**
 023100 00412901 Hourly

Code	Description	St	Ot	Db	St	Ot	Db	Amount
90	GFM	160	69	0	\$33.04	\$46.26	\$59.47	\$8,478.34
01	FMN	1213	458	31	\$28.86	\$40.40	\$51.95	\$65,120.83
41	1CL	532	167	7	\$25.53	\$35.74	\$45.85	\$19,872.19
42	2CL	1049	372	28	\$22.17	\$31.04	\$38.91	\$35,840.87
43	3CL	879	257	0	\$20.15	\$28.21	\$38.27	\$20,931.82
20	GRM	0	27	0	\$18.48	\$23.04	\$28.63	\$622.08
	Subtotal	3633	1360	64				\$140,866.13
BMT	BMT	85.5	0	0	\$99.00	\$0.00	\$0.00	\$8,484.50
7CP	7CP	87	0	0	\$23.75	\$0.00	\$0.00	\$2,066.25
5DP	5DP	40	0	0	\$17.75	\$0.00	\$0.00	\$710.00
5DN	5DN	14	0	0	\$17.00	\$0.00	\$0.00	\$238.00
5CP	5CP	404	0	0	\$16.75	\$0.00	\$0.00	\$6,767.00
5CN	5CN	873	0	0	\$16.00	\$0.00	\$0.00	\$10,768.00
UCN	UCN	318	0	0	\$11.30	\$0.00	\$0.00	\$3,570.80
PU4	PU4	493	0	0	\$8.10	\$0.00	\$0.00	\$3,007.30
PU2	PU2	50	0	0	\$5.00	\$0.00	\$0.00	\$250.00
	Subtotal	2142.5	0	0				\$33,861.85
MEA	MEA	997	0	0	\$1.00	\$0.00	\$0.00	\$997.00
	Subtotal	997	0	0				\$997.00

Pay this amount \$175,724.98

original

ASPLUNDEI

OTS Exhibit No. 5
 Schedule 16
 Page 9 of 12
 INVOICE

PERIOD ENDING 05/13/06
 INVOICE DATE 08/18/06
 INVOICE NO. 195037

708 BLAIR MILL ROAD • WILLOW GROVE, PA 19090-1784 • PHONE (215) 784-4200

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 ATE TREE TRIMMING

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 CHICAGO, IL 60677-1007

ES2 ES2 TH4 CA4 10 11 0000017 M
 4320891 75 06-32-22 687 687 YBY
 IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

ORDERMAN	DESCRIPTION	CUSTOMER NO.	PURCHASE ORDER NO.	SEQUENCE NO.	TERMS	DAYS
ALL FOREMAN	TRIMMING AND REACHING TREES					

ENHIGH						
INVOICE #195037						
LIST						
LINE CLEARANCE	49.110			179251.30		
REMOVAL > 13"	26.000			5070.00		
LIST TOTAL		75.11				184321.50
TRAN						
RECLARING	29.780			32750.00		
SIDE TRIM	16.000			28.20		
TRAN TOTAL		45.78				32786.80
ENHIGH TOTAL						217108.30

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 ALTVILLER EXT 4492
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\$ 217,108.30

ASPLUNDH

OTS Exhibit No. 5
 Schedule 16
 Page 10 of 12 INVOICE

PERIOD ENDING 07/22/06
 INVOICE DATE 08/18/06
 INVOICE NO. 29E056

708 BLAIR MILL ROAD • WILLOW GROVE, PA 18090-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY: ASPLUNDH TREE EXPERT CO.
 ATE TREE TRIMMING

MAKE CHECK PAYABLE TO

02431314

TO PPL ELECTRIC UTILITIES
 GARY OWENS
 PO BOX 25233
 LEHIGH, PA 18002-5233

PLEASE REMIT TO 1700 SOLUTIONS CENTER
 CHICAGO, IL 60677-1007

ES2 ES2 TH4 CA4 IC 11 0000C17 MI
 4921878 21 06 32 35 238 345 NBY
 IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

CREWMAN	TRIMMING AND REMOVING TREES	CUSTOMER NO.	PURCHASE ORDER NO.	REQUESTION NO.	TERMS
ALL FOREMEN		083100	00129	001278	NET 15

00	GFM	160.000	HRS	33.040	5286.40	
00	GFM	OVERTIME	34.000	HRS	46.260	1572.04
01	FMN	1207.000	HRS	28.860	34834.02	
01	FMN	OVERTIME	468.500	HRS	40.400	18927.40
01	FMN	DOUBLETIME	40.000	HRS	51.950	2078.00
01	ICL	430.000	HRS	25.530	10977.90	
01	ICL	OVERTIME	178.000	HRS	35.740	8361.72
01	ICL	DOUBLETIME	9.000	HRS	45.950	413.55
02	2CL	624.000	HRS	22.170	13834.08	
02	2CL	OVERTIME	178.500	HRS	31.040	3540.64
02	2CL	DOUBLETIME	20.000	HRS	39.910	798.20
03	3CL	764.000	HRS	20.150	15394.60	
03	3CL	OVERTIME	230.000	HRS	28.210	6488.30
03	3CL	DOUBLETIME	6.000	HRS	36.270	217.52
UBTOTAL						122725.27
MT	BMT	76.000	HRS	99.000	7524.00	
DP	SDP	296.000	HRS	17.750	5254.00	
CP	SCP	307.000	HRS	16.750	5142.25	
CN	SCN	620.500	HRS	16.000	9928.00	
DN	UDN	6.000	HRS	12.400	74.40	
CN	UCN	278.000	HRS	11.300	3141.40	
U4	PU4	343.000	HRS	6.100	2092.35	
U2	PU2	100.000	HRS	5.000	500.00	
UBTOTAL						33656.35
ER	PER	3.780		1.000	3.78	
EA	MEA	534.500		1.000	534.50	
UBTOTAL						538.23

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\$ 156,919.90

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OTS Exhibit No. 5
 Schedule 16
 Page 11 of 12

PERIOD ENDING 07/22/06
 INVOICE DATE 08/18/06
 INVOICE NO. 29E055

708 BLAIR MILL ROAD • WILLOW GROVE, PA 18080-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY: ASPLUNDH TREE EXPERT CO.
 ATE TREE TRIMMING

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PPL ELECTRIC UTILITIES

PLEASE REMIT TO

1700 SOLUTIONS CENTER
 CHICAGO, IL 60677-1037

TO

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ES2 ES2 TH4 CA4 13 11 0000017 M
 4321164 75 06-32-22 687 YBY
 IMPORTANT TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.
 THANK YOU.

ORDERMAN	TRIMMING AND REMOVING TREES	CUSTOMER NO.	PURCHASE ORDER NO.	REQUESTION NO.	TERMS	NET	DAYS
ALL	5733141	220000	PARI	05712000	27-2785-00	NET	15

LEHIGH
 INVOICE #29E055
 DIST
 LINE CLEARANCE
 REMOVAL >18"
 DIST TOTAL

60.250
 29.000
 89.050

219182.50
 5655.00
 224837.50

FRAN
 DANGER TREE REMOVAL
 HERBICIDE APPLICATION #
 SIDE TRIM
 FRAN TOTAL

335.000
 132.450
 8200.000
 8667.450

13425.00
 37066.00
 14760.00
 70271.00

LEHIGH TOTAL

8756.500

295108.50

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\$ 295,108.50

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OTS Exhibit No. 5
 Schedule 16
 Page 12 of 12

INVOICE

PERIOD ENDING
 07/08/06

INVOICE DATE INVOICE NO.
 08/18/06 27E056

708 BLAIR MILL ROAD • WILLOW GROVE, PA 19080-1784 • PHONE (215) 784-4200

FOR SERVICES PERFORMED BY: ASPLUNDH TREE EXPERT CO.
 ATE TREE TRIMMING

MAKE CHECK PAYABLE TO

02431327

TO PPL ELECTRIC UTILITIES
 GARY OWENS
 PO BOX 25233
 LEHIGH, PA 18002-5233

PLEASE REMIT TO

1700 SOLUTIONS CENTER
 CHICAGO, IL 60677-1007

ES2 ES2 TH4 CA4 IC 11 0000017 MI
 4321871 21 06 32 35 238 345 NBY
 IMPORTANT: TO INSURE PROPER CREDIT TO YOUR ACCOUNT, RETURN REMITTANCE COPY OF INVOICE WITH YOUR PAYMENT.

THANK YOU.

TRIMMING AND REMOVING TREES

FOREMAN	CLIENT	CUSTOMER NO.	PURCHASE ORDER NO.	REGISTRATION NO.	TERMS	DAYS
ALL FOREMEN	023100	PAPL 004129-00	202785	LEHIGH	NET	1

DESCRIPTION	AMOUNT	UNIT	RATE	TOTAL
00 GFH	140.000	HRS	33.040	4625.60
00 GFH OVERTIME	22.000	HRS	46.260	1017.72
01 FMN	1041.500	HRS	28.860	30057.69
01 FMN OVERTIME	333.500	HRS	40.400	13473.40
01 FMN DOUBLETIME	31.000	HRS	51.950	1610.45
01 ICL	589.500	HRS	25.530	15049.94
01 ICL OVERTIME	233.000	HRS	35.740	8327.42
01 ICL DOUBLETIME	20.000	HRS	45.950	919.00
02 2CL	463.000	HRS	22.170	10264.71
02 2CL OVERTIME	68.000	HRS	31.040	2110.72
03 3CL	474.000	HRS	20.150	9551.10
03 3CL OVERTIME	78.500	HRS	28.210	2214.49
03 3CL DOUBLETIME	15.000	HRS	36.270	544.05
SUBTOTAL				99766.29
04 BMT	42.000	HRS	99.000	4158.00
05 SDP	251.000	HRS	17.750	4455.25
06 SCP	122.000	HRS	16.750	2043.50
07 SCN	469.500	HRS	16.000	7512.00
08 UCN	269.000	HRS	11.300	3039.70
09 PU4	222.000	HRS	6.100	1354.20
10 PU2	96.000	HRS	5.000	480.00
SUBTOTAL				23042.65

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 ALTMILLER EXT 4492
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\$ 122,308.94

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

- Q.OTS-RE-102-D.** Reference Exhibit Historic 1, C-4, page 2 of 12, lines 1-4.
Provide a similar breakdown of Future Test Year Revenue in the amount of \$1,031,635 as shown in Exhibit Future 1, D-1, page 1.
- A.OTS-RE-102-D.** PPL Electric forecasts revenues by rate schedule. The following breakdown is an estimate of the Future Test Year revenue by 15, 20, and 30 day due date customers.

(Thousands of Dollars)

Revenue from 15-day due date customers	\$	342,219
Revenue from 20-day due date customers		463,377
Revenue from 30-day due date customers		226,039
	\$	<u>1,031,635</u>

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 26, 2007**

Docket No. R-00072155

Q.OTS-RE-104-D. Reference Exhibit Future 1, C-4, page 2 of 6. Provide a breakdown of the \$553,025,000 expense for the same categories as listed on Exhibit Historic 1, C-4, page 2 of 12, i.e. payroll, employee benefits, affiliate support costs, other operating expenses.

A.OTS-RE-104-D. **Net Pro Forma O&M Expense Breakdown
(\$000)**

<u>Description</u>	<u>Amount</u>
Payroll	\$ 83,701
Employee Benefits	27,922
Affiliate support costs	94,124
Other operating expenses	<u>347,278</u>
Total	<u>\$553,025</u>

OTS Statement No. 5-SR
Witness: Debra J. Backer

Hbg JK

AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

DOCUMENT
FOLDER

Surrebuttal Testimony

of

Debra J. Backer

Office of Trial Staff

RECEIVED

AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

CASH WORKING CAPITAL

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Debra J. Backer. I am a Fixed Utility Financial Analyst in the
4 Technical Division of the Pennsylvania Public Utility Commission's Office of
5 Trial Staff. My business address is P.O. Box 3265, Harrisburg, PA 17105-3265.

6
7 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes. My OTS Statement No. 5 was filed on July 6, 2007.

10
11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 A. The purpose of my surrebuttal testimony is to update my OTS Exhibit No. 5
13 schedules which were filed with my Direct Testimony. This update is in response
14 to the rebuttal testimony of PPL witness Joseph M. Kleha, PPL St. No. 6-R
15 concerning operating expenses of PPL's Cash Working Capital (CWC) claim.

16
17 **Q. HAS THE COMPANY REVISED ITS CWC CLAIM?**

18 A. Yes, at Exhibit JMK 5, C-4, page 2 of 12. The Company's CWC operating
19 expense claim was \$16,211,000 in its original filing and has been reduced to
20 \$15,403,000 in its rebuttal testimony.

1 **Q. WHAT IS YOUR PROPOSED ALLOWANCE FOR CWC OPERATING**
2 **EXPENSE?**

3 A. I am recommending a CWC operating expense claim of \$12,559,000 (OTS RE-
4 5SR, Schedule I).

5
6 **Q. HAVE YOU REVIEWED THE COMPANY'S REVISIONS?**

7 A. Yes.

8
9 **Q. WHAT REVISIONS DID THE COMPANY MAKE TO ITS ORIGINAL**
10 **FILING?**

11 A. The Company adjusted the payment lag days of various categories of expenses
12 that are set forth in the Company's lead/lag study in response to Question II-B-4 of
13 Exhibit Regs., §53.53, Part II-Primary Statement of Rate Base and Operating
14 Income.

15
16 **Q. WHAT WAS THE COMPANY'S BASIS FOR UPDATING THEIR**
17 **LEAD/LAG STUDY?**

18 A. Originally, the Company's lag day calculations were based on a sample of select
19 invoices for a three month period ending September 30, 2006. The Company has
20 now updated its schedules to reflect select invoices for a six month period ending
21 September 2006. The Company has also updated a few of the expense lags to

1 represent more accurate information the Company acquired since the filing, i.e.
2 tree trimming and services.

3
4 **Q. DO YOU AGREE WITH THE COMPANY'S REVISIONS TO ITS LAG**
5 **CALCULATIONS?**

6 A. I do not agree with several of the revisions made by the Company.

7
8 **Q. WHAT LAG CALCULATIONS DO YOU ACCEPT NOW THAT YOU DID**
9 **NOT ACCEPT IN YOUR DIRECT TESTIMONY?**

10 A. Now that the Company has identified more realistic payments for Tree Trimming,
11 I will accept their revised lag. I also accept their Rent expense lag calculation.

12
13 **Q. WHICH LAG DAYS DO YOU STILL DISAGREE WITH?**

14 A. I still disagree with the Company's lag calculations for Work by Outsiders,
15 Services and Miscellaneous Expenses.

16
17 **Q. WHAT IS YOUR DISAGREEMENT WITH THE COMPANY'S LAG**
18 **CALCULATION?**

19 A. I have the same disagreement for all three expenses concerning the payment dates.
20 The Company selected a snapshot period ending September 30, 2006. In PPL's
21 lag calculation, the Company provides invoice data paid in October 2006, which is

1 outside this sample period. Payments made in October, November and December
2 2006, should be included in the next three month sample snapshot period.

3
4 **Q. WHY SHOULD THE COMPANY EXCLUDE PAYMENTS MADE AFTER**
5 **ITS SELECTED SAMPLE PERIOD?**

6 A. The Company should exclude payments made after its selected sample period
7 because these payments distort its lag calculation. Including a small portion of
8 payments from the next snapshot period distorts the current snapshot period by
9 *giving a false amount of expenses and lag days during the claimed snapshot*
10 *period.* A CWC lead/lag study measures how many days exist on the average
11 between the midpoint of the service period and the date the payment is made. The
12 two key dates in a lead/lag study are 1) the midpoint of service date and 2) the
13 payment date. This lead/lag number of days is then multiplied by the expense
14 dollar amount to determine the weighted amount of the expense. By including
15 invoices outside of its snapshot period, the Company gives a false representation
16 of the amounts expensed during the snapshot period. This clearly affects the lag
17 days and weighted dollar amount.

18
19 **Q. HOW DID THE COMPANY SELECT ITS SAMPLE INVOICES TO USE**
20 **IN THE LEAD/LAG STUDY?**

21 A. PPL Statement No. 6-R, page 19 states that the Company chose a sample of
22 invoices which were:

1 selected on a random basis, with the specific criteria that a variety of
2 payees be included in the sample, and that the sample contain
3 transactions which have a higher percentage of dollar payment value
4 when compared to the total dollar value of the category of expense
5 being sampled. The Company chose their 10 largest transactions
6 and then every 10th transaction down to a payment amount of \$2,000
7 for the Services expenses.
8

9 **Q. DO YOU AGREE WITH PPL'S SAMPLE SELECTION PROCESS?**

10 A. No. PPL Statement No. 6-R, page 22 states:

11 PPL Electric's sample selection process is designed to select and
12 analyze a representative sample of invoices reflected on the
13 Company's accounting records during the sample period. The
14 transaction is reviewed to ascertain the transaction's applicable
15 service date and the corresponding payment date. The lag between
16 the midpoint of the service period and the payment date then is
17 calculated. All of the transactions selected for the 3-month ended
18 September 30, 2006 sample period relate to invoices that had
19 accounting transactions dates that fell within the sample period,
20 which is when the transactions appeared on the accounting records
21 of the Company.
22

23 However, the accounting record dates are not and should not be used in the
24 calculation of lag days, only the midpoint of service and the payment dates are
25 used in the calculations.
26

27 **Q. WHAT IS THE MAJOR FLAW IN THE COMPANY USING ITS**
28 **ACCOUNTING DATES?**

29 A. The major flaw in the Company's method of using the accounting dates is that this
30 method is clearly inconsistent with the purpose of a payment lag calculation,
31 which is to determine the time elapsed between the rendering of the service and

1 the actual payment for that service. The payment date is the actual date of the
2 cash outflow, whereas the accounting period only represents the logging of
3 information onto the Company's books. Clearly, my method of using payment
4 dates gives a more accurate representation of actual cash outflows as opposed to
5 the Company's method of using accounting dates.

6
7 **Q. WHAT IS YOUR RECOMMENDATION?**

8 A. I recommend removing all invoices paid after September 30, 2006.

9
10 **Q. WHICH LAG CATEGORIES INCLUDE PAYMENT DATES OUTSIDE OF**
11 **THE SAMPLE PERIOD AND SHOULD BE REMOVED?**

12 A. The three distorted lag calculations with payments outside the sample period are:
13 1) Work by outsiders (OTS Exhibit No. 5-SR, Schedule 5),
14 2) Services (OTS Exhibit No. 5-SR, Schedule 6), and 3) Miscellaneous expenses
15 (OTS Exhibit No. 5-SR, Schedule 7).

16
17 **Q. WHAT IS YOUR PROPOSED ALLOWANCE FOR CWC OPERATING**
18 **EXPENSES?**

19 A. I recommend a CWC allowance for operating expense of \$12,559,000 (OTS
20 Exhibit No. 5-SR, Schedule 1). This represents a reduction of \$2,844,000 to the
21 Company's claim of \$15,403,000.

1 **Q. HAS YOUR RECOMMENDED CWC OPERATING EXPENSE CLAIM OF**
2 **\$12,559,000 CHANGED SINCE YOUR DIRECT TESTIMONY?**

3 A. Yes. My recommended CWC operating expense allowance includes the
4 Company's updated lag schedule information and my acceptance of its tree
5 trimming and rent expense lags.
6

7 **Q. ARE THERE ANY OTHER CONCERNS YOU HAVE WITH THE**
8 **COMPANY'S LAG CALCULATIONS?**

9 A. Yes. I would like to point out that in Statement 6-R, Schedule C-4, page 2 of 12,
10 lines 1-9, the revenue and expense dollar amounts are for the Historic Test Year
11 (HTY) and should have been updated for the Future Test Year (FTY) amounts.
12

13 **Q. WHY IS IT IMPORTANT TO UPDATE THE DOLLAR AMOUNTS TO**
14 **THE FTY?**

15 A. It is critical to update the revenue and expense dollar amounts for the FTY in order
16 to properly reflect the cash working capital requirement for the period. Using
17 HTY dollar amounts misrepresents the amount needed for the FTY CWC
18 requirement.
19

20 **Q. DID THE COMPANY PROVIDE THE FTY REVENUE?**

1 A. Yes, in response to OTS-RE-102-D the Company provided a breakdown of the
2 FTY Revenue by Due Date Category (OTS Exhibit No. 5-SR, Schedule 8).

3

4 **Q. DID THE COMPANY ALSO PROVIDE FTY EXPENSES?**

5 A. Yes, in response to OTS-RE-104-D the Company provided a breakdown of FTY
6 Expenses (OTS Exhibit No. 5-SR, Schedule 9).

7

8 **Q. DID YOU USE THESE UPDATED AMOUNTS IN YOUR**
9 **CALCULATIONS?**

10 A. Yes (OTS Exhibit No. 5-SR, Schedule 1).

11

12 **Q. WOULD YOU SUMMARIZE YOUR ADJUSTMENTS?**

13 A. Yes. I am proposing an increase in the CWC operating expense lags for: work by
14 outsiders, services, and miscellaneous expenses. The table below summarizes my
15 adjustments to the lags:

<u>Operating Expense</u>	<u>Company claimed lag</u>	<u>OTS calculated lag</u>
Work by Outsiders	65.64	71.16
Services	20.19	21.21
Miscellaneous	4.14	11.04

16

1 The net affect is an increase in the lag days for Other Operating Expenses from the
2 Company's claimed 35.1 lag days (PPL's Exhibit JMK, C-4, Page 2 of 12) to 37 lag
3 days (OTS Exhibit No. 5-SR, Schedule 1). I am also recommending that the
4 Company update their CWC requirement calculation to reflect the FTY revenues and
5 expenses.

6
7 **Q. DOES YOUR RECOMMENDED CWC ALLOWANCE OF \$12,559,000**
8 **REPRESENT A FINAL RECOMMENDED ALLOWANCE FOR CWC?**

9 A. No. All adjustments to the Company's claims for revenues, expenses, taxes and rate
10 base must be consistently brought together in the ALJ's Recommended Decision,
11 and again in the Commission's Final Order. This process, which is known as
12 "iteration", effectively prevents the determination of a precise calculation until such
13 time as all adjustments have been made to the Company's claim.

14
15 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

16 A. Yes.

OTS Exhibit No. 5-SR
Witness: Debra Backer
Hbg JK AUG 13 2007

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00072155

DOCUMENT
FOLDER

Exhibit to Accompany

the

Surrebuttal Testimony

of

Debra Backer

Office of Trial Staff

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AUG 14 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Concerning:

CASH WORKING CAPITAL

PPL Electric Utilities Corporation
 Working Capital Required for Operation and Maintenance Expenses
 As of December 31, 2007
 (Thousands of Dollars)

OTS Exhibit No. 5-SR
 Schedule 1, Page 1 of 2

Line No.	Description	Amount (c)	Avg. Days	Weighted Amount
	<u>Average Lag in Receipt of Operating revenue</u>			
1	Revenue from 15-day due date customers	\$342,219	34 (a)	\$11,635,446
2	Revenue from 20-day due date customers	463,377	57 (a)	\$26,412,489
3	Revenue from 30-day due date customers	226,039	38 (a)	\$8,677,637
4	Total Revenue (D-3)	<u>\$1,031,635</u>		<u>\$46,725,572</u>
	<u>Average Lag in Payment of Operation and Maintenance Expense</u>			
		(d)		
5	Payroll	\$83,701	12.00	\$1,004,412.00
6	Employee benefits	27,922	35.00	977,270.00
7	Affiliate support costs	94,124	35.00	3,294,340.00
8	Other operating expenses	347,278	43.73	15,186,466.94
9	Total pro forma O&M expense (b)	<u>\$553,025</u>		<u>\$20,462,488.94</u>
10	Average lag in receipt of revenue			45.29
11	Average lag in payment of operating expense			37.00
12	Average lag in days between payment of operating expense and receipt of revenue (line 10-11)			<u>8.29</u>
13	Operating expense per day (line 9/365 days)			\$1,515
14	Working capital requirement (line 13 X line 12)			\$12,559

		Customer Due Date		
		15 Days	20 Days	30 Days
(a)	Midpoint of 30-day service period	15	15	15
	Lag between meter reading and billing date	1	1	1
	Lag between billing date and payment date	18	41	22
		<u>34</u>	<u>57</u>	<u>38</u>
(b)	Pro forma operating and maintenance expense	\$579,291		
	Less: Non-cash items			
	Uncollectible accounts	20,155		
	On Track uncollectible expense	4,500		
	Amortization of Ice and Snow Storm costs (D-9)	1,611		
	Total pro forma O&M expense	<u>\$553,025</u>		
(c)	FTY Revenues OTS Exhibit No. 5-SR, Schedule 8			
(d)	FTY Expense OTS Exhibit No. 5-SR, Schedule 9			

PPL Electric Utilities Corporation
R-00071555
Working Capital Required for Operation and Maintenance Expenses
As of December 31, 2007
(Thousands of Dollars)

OTS Exhibit No. 5-SR
Schedule 2

Line No.	Description	Amount
1	Net pro forma O&M expense (a)	\$553,025
2	O&M expense per day (line 1 divided by 365 days)	1,515
3	Average lag in days between payment of O&M expenses and receipt of revenue (b)	8.29
4	Working capital requirement (line 2 X line 3)	12,559
(a)	Total pro forma operation and maintenance expense (D-1)	\$579,291
	Less: Non-cash items	
	Uncollectible accounts	20,155
	On Track uncollectible expense	4,500
	Amortization of Ice and Snow Storm costs (D-9)	1,611
	Net pro forma O&M expense	<u>\$553,025</u>
(b)	OTS Exhibit No. 5-SR, Schedule 1, Page 1	

PPL ELECTRIC UTILITIES CORPORATION
R-00072155
Cash Working Capital
As of December 31, 2007
(Thousands of Dollars)

Line No.	Description	Claim per Company (a)	Allowance per OTS	OTS Recommended Adjustment
1	Operation and maintenance expense	\$15,403	\$12,559 (b)	\$2,844
2	Average prepayments	2,470	2,470	0
3	Accrued taxes	17,245	17,245	0
4	Interest payments	(9,005)	(9,005)	0
5	Preferred and preference dividend payments	10	10	0
6	Total cash working capital requirement	<u>\$ 26,123</u>	<u>\$23,279</u>	<u>\$ 2,844</u>

(a) Reference Co. Exhibit Future 1, C-4 page 1

(b) Reference OTS Exhibit No. 5-SR, Schedule 1

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Other Expenses
6 Months Ended in September 30, 2006

OTS Exhibit No. 5-SR
Schedule 4

Category	Amount	Days Lag	Weighted Amount per OTS	PPL's Claim	Difference
Employee Expenses	\$ 1,105,261	12	\$ 13,263,132	13,263,132	0
Materials & Supplies	1,805,688	32.52	58,720,974	58,720,974	0
Printing & Office Supplies	345,256	37.39	12,909,122	12,909,122	0
Tree Trimming	13,795,965	52.66	726,495,517	726,495,517	0
Work by Outsiders	14,084,432	71.16 (a)	1,002,248,181	924,502,116	77,746,065
Services	1,537,331	21.21 (b)	32,606,791	32,145,591	461,200
Postage	2,652,900	(7.02)	(18,623,358)	(18,623,358)	0
Telephone & Leased Wires	1,803,302	35.78	64,522,146	64,522,146	0
Rents	5,926,266	16.09	95,353,620	95,353,620	0
Advertising	115,679	34.91	4,038,354	4,038,354	0
Miscellaneous	3,171,040	11.04 (c)	35,008,282	13,128,106	21,880,176
Total	<u>\$ 46,343,120</u>		<u>\$2,026,542,761</u>	<u>\$1,926,455,320</u>	<u>\$ 100,087,441</u>

43.73 lag days

- (a) OTS Exhibit No. 5-SR, Schedule 6
- (b) OTS Exhibit No. 5-SR, Schedule 5
- (c) OTS Exhibit No. 5-SR, Schedule 7

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Work by Outsiders
6 Months Ended September 30, 2006

OTS Exhibit No. 5-SR
Schedule 5
Page 1 of 2

Vendor Name	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Harlan Electric Co.	1/16/2006	4/25/2006	\$ 114,873.10	99	\$ 11,372,436.90
W A Chester LLC	4/27/2006	6/5/2006	32,650.80	39	1,273,381
DL Fry Inc.	4/28/2006	5/26/2006	28,354.29	28	793,920
B J Baldwin Electric Inc.	4/30/2006	5/29/2006	25,980.00	29	753,420
Automated Micro Systems	12/16/2005	7/28/2006	23,010.00	224	5,154,240
Agrotors Inc	3/28/2006	5/1/2006	20,925.00	34	711,450
TREHAB Center	3/16/2006	5/1/2006	19,140.00	46	880,440
Agrotors Inc	5/3/2006	6/5/2006	18,225.00	33	601,425
Utilities International Inc.	5/16/2006	7/3/2006	17,736.49	48	851,352
Henkels & McCoy Inc.	3/8/2006	4/13/2006	17,410.64	36	626,783
Waste Management of PA, Inc.	4/11/2006	5/11/2006	15,158.69	30	454,761
Waste Management of PA, Inc.	5/12/2006	6/14/2006	14,274.40	33	471,055
Step Inc.	5/16/2006	6/6/2006	13,979.25	21	293,564
Commission on Economic Opo.	4/15/2006	6/5/2006	12,460.00	51	635,460
KT Power Inc.	4/24/2006	6/8/2006	11,962.92	45	538,331
ABB Inc	4/28/2006	5/29/2006	11,365.00	31	352,315
Metropolitan Edison Co.	5/16/2006	6/1/2006	11,055.00	16	176,880
Henkels & McCoy Inc.	5/24/2006	6/29/2006	10,560.11	36	380,164
Henkels & McCoy Inc.	4/5/2006	5/19/2006	9,814.28	44	431,828
Allianceone Receivables	5/16/2006	6/30/2006	9,263.81	45	416,871
Utilities International Inc.	3/15/2006	7/13/2006	30,683.80	120	\$3,682,056
East Coast Drilling	6/22/2006	7/24/2006	24,999.00	32	799,968
Henkels & McCoy Inc.	6/6/2006	7/7/2006	23,121.50	31	716,767
TREHAB Center	6/15/2006	7/31/2006	20,097.00	46	924,462
Henkels & McCoy Inc.	5/16/2006	7/13/2006	17,268.01	58	1,001,545
Duggan & Marcon Inc	7/11/2006	8/10/2006	16,500.00	30	495,000
Osmose Utilities Services Inc.	4/12/2006	7/26/2006	15,219.37	105	1,598,034
KT Power Inc.	5/18/2006	7/27/2006	12,482.74	70	873,792
Henkels & McCoy Inc.	4/26/2006	9/1/2006	25,729.38	37	951,987

Waste Management of PA, Inc.	7/5/2006	9/11/2006	13,594.11	68	924,399
Agrotors Inc	8/4/2006	9/11/2006	13,500.00	38	513,000
Everhart & Hoover Power Line	7/29/2006	9/6/2006	11,648.71	39	454,300
Lineal Industries Inc.	7/21/2006	9/1/2006	10,406.00	42	437,052
Miller Bros	3/8/2006	9/14/2006	68,691.00	190	13,051,290
Henkels & McCoy Inc.	9/6/2006	10/6/2006	0.00	0	0 (a)
Reynolds	8/15/2006	10/4/2006	0.00	0	0 (a)
Agrotors Inc.	8/13/2006	10/16/2006	0.00	0	0 (a)
TRENAB Carter	9/15/2006	10/2/2006	0.00	0	0 (a)
Agrotors Inc	8/16/2006	9/20/2006	21,600.00	35	756,000
Henkels & McCoy Inc.	9/6/2006	10/6/2006	0.00	0	0 (a)
Henkels & McCoy Inc.	9/6/2006	10/6/2006	0.00	0	0 (a)
D.L Fry Inc.	9/11/2006	10/2/2006	0.00	31	0 (a)
			<u>\$ 763,739</u>		<u>\$ 54,349,730</u>

71.16 lag days

(a) outside of Company's selected snapshot period

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Services
6 Months Ended September 30, 2006

OTS Exhibit No. 5-SR
Schedule 6
Page 1 of 2

Vendor Name	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Accenture	5/15/2006	5/1/2006	\$ 335,507.63	(14)	\$ (4,697,107)
Accenture	4/3/2006	5/3/2006	176,849.00	30	5,305,470
Accenture	5/15/2006	5/1/2006	49,808.00	(14)	(697,312)
EPRI	5/15/2006	5/1/2006	26,447.00	(14)	(370,258)
Accenture	5/15/2006	5/1/2006	24,904.00	(14)	(348,656)
Onyx Environmental Services LLC	3/21/2006	4/20/2006	8,470.81	30	254,124
ICR	4/5/2006	5/5/2006	3,925.00	30	117,750
Executive Relocation Corp.	1/15/2006	3/17/2006	3,230.85	61	197,082
PA One Call System Inc.	3/31/2006	5/1/2006	2,386.80	31	73,991
J D Power and Assoc.	3/21/2006	4/20/2006	55,000.00	30	1,650,000
Applied Public Policy Research	5/1/2006	6/2/2006	29,965.00	32	958,880
M&T Bank	4/24/2006	5/23/2006	24,035.00	29	697,015
ICR	5/1/2006	5/31/2006	15,258.75	30	457,763
Gross McGinley Labarre & Eaton LLP	3/18/2006	5/25/2006	5,460.90	68	371,341
PA One Call System Inc.	4/30/2006	5/30/2006	2,820.60	30	84,618
Executive Relocation Corp.	3/15/2006	5/1/2006	2,697.45	47	126,780
Utilities International Inc.	12/15/2006	6/30/2006	55,390.47	197	10,911,923
Utilities International Inc.	4/20/2006	6/30/2006	15,457.68	71	1,097,495
Accenture	8/15/2006	7/31/2006	335,507.63	(15.00)	(5,032,614.00)
EPRI	8/15/2006	7/31/2006	26,447.00	(15)	(396,705)
Davies Consulting Inc.	4/15/2006	7/31/2006	18,332.12	107	1,961,537
ICR	8/15/2006	8/4/2006	11,472.50	(11)	(126,198)
Executive Relocation Corp.	5/15/2006	7/14/2006	5,357.76	60	321,466
Davies Consulting Inc.	7/1/2006	8/30/2006	27,901.72	60	1,674,103
PA One Call System Inc.	7/31/2006	8/30/2006	3,115.80	30	93,474
Accenture	7/1/2006	9/26/2006	150,000.00	87	13,050,000
Accenture	9/1/2006	9/26/2006	117,250.00	25	2,931,250
J D Power and Assoc.	8/22/2006	9/21/2006	74,200.00	30	2,226,000
Accenture	9/1/2006	9/26/2006	57,750.00	25	1,443,750

Siemens Power Transmission & Dist Inc	9/1/2006	10/2/2006	0.00	31	0	(a)
J D Power and Assoc.	7/31/2006	9/14/2006	47,700.00	45	2,146,500	
Executive Relocation Corp.	6/15/2006	9/5/2006	31,685.46	82	2,598,208	
Electron International Inc.	3/1/2007	9/25/2006	12,637.32	(157)	(1,984,059)	
General Electric International Inc.	6/30/2007	10/2/2006	0.00	31	0	(a)
Executive Relocation Corp.	6/15/2006	9/5/2006	2,755.01	82	225,911	
Full One Call System Inc.	8/31/2006	10/2/2006	0.00	31	0	(a)
			<u>\$ 1,759,727.26</u>		<u>\$ 37,323,522</u>	

21.21 lag days

(a) outside of Company's selected snapshot period

PPL Electric Utilities Corporation
R-00072155
Lag in Payment of Miscellaneous Expenses
6 Months Ended September 30, 2006

OTS Exhibit No. 5-SR
Schedule 7
Page 1 of 2

Vendor Name	Mid-point of Service Date	Payment Date	(A) Amount	(B) Days Lag	(A) X (B) Weighted Amount
Tim Rothermel	3/16/2006	4/13/2006	\$ 3,386.01	28	\$ 94,808
Menno Eby	3/20/2006	4/25/2006	2,311.29	36	83,206
Allstate Insurance Co.	4/1/2006	4/11/2006	1,700.00	10	17,000
Sergei Szortyka	3/20/2006	4/7/2006	1,514.05	18	27,253
Andrew Soback	3/21/2006	4/7/2006	1,490.00	17	25,330
Credit Card Purchase	3/7/2006	4/24/2006	7,950.00	48	381,600
Homeland	3/21/2006	5/16/2006	6,404.00	56	358,624
Allstate Insurance Co.	11/11/2005	5/17/2006	4,731.79	187	884,845
Phoenix Insurance Co.	4/13/2006	5/1/2006	4,131.30	18	74,363
Nationwide Insurance	4/25/2006	5/2/2006	2,479.55	7	17,357
Allstate Insurance Co.	7/15/2005	5/19/2006	2,011.32	308	619,487
Donald Zeisloft	4/3/2006	4/10/2006	1,684.32	7	11,790
Reliability First Corp.	8/15/2006	7/3/2006	74,027.13	(43)	(3,183,167)
PJM Bill	6/15/2006	7/20/2006	16,863.73	35	590,231
PJM Bill	6/15/2006	7/20/2006	15,262.71	35	534,195
North American Energy Standards	3/1/2007	8/11/2006	5,000.00	(202)	(1,010,000)
Rosenberg & Parker Inc	11/3/2006	6/12/2006	4,500.00	(144)	(648,000)
Whittaker Associates	6/2/2006	7/7/2006	3,404.92	35	119,172
Joseph Kavitski	5/8/2006	6/12/2006	3,102.48	35	108,587
Allstate Insurance Co.	4/18/2006	6/13/2006	3,079.18	56	172,434
Erie Insurance Group	6/6/2006	6/22/2006	3,065.00	16	49,040
Erie Insurance Group	6/8/2006	6/22/2006	2,288.31	14	32,036
Susan Zingaretti	6/13/2006	6/23/2006	1,865.86	10	18,659
Charles Eberhardt	6/12/2006	6/19/2006	1,672.76	7	11,709
Encompass Insurance	4/24/2006	7/21/2006	4,791.70	88.00	421,670
Pocono Rabbit Farm	7/13/2006	7/24/2006	4,750.00	11	52,250
Liberty Mutual	6/21/2006	7/6/2006	3,906.34	15	58,595
Allen C. Hench	6/15/2006	7/7/2006	2,730.08	22	60,062
Robert R Palmer	5/23/2006	7/18/2006	2,728.10	56	152,774

Merchants Mutual Insurance Co.	2/7/2006	7/28/2006	2,676.13	171	457,618
Can Do Inc	6/23/2006	7/13/2006	2,500.00	20	50,000
Can Do Inc	7/12/2006	7/26/2006	2,500.00	14	35,000
Commonwealth of PA	6/4/2006	7/14/2006	1,782.00	40	71,280
PJM Bill	8/15/2006	9/20/2006	25,177.99	36	906,408
Commonwealth of PA	7/7/2006	8/28/2006	24,880.25	52	1,293,773
Lori Pearson	8/8/2006	8/21/2006	4,292.00	13	55,796
Angel Riephoff	7/25/2006	8/10/2006	3,889.11	16	62,226
BKK Communications Inc	7/6/2006	8/10/2006	2,188.37	35	76,593
Glenn G Holzmann	8/10/2006	8/21/2006	2,166.67	11	23,833
Liability First Corporation	11/15/2006	10/2/2006	0.00	0	0 (a)
PJM Bill	9/15/2006	10/26/2006	0.00	0	0 (a)
Raymond Passante	8/24/2006	9/22/2006	5,302.87	29	153,783
Premiere Speakers Bureau Inc	12/8/2006	9/8/2006	3,250.00	(91)	(295,750)
Dale Roth	9/25/2006	9/29/2006	3,200.00	4	12,800
Westfield Insurance	9/6/2006	9/21/2006	2,475.00	15	37,125
Paul Panzera	8/31/2006	9/13/2006	2,455.83	13	31,926
			<u>281,568.15</u>		<u>3,108,322</u>

11.04 lag days

(a) outside of Company's selected snapshot period

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 28, 2007**

Docket No. R-00072155

- Q.OTS-RE-102-D.** Reference Exhibit Historic 1, C-4, page 2 of 12, lines 1-4.
Provide a similar breakdown of Future Test Year Revenue in the amount of \$1,031,635 as shown in Exhibit Future 1, D-1, page 1.
- A.OTS-RE-102-D.** PPL Electric forecasts revenues by rate schedule. The following breakdown is an estimate of the Future Test Year revenue by 15, 20, and 30 day due date customers.

(Thousands of Dollars)

Revenue from 15-day due date customers	\$	342,219
Revenue from 20-day due date customers		483,377
Revenue from 30-day due date customers		228,039
	\$	<u>1,031,635</u>

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set XIII,
Dated April 28, 2007**

Docket No. R-00072155

Q.OTS-RE-104-D. Reference Exhibit Future 1, C-4, page 2 of 6. Provide a breakdown of the \$553,025,000 expense for the same categories as listed on Exhibit Historic 1, C-4, page 2 of 12, i.e. payroll, employee benefits, affiliate support costs, other operating expenses.

A.OTS-RE-104-D. **Net Pro Forma O&M Expense Breakdown
(\$000)**

<u>Description</u>	<u>Amount</u>
Payroll	\$ 83,701
Employee Benefits	27,922
Affiliate support costs	94,124
Other operating expenses	<u>347,278</u>
Total	<u>\$553,025</u>