

OTS Exhibit No. 5
Witness: Michael Gruber
Date: June 29, 2004

8/9/04
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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

DOCUMENT

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00049255

Exhibit

to

Accompany

the

Direct Testimony

of

Michael Gruber

Office of Trial Staff

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**Concerning:
Sustainable Energy Fund
Distribution System Improvements Charge
Transmission Service Charge
Late Payment Fees**

O.G.Kasper
J.R.Schadt

PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 2,
Dated April 13, 2004
Docket No. R-00049255

Q.OTS-RE-30. Provide an explanation of how the Company developed the future test year level of late payment charges, shown on Exhibit Future 1, Schedule D-3, line 8.

A.OTS-RE-30. The 2004 projection of \$6,000,000 for blUed late payment charges is based on an average of the last 5 years actual experience.

Late Payment Charges

	\$000
<u>Year</u>	<u>Actual</u>
1999	\$6,215
2000	5,533
2001	7,217
2002	4,998
2003	7,717
Average	<u>\$6,336</u>

PPL ELECTRIC UTILITIES Corporation
Late Payment Revenue
Year Ended December 31, 2004
(000)

1	(1) Year	(2) Total Revenue	(3) Late Payment	(4) Percent (3)/(2)
2		<u>Revenue</u>	<u>Payment</u>	<u>(3)/(2)</u>
3		(a)	(b)	
4	2001	\$ 2,276,256	\$ 7,217	0.3171%
5	2002	2,376,649	4,998	0.2103%
6	2003	2,419,693	7,717	0.3189%
7	Total	<u>\$ 7,072,598</u>	<u>\$ 19,932</u>	<u>0.2818%</u>
			<u>Per Company</u>	<u>Per OTS</u>
8	Total Company Pro Forma Revenue at Present Rates		\$ 2,515,735	\$ 2,529,625 (d)
9	Late Payment %		<u>0.2818 %</u>	<u>0.2818 %</u>
10	Adjusted Late Payment Revenue		\$ 7,089	\$ 7,128
11	Less Company Claim (c)		<u>6,000</u>	<u>6,000</u>
12	OTS Proposed Adjustment		\$ 1,089	\$ 1,128

(a) Operating Revenue from Attachment VI - B, page 1 of 2

(b) OTS Exhibit No. 5, Schedule 1

(c) Company Exhibit Future 1, Schedule D-3, Line 8

(d) Reference the direct testimony of OTS witness Joseph Kubas

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held April 17, 2003

Commissioners Present:

Glen R. Thomas, Chairman
Robert K. Bloom, Vice Chairman
Aaron Wilson, Jr.
Terrance J. Fitzpatrick
Kim Pizzingrilli

Petition of the Columbia Water Company
For Approval to Implement a Tariff
Supplement Establishing a Distribution
System Improvement Charge

P-00021979 and
P-00021979C0001 through
P-00021979C0009,
P-00021979C0011 and
P-00021979C0012

OPINION AND ORDER

BY THE COMMISSION:

Before the Commission for consideration and disposition are the Exceptions of The Columbia Water Company (Columbia) taken to the Recommended Decision (R.D.) of Administrative Law Judge (ALJ) Debra Paist issued March 21, 2003, relative to the above-captioned proceeding. The Office of Consumer Advocate (OCA) filed Reply Exceptions on April 3, 2003.

History of the Proceeding¹

On August 30, 2002, Columbia filed a Petition for Approval to Institute a Distribution System Improvement Charge (DSIC) with an ultimate limit of 5% and an initial level of 2.33% to be implemented through proposed Supplement No. 9 to its Tariff Water – Pa. P.U.C. No. 7 effective on November 1, 2002. Columbia, a jurisdictional water company, serves 7,893 customers in the Lancaster municipalities of West Hempfield Township, Manor Township, the Borough of Columbia, and the Borough of Mountville. Excluding public fire customers, all Columbia customers are subject to the proposed DSIC.

On September 18, 2002, the Office of Trial Staff (OTS) filed an Answer to the Petition, recommending certain modifications to two subsections of Supplement No. 9. On September 24, 2002, Columbia filed revised pages to Supplement No. 9 which contained the changes recommended by the OTS. These changes related to the list of DSIC eligible property and the clarification of language related to “Pre-Tax Return.”

On October 11, 2002, the OCA filed a Motion seeking a waiver of the time period for filing an Answer to the Petition. On October 15, 2002, OCA filed a Formal Complaint alleging, *inter alia*, whether the eligible property included within the proposed surcharge is appropriate. On October 17, 2002, Columbia filed a Reply and an Answer in Opposition to the OCA’s Motion. On October 18, 2002, Columbia filed an Answer to the OCA’s Formal Complaint, requesting dismissal of this Complaint or, in the alternative, permission to put the initial DSIC surcharge of 2.33% into effect on November 1, 2002 (as no part of the initial surcharge is attributable to the eligible property that the OCA

¹ A more detailed recitation of the history of this proceeding is contained at pages 1 through 6 of the Recommended Decision. Portions of the History are reproduced from the Recommended Decision without specific attribution.

deems offensive) and to assign the issues addressed by OCA to the Office of Administrative Law Judge for adjudication.

Formal complaints were filed by customers Donald W. Boyle (P-00021979C0001), Robert Grant (P-00021979C0002), Lindsey Mercado (P-00021979C0003), Karen Kissinger (P-00021979C0004), Richard H. Hynicka (P-00021979C0005), James Spickler (P-00021979C0006), Ronald J. Brubaker (P-00021979C0007), Robert E. Warfel, Sr. (P-00021979C0008), Anna Zook (P-00021979C0009) and Heidi Roth (P-00021979C0011). The formal complaint of customer Todd A. Roberts (P-00021979C0011) was subsequently withdrawn.

By an October 25, 2002 Opinion and Order, the Commission denied the OCA's motion as moot, assigned the matter to the Office of Administrative Law Judge, and suspended Columbia's DSIC Supplement No. 9 until May 1, 2003, unless otherwise directed.

An evidentiary hearing was held January 23, 2003, before ALJ Paist. Represented by their respective legal counsel, Columbia, the OCA and the OTS participated in the evidentiary hearing. After conclusion of the evidentiary record, Columbia and the OCA filed Main Briefs and Reply Briefs. In her Recommended Decision, ALJ Paist recommended that Columbia's Petition be approved, in part, and denied, in part. (R.D., p. 27). On March 28, 2003, Columbia filed Exceptions (Exc.) to the Recommended Decision. The OCA filed Reply Exceptions (R.Exc.) on April 3, 2003.

Discussion

Prior to arriving at her recommendation concerning the issues presented in this Complaint proceeding, ALJ Paist made four Findings of Fact. (R.D., pp. 6-8). We

shall adopt and incorporate by reference said Findings of Fact, unless expressly or by necessary implication, they are reversed or modified by the discussion contained in this Opinion and Order.

ALJ Paist identified three legal issues raised in the proceeding. The first issue was whether the Commission has issued an order approving an exhaustive list of DSIC-eligible distribution system improvement projects. (R.D., p. 9). On this issue, the ALJ rejected the argument that 66 Pa. C.S. §1307(g) phrase “certain distribution system improvement projects, as approved by the commission” would encompass only those specific distributions improvement projects which the Commission listed as “DSIC-eligible property” in the Sample DSIC Tariff contained in *Re Pennsylvania-American Water Co.*, 86 Pa. P.U.C. (1996) (*PAWC Order*). (R.D., p. 10). The ALJ reasoned that the Commission’s Sample DSIC Tariff was not intended as an exhaustive or definitive offering of DSIC-eligible property and that the Commission has the discretion to approve or disapprove a request for cost recovery depending on the particular circumstances underlying a DSIC proposal. (R.D., p. 11). The ALJ concluded that DSIC-eligible distribution system improvement projects may include, but are limited to, those projects identified in the Sample DSIC Tariff. (R.D., p. 11).

The ALJ described the next legal issues as whether Columbia’s proposed pumping station qualifies under subsection 1307(g) as a distribution system improvement and, if so, whether it constitutes DSIC-eligible property. (R.D., p. 9). After reviewing pertinent Commission regulations and decisions, ALJ Paist concluded that a pump *may* be a water distribution system component if it facilitates the delivery of water to end-users. (R.D., p. 17) (Emphasis supplied). Next, she considered whether the Columbia’s proposed Lockhard's Hollow pumping station for which it seeks DSIC recovery was a part of Columbia’s distribution system. In summary, ALJ Paist reasoned that:

As revealed by Mr. McClune's above-quoted testimony which I find credible, the proposed Lockhard's Hollow pumping station is intended primarily to provide back-up in the form of a water reserve for emergency use, pump redundancy during maintenance, and an additional generator to curtail power outages. The Lockhard's Hollow pumping station will also reduce water pressure in a portion of Columbia's water system. While I do not question the usefulness of these purposes for which the Lockhard's Hollow pumping station has been proposed, I nevertheless opine that these purposes do not make the pumping station an integral component of Columbia's distribution system because the principal use of the proposed Lockhard's Hollow pumping station will not be daily delivery of water to end-users. *See York II; Philadelphia Suburban Water Co.; White Deer Mountain Water Co.; Bangor Water Co.; York I.* For the most part, the pumping station will operate as an adjunct to storage. Consequently, I do not regard the proposed Lockhard's Hollow pumping station as a distribution system improvement project within the purview of subsection 1307(g), and I therefore reject Columbia's proposed DSIC language shown in the first paragraph of Fact-finding 3 as being overly broad because it does not contain adequate criteria to limit DSIC-eligible property to a pumping/booster station which is an integral part of a distribution system.

(R.D., p. 19).

After finding that Columbia's pumping station did not constitute a distribution improvement system project under 66 Pa. C.S. §1307(g), the ALJ assessed whether the pumping station would qualify as DSIC-eligible property if the pumping station were deemed a distribution system improvement project under subsection 1307(g). Noting that the eligibility of the pumping station for DSIC treatment should be determined according to whether the station fulfills one of the Commission-articulated purposes for a DSIC, ALJ Paist stated that a DSIC is designed to allow cost recovery for distribution system improvement projects requiring immediate implementation due to the risks imposed by aging infrastructure or to government-imposed

requirements. (R.D., p. 22). She observed that Columbia had not asserted that it must accelerate investment in the proposed Lockhard's Hollow pumping station to replace aging infrastructure or to comply with government directives. (R.D., p. 23). As a result, the ALJ concluded that Columbia had not met its burden of proving why recovery of the costs related to the Lockhard's Hollow pumping station should be allowed through a DSIC rather than a traditional 66 Pa. C.S. §1307 base rate case. (R.D., p. 23).

Finally, the ALJ addressed the issue of whether capital projects to relocate Columbia's facilities due to highway rebuilding or construction qualify under subsection 1307(g) as DSIC-eligible distribution system improvement projects. She noted that under its proposed DSIC tariff, Columbia seeks DSIC recovery of unreimbursed funds for capital projects for facilities relocations due to highways relocations as well as highway rebuilding or construction. Citing the OCA's concession that the Sample DSIC Tariff phrase "highway relocate" would also include "highway rebuilding" and "highway construction," ALJ Paist recommended approval of Columbia's proposal to include the phrase "rebuilding or construction" in its DSIC Tariff as a clarification of its intent to seek DSIC recovery of unreimbursed facility relocation costs arising from highway relocations, rebuilding or construction. (R.D., p. 26).

The DSIC is a form of automatic adjustment clause authorized by Section 1307(g) of the Public Utility Code, 66 Pa. C.S. §1307(g). DSIC gives the water utilities the opportunity to recover the fixed costs (depreciation and pre-tax return) of certain non-revenue-producing, non-expense-reducing infrastructure rehabilitation projects completed and placed in service between base rates cases. The DSIC charge is expressed as a percentage and applied to the total amount billed to each customer under a water utility's otherwise applicable rates and charges excluding public fire customers and the State Tax Adjustment Surcharge.

Columbia proposes to include in the 2.33% initial level DSIC projects such as the “replacement of mains, services and hydrants on Manor, Short Sixth and Ninth Street in the Borough of Columbia, which are used and useful and will improve service to existing customers.” (Finding of Fact No. 1.a; Columbia St. 3, p. 3 and 13-15; OCA St. 1, p. 5). The OCA neither contests the proposed 2.33 % initial level DSIC nor the accuracy of the calculation of Columbia’s proposed 2.33 % initial level DSIC. (Finding of Fact No. 1.b; 1.c; Columbia St 1, p. 3; OCA St. 1, p. 2). Columbia’s proposed DSIC tariff which, after the 2.33% initial level, would include the following property for DSIC cost recovery is contested:

Mains, valves and pumping stations and/or booster stations constructed and installed to improve reliability of the system and/or to improve access to water storage to improve fire protection and water availability in emergencies for customers currently receiving service from the company (account nos. 331.4, 333.4, 335.4, 304.4 and 311.4).

Unreimbursed funds related to capital projects to relocate Company facilities due to highway relocations, rebuilding or construction (account nos. 331.4, 333.4, and 335.4).

(Finding of Fact No. 3).

Columbia seeks to use the disputed portion of its proposed DSIC tariff to recover \$554,565.00 in expected costs to construct a booster pumping station plus the associated mains and hydrants needed to connect the booster pumping station to the distribution system. The cost of constructing the booster pumping station is expected to account for \$439,750.00 of the total project cost. The cost of constructing mains and hydrants to connect the booster pumping station to the distribution system is expected to account for \$114,815.00 of the total project cost. The OCA does not oppose Columbia's recovery of this \$114,815.00 in cost through the proposed DSIC tariff. (Findings of Fact No. 4; OCA St. 1, pp. 2-3, 7, and 5-23; Columbia St. 3, p. 16).

As a preliminary matter, we are reminded that we are not required to consider expressly or at great length each and every contention raised by a party to our proceedings. *Univ. of Pa. v. Pa. PUC*, 485 A.2d 1217, 1222 (Pa. Cmwlth. 1984). Any Exception or argument that is not specifically addressed herein shall be deemed to have been duly considered and denied without further discussion.

Columbia excepts to the ALJ's conclusion that the Lockhard's Hollow booster pumping station is not a central part of the distribution system. In particular, it argues that the ALJ erred in concluding that the pumping station would not assist in the daily delivery of water to end use customers. Columbia asserts that contrary to the ALJ's finding, distribution system components need not be in daily use to constitute integral parts of the distribution system. (Columbia Exc., p. 3). In support of its argument, Columbia cites *Pa. P.U.C. v. York Water Co., (York I)* 46 Pa. P.U.C. 393 (1972) for the proposition that plant and equipment that is not used daily may be a part of the distribution system and recoverable. Columbia proffers that while fire hydrants and shut off valves have been considered part of the distribution system, these plant items are not in daily use. (Columbia Exc., p. 4).

According to Columbia, the ALJ's requirement of proof that a distribution improvement project be intended for daily use before DSIC recovery is permissible is not a requirement envisioned by the Commission or the legislature and as such, constitutes an unreasonable impediment to DSIC recovery. Also, Columbia argues that even under such a standard, the proposed pumping station would fit within this "restrictive category." (Columbia Exc., p. 5). Columbia claims that the proposed pumping station benefits end-users, by way of enhancing better pressure, fewer leaks and decreased need for pressure reducing valves, on a daily basis "because the pumping station will equalize the pressure throughout the distribution system and reduce the high-pressure." (Columbia Exc., p. 6). It concludes that the proposed pumping station is a type of distribution system improvement contemplated by 66 Pa. C.S. §1307(g) and eligible for DSIC recovery.

The OCA rejoins that the ALJ properly determined that Columbia's pumping station is not part of the distribution system for purposes of 66 Pa. C.S. §1307(g). It notes that while the ALJ rejected the OCA position that only plant items previously approved for DSIC recovery should be considered for DSIC treatment, it agrees with the ALJ's recommendation with regard to the Lockhard's Hollow pumping station.

Further, the OCA maintains that Columbia's Exceptions should be rejected for several reasons. First, it supports the ALJ's reasoning with regard to a definition of distribution system for purposes of Section 1307(g) consideration under which the ALJ considered the function of the pumping station in the context of serving end-users. (OCA R.Exc., p. 5). It notes that adoption of the broad definition of distribution system component proffered by Columbia in its Exceptions is contrary to the testimony of its own witness that some booster pumping stations should not be considered part of the distribution system. (OCA R.Exc., p. 5 citing Tr. 95-96). Instead, OCA maintains that the ALJ's ruling demonstrates a clear recognition of the "difference between a plant item that is part of the distribution system and an integral part of the distribution system." (OCA R.Exc., p. 5).

The OCA further argues that Columbia's reliance on *York I* for the proposition that plant items not in daily use can be part of the distribution system and recoverable is misplaced for the reason that *York I* is a base rate proceeding. The holding in *York I* does not support, in the OCA's view, the recovery of costs related to booster pumping stations through a DSIC of Columbia's proposed pumping station, but rather the recovery of such costs should be presented in a Section 1308 base rate proceeding. (OCA R.Exc., p. 6).

In addition, the OCA disputes Columbia's contention that the ALJ failed to consider all the intended use and benefits of the pumping station. It points out that while the ALJ noted that the pumping station would reduce water pressure, daily delivery of water to end-users would not be the principal use of the proposed pumping station. (OCA R.Exc., p. 7). The ALJ's conclusion that the pumping station would function as an adjunct to storage, in OCA's view, is fully supported in the record evidence. The OCA urges the Commission to deny Columbia's exception on this issue. (OCA R.Exc., p. 8).

As explained by the ALJ in her Recommended Decision, the Commission's *PAWC Order, supra* is regarded as the seminal proceeding addressing DSIC procedures. In that decision, the Commission noted, in pertinent part, that:

The DSIC is designed to provide the company with the resources it needs to accelerate its investment in new utility plant to replace aging distribution infrastructure, facilitating compliance with evolving regulatory requirements imposed by the Safe Drinking Water Act (SDWA) and the implementation of solutions to regional water supply problems.

* * *

In order to provide guidance to PAWC and any other water utility that may need to implement a DSIC, the Commission has developed sample tariff language that, if used in a water utility's Section 1307 proposed tariff supplement, is likely to receive the Commission's approval.

(*PAWC Order*, pp. 417, 421).

While the *PAWC Order* spearheaded the enactment of subsection 1307(g), we agree with the ALJ that DSIC-eligible distribution system improvement projects may include, but are not limited to, those projects identified in the Sample DSIC Tariff attached to the *PAWC Order*. (R.D., p. 11). Indeed, it is within the discretion of the Commission to determine, based on the particular circumstances presented in an

individual DSIC filing, whether DSIC approval is appropriate. We are particularly guided by the language of subsection 1307(g), which states in pertinent part that:

Water utilities may file tariffs establishing a sliding scale of rates or other method for the automatic adjustment of the rates of the water utility as shall provide for recovery of the fixed costs (depreciation and pretax return) of certain distribution system improvement projects, *as approved by the commission*, that are completed and placed in service between base rate proceedings. The commission, by regulation or order, shall prescribe the specific procedures to be followed in establishing the sliding scale or other automatic adjustment method.

(Emphasis supplied).

Prior to enactment of subsection 1307(g), the Commonwealth Court recognized the Commission's discretion with respect to Section 1307 proceedings and noted that it would not substitute its discretion for the discretion properly exercised by the Commission in establishing the surcharge method, such as Section 1307. *Pennsylvania Industrial Energy Coalition v. Pa. P.U.C.*, 653 A.2d 1336 (Pa. Cmwlth. 1995) (*PIEC*).

We agree with the ALJ and emphasize that the fact that the Commission has not approved a DSIC to recover costs for distribution system improvement projects other than those in the Sample DSIC tariff does not diminish our discretion to review each request for DSIC recovery based on the facts and circumstances presented.

Upon consideration, we find that the ALJ, after a careful review of relevant Commission regulations and decisions, properly concluded that Columbia's pumping station should not be construed as an integral component of its distribution system improvement projects for purposes of DSIC recovery. The record evidence supports the ALJ's conclusion that the proposed booster pumping station is more characteristic of

storage and treatment facility than distribution. In its Reply Exceptions, the OCA explains that:

Physically, the booster pumping station is separated by fewer than 100 feet of main from the Lockhard Hollow's tank, while 2,600 feet of main will be required to connect it to the Company's existing distribution system. Tr. 85; CWC St. 2 at 5. Functionally, the booster pumping station will extend emergency water storage volume in the Lockhard Hollow and Prospect Road/Ironville tanks. CWC St. 2 at 5. Also, the pumping station will treat water, by injecting chlorine into the water it pumps from the Lockhard Hollow's tank Tr. 86.

(OCA R. Exc., p. 8).

Columbia's reference to *York I, supra* in support of its position that the costs of its proposed pumping station are recoverable under DSIC is flawed. First, the *York I* decision is a base rate proceeding under which the Commission held that the utility's pumping plant and equipment used for emergency purposes could be recovered in rate base. In contrast, in the *PAWC Order*, we referenced the Commonwealth Court's then recent pronouncement in *PIEC* regarding the 1307 recovery and noted that the DSIC proposal is not a mechanism utilized to "dissemble" the traditional rate-making process. *PAWC Order*, p. 420. In this regard, we emphasize that the mere fact that a plant item is used and useful does not ensure DSIC cost recovery. In her Recommended Decision, the ALJ amply explained why recovery for Columbia's proposed pumping station is best sought in a traditional base rate case under 66 Pa. C.S. §1307, rather than in a DSIC proposal.

As we have previously stated "the DSIC is designed to provide the company with the resources it needs to accelerate its investment in new utility plant to replace aging distribution infrastructure, facilitating compliance with evolving regulatory requirements imposed by the Safe Drinking Water Act (SDWA) and the implementation

of solutions to regional water supply problems. *PAWC Order*, p. 417. The ALJ concluded and we agree that Columbia has not demonstrated that it must accelerate investment in the proposed Lockhard's Hollow pumping station to replace aging infrastructure or to comply with government mandates. (R.D., p. 23, referencing Columbia St. 2, pp. 5-7; Columbia St. 3, p. 17; Columbia Ex. 1 *passim* and 15 at original page No. 53 – the fifth paragraph). Based on the record, we agree with the ALJ that the pumping station at issue is not DSIC-eligible. For these reasons, we deny Columbia's Exception on this issue.

In its second Exception, Columbia argues that the ALJ's conclusion that DSIC eligibility is based on Commission-determined purposes for DSIC is erroneous. Specifically, Columbia disagrees with the ALJ's reliance on the *PAWC Order*. According to Columbia, the ALJ's interpretation of what is permissible DSIC-eligible property is overly restrictive and offers little assistance to the small water companies seeking 1307(g) relief. (Columbia Exc., pp. 9-10). Contrary to the ALJ's view, the General Assembly in 66 Pa. C.S. §1307(g), Columbia argues, took a broader approach in allowing for system improvements which enhance water quality and fire protection reliability. (Columbia Exc., p. 8). As such, Columbia claims that the ALJ erred in failing to conclude that the Lockhard's Hollow booster pumping station is DSIC-eligible property.

The OCA responds that the ALJ properly concluded that the proposed booster pumping station did not meet any of the Commission's pronounced purposes for DSIC and was, therefore, not DSIC-eligible property. With regard to Columbia's assertion that the ALJ's interpretation is too rigid, the OCA observes that:

If Section 1307(g) were construed as broadly as the Company recommends, *any item* of plant that is connected to a main that serves customers and improves the quality of water or fire protection of capacity would be eligible for recovery through the DSIC, i.e., nearly all of a water company's costs could be recovered through the DSIC. That interpretation of 1307(g) is directly contrary to the Commonwealth Court's warning that the PUC should not disassemble the traditional ratemaking process through broad application of Section 1307 AAC-mechanisms.

(OCA R.Exc., p. 12; citations omitted).

The OCA disagrees with Columbia's assertion with regard to the purpose of DSIC. Specifically, it notes that while a company is permitted to make system improvements between rate cases, DSIC is intended to allow for the acceleration of recovery for DSIC-eligible improvement projects. The OCA emphasizes that Columbia has provided no record evidence to show a system wide need to accelerate the building of new booster pumping stations. The OCA, therefore, maintains that the ALJ's recommendation is consistent with Commission and Commonwealth Court precedent. (OCA R.Exc., pp. 11, 14).

Columbia challenges the ALJ's recommendation and instead asks that the Commission adopt a broader interpretation of Section 1307(g). Conversely, the OCA maintains that to adopt an interpretation as broadly as that suggested by Columbia would render "any item of plant that is connected to a main that serves customers and improves the quality of water or fire protection of capacity would be eligible for recovery through the DSIC, i.e., nearly all of a water company's costs could be recovered through the DSIC." (OCA R.Exc., p. 12).

We find that Columbia's broader interpretation of Section 1307(g) would be in direct contradiction of the intent of the DSIC process, which is to allow cost

recovery for distribution system improvement projects requiring immediate implementation due to risk imposed by aging infrastructure or to government-imposed requirements. Plainly stated, DSIC recovery is a limited application and should not override the traditional rate-making process. *PAWC Order*, p. 420. Contrary to Columbia's argument that the ALJ's interpretation of DSIC-eligible property is too restrictive, we find that the ALJ's interpretation of DSIC-eligible property is consistent with Pennsylvania case law and does not, in any way, adversely affect the ability of the small water companies to recover costs for DSIC-eligible property.

Indeed, as stated, the ALJ has conceded, and we agree that the Commission has the discretion to approve DSIC recovery for distribution system improvement projects not specifically listed in the Sample Tariff in the *PAWC Order*. Clearly, the booster pumping station for which Columbia seeks DSIC cost recovery is not DSIC-eligible property, as evidenced by the record in this proceeding. While the Commission recognizes the fire protection benefits of the proposed booster pumping station, there is no indication in the record that this is an accelerated investment needed to replace aging distribution infrastructure or facilitate compliance with any government-imposed requirements. We, accordingly, adopt the ALJ's recommendation and deny Columbia's Exception on this issue; **THEREFORE,**

IT IS ORDERED:

1. That the Exceptions filed by The Columbia Water Company to the Recommended Decision of Administrative Law Judge Debra Paist are denied.
2. That the Initial Decision of Administrative Law Judge Debra Paist issued March 21, 2003, is adopted to the extent that it is consistent with this Opinion and Order.

3. That the Petition filed by The Columbia Water Company at Docket No. P-00021979 for Approval to Implement a Tariff Supplement Establishing a Distribution System Improvement Charge (DSIC) is denied, in part, insofar as it seeks to include the following disapproved language in a DSIC Supplement:

Mains, valves and pumping stations and/or booster stations constructed and installed to improve reliability of the system and/or to improve access to water storage to improve fire protection and water availability in emergencies for customers currently receiving service from the company (account nos. 331.4, 333.4, 335.4, 304.4 and 311.4).

4. That, except for the language disapproved in numbered ordering paragraph 3, the Petition filed by The Columbia Water Company at Docket No. P-00021979 for Approval to Implement a Tariff Supplement Establishing a Distribution System Improvement Charge (DSIC) is granted in all other respects including, but not limited to, the use of the following approved language in a DSIC Supplement:

Unreimbursed funds related to capital projects to relocate Company facilities due to highway relocations, rebuilding or construction (account nos. 331.4, 333.4, and 335.4).

5. That the Formal Complaints filed by Donald W. Boyle (P-00021979C0001), Robert Grant (P-00021979C0002), Lindsey Mercado (P-00021979C0003), Karen Kissinger (P-00021979C0004), Richard H. Hynicka (P-00021979C0005), James Spickler (P-00021979C0006), Ronald J. Brubaker (P-00021979C0007), Robert E. Warfel, Sr. (P-00021979C0008), Anna Zook (P-00021979C0009), Heidi Roth (P-00021979C0011), and the Office of Consumer Advocate (P-00021979C0012) are sustained, in part, consistent with numbered ordering paragraph 3 and denied, in part, consistent with ordering paragraph 4.

6. That the Distribution System Improvement Charge proposed in Supplement No. 9 to The Columbia Water Company's Tariff Water – PA P.U.C. No. 7 is rejected in accordance with ordering paragraph 1 and that The Columbia Water Company is ordered not to place into effect the Distribution System Improvement Charge in Tariff Supplement No. 9.

7. That, within twenty (20) days after the date of entry of this Opinion and Order, Columbia Water Company is ordered to file a revised Distribution System Improvement Charge Tariff Supplement which does not contain the language disapproved in ordering paragraph 3, and Columbia Water Company is ordered to serve copies of the revised Tariff Supplement on the active participants in the case at Docket No. P-00021979. (52 Pa. Code §5.592).

8. That the case at Docket No. P-00021979 and the Formal Complaints at Docket Nos. P-00021979C0001, P-00021979C0002, P-00021979C0003, P-00021979C0004, P-00021979C0005, P-00021979C0006, P-00021979C0007, P-00021979C0008, P-00021979C0009, P-00021979C0011, and P-00021979C0012 shall be marked closed.

BY THE COMMISSION,

James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: April 17, 2003

ORDER ENTERED: April 17, 2003

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 17,
Dated June 1, 2004**

Docket No. R-00049255

Q.OTS-RS-82. What are the total transmission-related costs that PPL is claiming in this filing?

A.OTS-RS-82. The 2004 transmission service-related charges included in Exhibit Future 1 are all estimates of charges for transmission service from PJM that are billed to PPL Electric as a Load Serving Entity (LSE) and Provider of Last Resort (POLR) under the PJM Open Access Transmission Tariff (OATT). Pursuant to the proposed TSC, PPL Electric will file its estimated 2005 transmission service-related charges by December 1, 2004. See the response to Question 20 of Interrogatories of the Office of Consumer Advocate, Set II, dated April 26, 2004, for details of these charges. Pursuant to its retail tariff approved as part of the settlement of its restructuring case, PPL Electric is entitled to automatically pass through to POLR customers costs for transmission service consistent with the OATT, as accepted or approved by the FERC.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Consumer Advocate, Set II,
Dated April 26, 2004**

Docket No. R-00049255

Q.10. Please identify the specific tariff approved as part of restructuring which entitles PPL Electric to automatically pass costs for transmission service consistent with the OATT accepted or approved by FERC through to POLR customers.

A.10. In PPL Electric's current tariff, the following specific tariff language applies to all Rate Schedules and applicable Rules approved as part of restructuring.

"Transmission Charge (Effective 1-1-99)

The Company will provide and charge for transmission service consistent with the PJM Open Access Transmission Tariff approved or accepted by the Federal Energy Regulatory Commission for customers who receive Basic Utility Supply Service from the Company unless such customers obtain transmission service from another provider."

This identical language also appears in Supplement No. 2, the tariff supplement approved by the Commission as a part of the settlement of PPL Electric's restructuring proceeding.

OTS Statement No. 5-SR
Witness: Michael J. Gruber
Date: August 5, 2004

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v

PPL ELECTRIC UTILITIES CORPORATION

Docket No. R-00049255

DOCKETED
AUG 18 2004

Surrebuttal Testimony

of

Michael J. Gruber

Office of Trial Staff

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Concerning:

Sustainable Energy Fund
Distribution System Improvement Charge
Transmission Service Charge

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
2 **ADDRESS?**

3 A. My name is Michael J. Gruber. My business address is P.O. Box 3265, Harrisburg,
4 Pennsylvania 17105-3265.

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

7 A. I am employed by the Pennsylvania Public Utility Commission in the Technical
8 Division of the Office of Trial Staff as a Fixed Utility Valuation Engineer.

9
10 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. Yes. My direct testimony was submitted as OTS Statement No. 5.

13
14 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

15 A. I am addressing the testimony presented by various parties concerning the
16 Sustainable Energy Fund (SEF), the distribution system improvements charge
17 (DSIC), and the transmission service charge (TSC).

18
19 **Q. WHAT COMMENTS DO YOU HAVE ON THE SUSTAINABLE ENERGY**
20 **FUND?**

21 A. The SEF is a non-profit organization that has no bearing on the overall distribution
22 system of PPL. Any savings and/or benefit which may or may not occur on the PPL

1 distribution system are based upon projects that benefit the individual investments
2 made by the fund. As Thomas J. Tuffey testified the “SEF operates in an
3 entrepreneurial, opportunistic fashion to provide loans and grants to clean energy
4 projects within the PPL service territory.” (SEF Statement No. 1, Page 4). I would
5 suspect that there are a number of customers in PPL service territory who are
6 interested in clean energy projects and are willing to support that interest with
7 voluntary contributions on their PPL bills.¹ I am equally convinced that a number of
8 customers in PPL’s service territory do not share an interest in clean energy
9 projects, and should not be forced to pay for such a project. Accordingly, I would
10 support and endorse a voluntary contribution by PPL’s customers to pay into SEF.
11 The issue is not whether OTS supports SEF, in fact, we do; however, the issue is
12 whether all PPL customers should be forced to contribute to SEF.

13
14 **Q. ARE VOLUNTARY CONTRIBUTIONS BY INDIVIDUALS AN**
15 **UNCOMMON PRACTICE?**

16 **A.** No. In the Commonwealth of Pennsylvania there are a number of organizations
17 and/or special interests that are funded by voluntary contributions. Notably, every
18 automobile owner express at the time of their respective renewals as to whether they
19 desire to make voluntary contributions to a fund. Every Pennsylvania tax payer has
20 the opportunity when filing their respective State Income Tax to make voluntary
21 contributions to a number of different special interest funds, like wildlife. While

¹ See, for example, PPLICA Statement No. 1R, Rebuttal Testimony and Exhibit of Stephen J. Baron.

1 those funds may or may not benefit every individual in the Commonwealth, the
2 contributions to those funds are made on a voluntary basis. I do not believe that
3 those organizations and/or special interests, which are funded voluntarily by
4 individuals in the Commonwealth of Pennsylvania, are of less importance than SEF.

5
6 **Q. IS PENN FUTURE WITNESS HANGAR CORRECT THAT SEF FUNDING
7 IS NOT “FOR A LIMITED TIME PERIOD?”**

8 A. No. First of all there is no need to engage in an interpretation as to what the
9 settlement (Docket No. R-00973954), provided or does not provide for future SEF
10 funding, because the Commission at a public meeting held on June 2, 2000 provided
11 the prevailing guide as to the Commission’s intent regarding the future funding of
12 SEF. In the June 2nd public meeting at docket no. R-00973954, the Commission
13 stated in part that “it is the Commission’s intent that these funds themselves become
14 sustainable through efficient management and the leveraging of monies received
15 from other funding sources.”

16
17 **Q. DO YOU AGREE WITH MR. HANGER’S STATEMENT REGARDING THE
18 SETTLEMENT AGREEMENT?**

19 A. No. While I am not an attorney, it is my opinion that the intent of the settlement
20 agreement was to have the SEF funding by PPL terminated on December 31, 2004,
21 or when new distribution rates go into effect whichever was longer.

1 **Q. WHAT COMMENTS DO YOU HAVE ON THE COMPANY'S REQUEST**
2 **FOR A DSIC SURCHARGE?**

3 A. The Company states that it believes its request for a DSIC is legal and will make
4 further arguments to support this contention in its brief. Additionally, the Company
5 argues that the other parties ignore the fact that Section 1307(a) of the Public Utility
6 Code, 66 Pa. C.S. Section 1307(a), expressly authorizes automatic adjustment
7 clauses, subject to the Commission's approval. (PPL Statement No. 4-R, Page 4).
8 It is my opinion that the Company is ignoring that Section 1307(g) of the Public
9 Utility Code, 66 Pa. C.S. Section 1307(g) allows a surcharge for certain system
10 improvement projects undertaken by water utilities. While I am not an attorney, if
11 one was to follow the Company's rationale that Section 1307(a) was all inclusive,
12 then there would not have been a need to enact Section 1307(g) of the Public Utility
13 Code. Counsel advises me that it is therefore reasonable to assume that the
14 Legislature did not consider the general Section 1307(a) to authorize a surcharge for
15 utilities' system improvement projects and considered it necessary to specifically
16 authorize such a surcharge for water utilities.

17 It is my opinion that had the Pennsylvania Legislature intended to grant
18 authority to electric utilities to implement a system improvement projects surcharge,
19 it would have specifically identified electric utilities in either Section 1307(g) or
20 some other subsection of Section 1307. Consistent with this interpretation is the
21 testimony of Nikki Lopez, Executive Director of the Northwest Democratic
22 Delegation, testifying on behalf of the Honorable Phyllis Mundy, the Honorable

1 Kevin Blaum, the Honorable Todd Eachus, the Honorable Jim Wansacz, the
2 Honorable Tom Tighe and the Honorable Bob Belfanti, respectively, in pertinent
3 part as follows:

4
5As state legislators, stress that it was not the intent of the Legislature
6 in 1996 to give broad authority to the PUC to authorize DSIC for all utilities
7 but rather limit the DSIC to water companies.

8
9 Consistent with this is the fact that the House of Representatives
10 has twice rejected the legislation that would impose a DSIC for gas
11 companies. Not only do we believe that a DSIC approved only by the
12 PUC is unlawful; we think it is bad public policy. Tr. 254
13

14 I submit that the testimony of Ms. Lopez provides some guidance as to the question
15 regarding at the legislative intent of several member of the House of
16 Representatives, which should be controlling in light of the fact that the entire
17 House of Representatives has refused on two occasions to extend the DSIC to gas
18 utilities.

19 A further argument by the Company states that the DSIC is not a single issue
20 rate case. I disagree. The DSIC is a quarterly proceeding to adjust allowable rates
21 of the Company. It is based upon one limited part of the overall revenues and
22 expenses of the Company. Only one item is at issue, and at the conclusion of the
23 proceeding the rates charged to customers will be affected. This is a single issue
24 proceeding to raise rates; hence, it is a single issue rate case.

25 It is my opinion that a DSIC surcharge for PPL is illegal and to allow it
26 would be bad ratemaking. Any proceeding which looks at only one change in

1 revenues or expenses is one sided. All proceedings affecting rates should include an
2 examination of all changes in the revenues and expenses. To adjust rates based
3 upon one aspect of the Company's business without looking at any other effects
4 which may offset those causing the increase would alter the intent of rate base rate
5 of return regulation.

6
7 **Q. WHAT COMMENTS DO YOU HAVE CONCERNING THE COMPANY'S**
8 **REQUEST FOR A RECONCILABLE SURCHARGE FOR ITS**
9 **TRANSMISSION CHARGES?**

10 A. This request is another example of the Company asking for the ability to alter rates
11 based upon one issue. From a regulatory standpoint, transmission charges are just
12 another expense. There is no reason the Company should receive special treatment
13 for this one expense. This expense should be treated no different than any other
14 expense. The Company should be given the opportunity to collect it as part of the
15 overall rates collected from rate payers with no reconciliation.

16
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.

8/9/04
MGS
per

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

w/ EXHS 1 THRU 7

Pennsylvania Public Utility Commission, *et al.* : R-00049255, R-00049255C0001, *et al.*

v.

PPL Electric Utilities Corporation

DOCUMENT

DIRECT TESTIMONY OF

JAMES McCORMICK

On Behalf of Strategic Energy, L.L.C.

DOCKETED

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SECRETARY'S BUREAU

June 2004

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. James P. McCormick, Sr. My business address is Strategic Energy, L.L.C., 1940 Robert
3 Road, Meadowbrook, Pennsylvania, 19046.

4 Q. PLEASE PROVIDE A SUMMARY OF YOUR EMPLOYMENT POSITION.

5 A. I am Manager, Market Development for Pennsylvania and New Jersey with Strategic
6 Energy, L.L.C. ("Strategic Energy" or "Strategic"). In this capacity, I interact with state
7 utility commissions, consumer advocates, jurisdictional utilities, other competitive energy
8 suppliers, and the Pennsylvania Jersey Maryland (PJM) Regional Transmission
9 Organization ("RTO") and its members to shape legislation, regulations, agreements and
10 processes to foster the development of robust competitive electric supply alternatives.

11 Q. PLEASE SUMMARIZE YOUR BACKGROUND, EXPERIENCE AND
12 EDUCATION.

13 A. I joined Strategic Energy in September 1997 after being employed by the Pennsylvania
14 Public Utility Commission ("Commission" or "PUC") during the period when the
15 Commission was examining the feasibility and implementation details for electric
16 industry restructuring. After helping the Commission formulate its recommendations and
17 proposals to the Pennsylvania Legislature and the Governor's Office, I worked with the
18 Commission to develop electric choice legislation and then worked with the Commission
19 to develop procedures for the startup of Pennsylvania's electric competition initiative.

20 Prior to joining the Pennsylvania Commission, I worked with PECO Energy.
21 While at PECO, I spent 34 years in electric generation operations and plant maintenance,
22 new facilities construction and startup, and organizational redesign. My work involved
23 fossil, hydro, and nuclear generation facilities, fuel procurement and management,
24 distribution and transmission operations, and redesign of operating processes and

1 organizations. Many of these later activities were directed at readying PECO for industry
2 restructuring.

3 I hold a degree in Mechanical Engineering from Villanova University and
4 attended Temple University's Graduate School of Business Administration.
5 Additionally, I have certifications in utility senior management, boiling water reactor
6 engineering and behavior analysis as it relates to organizational redesign and
7 performance.

8 Particularly relevant to my testimony here is the fact that, during the period 1997
9 to present, I have been directly and extensively involved with competitive electric retail
10 market development for Pennsylvania, New Jersey, and Maryland. During these efforts, I
11 worked and negotiated with a broad array of interested parties including electric
12 distribution utilities, end-use customer representatives and advocates, generation
13 interests, retail marketers, state commissions and the PJM RTO. I have also followed
14 developments in several other states and power pools to provide reliable service and to
15 achieve robustly competitive wholesale and retail markets.

16 **Q. WHO IS STRATEGIC ENERGY?**

17 A. Strategic Energy, based in Pittsburgh, Pennsylvania, is a competitive retail provider of
18 electricity and serves a peak load of approximately 3,300 MW with approximately 50,000
19 customers in eight states. Strategic is licensed by the PUC to provide electric supply and
20 related services to residential, commercial, industrial and governmental customers
21 throughout Pennsylvania.

22 **Q. WHY IS STRATEGIC ENERGY INTERESTED IN PPL'S DISTRIBUTION**
23 **RATE INCREASE REQUEST?**

1 A. Strategic Energy is actively serving commercial load and actively marketing in PPL's
2 service territory. We compete against PPL's POLR service and, to the extent that PPL's
3 distribution rates include the types of generation-related retail customer care and
4 overhead costs that Strategic incurs in its competitive supply prices, our customers will
5 pay for costs they do not impose on PPL. This adversely affects our ability to compete.
6 In view of the minimal level of shopping in PPL's territory, Strategic seeks to ensure that
7 the Commission adopts measures in this case that may help to increase retail competition
8 in PPL's market.

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

10 A. I have been asked by Strategic to analyze certain issues raised by PPL Electric Utilities
11 Corporation's ("PPL") distribution rate increase request. The purpose of my testimony is
12 to make recommendations concerning PPL's filing that will promote the development of
13 a robust and competitive retail market in PPL's service territory.

14 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

15 My testimony is divided into three sections. In Section I, I explain that PPL's proposed
16 distribution rates are too high and anti-competitive to the extent that they include costs
17 related to PPL's POLR generation function. In the subsequent Sections, I offer additional
18 proposals that would promote competition in PPL's territory. In the next several
19 sections, I discuss several issues that must be addressed in light of the cost mis-
20 allocations that I believe exist in PPL's distribution rates. In Section II, I address PPL's
21 installation of advanced meters and its automated meter reading (AMR) system, and
22 propose that PPL accelerate and make available to competitive suppliers the information
23 derived from the enhanced AMR system. In Section III, I propose that PPL use its
24 existing AMR system to provide more detailed customer usage information to

1 competitive suppliers on a regularly updated and refreshed basis. Finally, in Section IV, I
2 address EGS consolidated billing.

3 **SECTION I**

4 **Q. WHAT IS YOUR UNDERSTANDING OF THE COSTS TO BE RECOVERED**
5 **THROUGH PPL'S PROPOSED DISTRIBUTION RATES?**

6 A. In addition to costs that are clearly related to distribution service, such as the costs for
7 poles, conductors, cables, transformers and meters, it appears that PPL's proposed
8 distribution rates include retail customer care and general overhead costs related to PPL's
9 POLR generation service.

10 **Q. WHAT FUNCTIONS ARE INCLUDED IN RETAIL CUSTOMER CARE COSTS?**

11 A. Direct retail customer care costs include uncollectibles, call center operations, customer
12 information and recordkeeping, customer agreements, customer enrollment and
13 switching, billing, credit and collection, revenue accounting, EDI capability, managing
14 renewables requirements and demand response program management. There are also
15 overheads associated with each of these activities.

16 **Q. WHAT PORTION OF PPL'S RETAIL CUSTOMER CARE AND GENERAL**
17 **OVERHEAD COSTS RELATED TO GENERATION ARE INCLUDED IN PPL'S**
18 **PROPOSED DISTRIBUTION RATES?**

19 A. It is difficult to quantify what portion of PPL's generation-related customer care costs are
20 included in PPL's proposed distribution rates, but it is clear that they are included. For
21 example, in addition to charges for distribution service, PPL's uncollectibles expense
22 includes charges for POLR service and the recovery of stranded costs.¹ PPL's \$21.2
23 million uncollectible expense claim is comprised of \$17.5 million for normal

¹ Strategic Exh. No. 1 (PPL response to OTS-RS-78).

1 uncollectible customer accounts and \$3.7 million for On-Track arrearage forgiveness.²

2 These amounts are not restricted to PPL's T&D billings, but are total company figures.³

3 None of the costs are allocated to generation.⁴ In addition, it is not clear what portion of

4 PPL's general costs related to generation are included in PPL's proposed distribution
5 rates.⁵

6 **Q. WHAT IS WRONG WITH PPL INCLUDING GENERATION-RELATED**
7 **RETAIL CUSTOMER CARE AND GENERAL OVERHEAD COSTS IN ITS**
8 **DISTRIBUTION RATES?**

9 A. Including these types of costs unreasonably increases PPL's distribution rates and is
10 anticompetitive because some portion of these costs plainly are related to PPL's
11 provisions of POLR generated service (i.e., if PPL stopped providing POLR service the
12 level of this cost would be dramatically reduced or eliminated). Moreover, these are the
13 same types of costs that competitive suppliers such as Strategic also incur and include in
14 their competitive supply prices. It is clear that PPL's proposed distribution rates are
15 designed to recover some generation-related costs, that the generation portion of a
16 customer's bill is a substantial portion of the bill, and that PPL's total uncollectible
17 expense is to be recovered through its distribution rates. There may also be other
18 generation-related costs improperly included in the proposed distribution rates,⁶ such as

2 Strategic Exh. No. 2 (PPL responses to OTS-RE-79, OTS-RE-78 and OTS-RE-139).

3 Strategic Exh. No. 3 (PPL responses to OTS-RE-76.C and OTS-RE-135).

4 Strategic Exh. No. 4 (PPL response to OTS-RE-70).

5 Strategic Exh. No. 5 (PPL response to OTS-RS-55).

6 Strategic Exh. No. 6 (PPL responses to OTS-RE-89.C and PPL Exh. Regs. § 53.53, Part II, Question II-D-8 (A.8b.), and Strategic Exh. No. 7 (PPL response to OTS-RE-81).

1 costs related to service provided by PPL Solutions and costs related to remediation at
2 manufactured gas plants.

3 **Q. WHAT IS YOUR CONCLUSION CONCERNING PPL'S PROPOSED**
4 **DISTRIBUTION RATES?**

5 A. I conclude that they are unjust and unreasonable and anticompetitive because they do not
6 exclude all of PPL's generation-related costs.

7 **Q. WHAT SHOULD THE COMMISSION DO ABOUT THIS PROBLEM?**

8 A. The Commission should require PPL to identify its generation-related customer care and
9 general overhead costs included in its proposed distribution rates so that they can be
10 excluded. An alternative would be to provide a discount to the distribution rates for
11 shopping customers through a competitive retail customer credit ("CRCC"). New York
12 state has developed such retail customer credits through negotiations to avoid complex
13 and contentious unbundling and allocation issues.

14 **SECTION II**

15 **Q. IN ADDITION TO REMOVING GENERATION-RELATED COSTS FROM**
16 **PPL'S PROPOSED DISTRIBUTION RATES, ARE THERE OTHER MEASURES**
17 **THAT CAN BE TAKEN IN THIS PROCEEDING TO INCREASE**
18 **COMPETITION IN PPL'S TERRITORY?**

19 A. Yes. There are several steps that the Commission should take immediately to balance out
20 the effects of PPL's unfair distribution rates. They also stand alone and expand the
21 competitive generation market. One such step involves PPL's AMR system.

22 **Q. PLEASE DESCRIBE PPL'S AMR SYSTEM.**

23 A. PPL's AMR system involves replacing existing meters with new or retrofitted meters and
24 the installation of the communication infrastructure for reading the meters remotely. By
25 September 2004, PPL expects to complete the deployment of over 1.3 million new or

1 refurbished meters, as well as the modifications of the meter data systems and billing
2 systems to permit the remote meter readings to be used for billing.⁷

3 **Q. ACCORDING TO PPL, WHAT ARE THE BENEFITS OF ITS AMR SYSTEM?**

4 A. PPL cites reduced expenses through more accurate remote meter readings, increased
5 customer satisfaction, and the development of additional functionality in the future as
6 benefits of its AMR system.⁸

7 **Q. WHAT ARE THE BENEFITS OF PPL'S AMR SYSTEM THAT ARE OF MOST
8 INTEREST TO STRATEGIC SPECIFICALLY, AND COMPETITIVE
9 SUPPLIERS GENERALLY?**

10 A. The availability of real-time customer usage information and the ability of the AMR
11 platform to support the development of additional functionality are of most interest to
12 Strategic, and I believe to competitive suppliers generally, because these functions will
13 permit customers and their suppliers to have more accurate real-time usage and demand
14 information. This will enable customers to make more informed decisions concerning
15 their competitive options and permit customers and suppliers to take advantage of
16 demand-side response and management processes. PPL believes that demand side
17 response to market price signals "is an important element of a viable competitive
18 generation market,"⁹ and supports EGSs offering demand response programs.¹⁰ Helping
19 customers make informed decisions concerning efficient and environmentally responsive

⁷ PPL St. No. 4 (Krall) at 10.

⁸ *Id.* at 12, line 12 through 15, line 21.

⁹ *Id.* at 19, lines 20-21.

¹⁰ *Id.* at 20-21.

1 energy use, and pricing options, will promote the development of the competitive
2 generation market.

3 In addition, Strategic and other competitive suppliers can use the data obtained
4 through the enhanced AMR system envisioned by PPL to support generation purchases
5 and pricing in a manner similar to that which PPL anticipates for its own POLR
6 obligations. PPL notes that the more detailed data available through the more developed
7 AMR system may enhance load scheduling and reconciliation, which in turn may help to
8 reduce wholesale procurement risk and wholesale prices.¹¹ These are benefits which are
9 of value to competitive suppliers as well as to PPL, as the POLR supplier, and are
10 necessary to establish parity between PPL, the POLR provider, and EGSs.

11 **Q. WHY SHOULD THE COMMISSION BE CONCERNED IN THIS PROCEEDING**
12 **ABOUT DEVELOPING PPL'S COMPETITIVE MARKET?**

13 A. My understanding is that the overall goals and objectives of the Electric Choice Act are
14 to transition to a fully competitive electric generation market while stranded costs are
15 being recovered. The constraint of these stranded costs on the development of a fully
16 competitive market makes even more important the adoption of measures to promote
17 competition, especially in PPL's market where shopping has been minimal¹² and is
18 declining even faster than PPL had anticipated before this filing.¹³ Also, as indicated

¹¹ *Id.* at 16, lines 6-19.

¹² The OCA's shopping statistics show that the number of customers and the percentage of load being served by competitive suppliers in PPL's service territory have declined from their highest levels in April 2000 (about 4% of customers and 26% of load) and have leveled off from July 2001 through April 2004 to about 0.3-0.4% of customers and 3-5% of load. *See*, <http://www.oca.state.pa.us/cinfo/instat.htm>.

¹³ Strategic Exh. No. 1 (PPL response to OCA X-9).

1 above, competition is also being hurt because PPL's generation rates are not fully
2 recovering all costs of providing POLR service. The Commission should require PPL to
3 take whatever actions are reasonable to promote the development of the competitive
4 market in PPL's territory while competition is constrained by PPL's generation rate caps
5 and stranded cost collection.

6 **Q. WHY SHOULD PPL MAKE THE BENEFITS OF AN ENHANCED AMR**
7 **SYSTEM AVAILABLE TO COMPETITIVE SUPPLIERS?**

8 A. My reading of the Choice Act is that PPL is required to provide access to and use of its
9 distribution and transmission facilities to competitive suppliers and their customers on the
10 same basis as PPL's access to and use of the system itself. Specifically, Section 2804(6)
11 of the Act states that "the commission shall require that a public utility that owns or
12 operates jurisdictional transmission and transmission facilities shall provide transmission
13 and distribution service to all retail electric customers in their service territory and to
14 electric cooperative corporations and electric generation suppliers, affiliated or non-
15 affiliated, on rates, terms of access and conditions that are comparable to the utility's own
16 use of its system."¹⁴ Although I am not a lawyer, this language seems fairly
17 straightforward in setting forth a requirement that PPL permit EGSs to use PPL's
18 transmission and distribution system, which includes the AMR system, in the same
19 manner as PPL uses it, so that PPL does not obtain a competitive advantage over
20 competitive suppliers by reason of PPL's control of its system.

21 **Q. WHEN WILL PPL'S ENHANCED AMR SYSTEM BE AVAILABLE?**

¹⁴ 66 Pa. C.S. § 2804(6).

1 A. PPL indicates that it has decided to defer developing the enhanced AMR system and
2 making the additional benefits available until after its generation rate cap expires on
3 December 31, 2009.¹⁵

4 **Q. IS IT REASONABLE FOR PPL TO WAIT THAT LONG TO DEVELOP ITS**
5 **ENHANCED AMR SYSTEM?**

6 A. I don't believe so. PPL's POLR service can realize the enhanced AMR system benefits
7 as a downward push on wholesale procurement risk and wholesale prices before PPL's
8 generation rate cap expires, and customers likewise now can use the availability of AMR
9 data to make more informed decisions concerning efficient energy use and competitive
10 pricing alternatives to POLR prices. In view of the decreasing level of shopping in PPL's
11 service territory, the Commission should require PPL to accelerate the deployment of its
12 enhanced AMR system, and provide for additional rate relief if necessary to do so. The
13 additional benefits cited by PPL that will be produced by an enhanced AMR system
14 justify getting the enhanced system in place and operational as soon as reasonably
15 possible. It appears that PPL's initial focus on first implementing the basic capabilities of
16 its AMR system and assuring that those capabilities are working has been successful, and
17 PPL is to be commended for such a large and aggressive undertaking.¹⁶ The Commission
18 should require and accommodate accelerating PPL's enhancements to its AMR system
19 through rate relief in this proceeding, so that the recognized benefits can be delivered
20 before 2006 when PPL POLR rates are expected to substantially increase.

21 **Q. BUT HAVEN'T YOU ASSERTED THAT PPL'S PROPOSED DISTRIBUTION**
22 **RATES ARE ALREADY TOO HIGH?**

¹⁵ PPL St. No. 4 at 17, lines 3-17.

¹⁶ *Id.* at 17.

1 A. Yes, but only to the extent that they include generation-related retail customer care and
2 *general overhead costs. An increase in PPL's distribution rates to accommodate*
3 *enhancements to PPL's AMR system that will benefit all customers would be appropriate*
4 *and reasonable.*

5 **SECTION III**

6 **Q. WHAT ELSE CAN BE DONE IN THE MEANTIME TO ENCOURAGE MORE**
7 **SHOPPING IN PPL'S SERVICE TERRITORY?**

8 A. Until PPL's enhanced AMR system is in place, PPL should be required to make the more
9 detailed customer information derived from its AMR system available to competitive
10 suppliers on a timely basis. Right now, PPL provides eligible customers' annual usage
11 and registered peak demand.¹⁷ Once deployment of PPL's AMR system is completed by
12 *September 2004, PPL will be able to provide, on a rolling basis, 12 individual*
13 *consecutive months of historical monthly electric usage and billed demand information*
14 *for all customers that have authorized EGS access to their information. PECO provides*
15 *this information on this basis, and PPL should also be required to do so. More timely and*
16 *accurate usage and demand information would facilitate EGSs' marketing products to*
17 *customers that are responsive to the customers' needs. This would unquestionably help*
18 *to promote the development of the competitive retail market in PPL's territory.*

19 Finally, for customers not on the eligible list, PPL should be required to resend
20 "opt-out" cards to these customers on a regular basis, such as biannually, to update the
21 Eligible Customer list. Also, assuming that PPL provides the additional information for
22 eligible list customers, for customers not on the eligible list, PPL should accept an EGS's

¹⁷ PPL Supplier Tariff, Rule 5.13.

1 telephonic representation that the customer has authorized the EGS to obtain the
2 customer's detailed usage and demand information available from the AMR system.
3 Right now, PPL acts as "gatekeeper" and requires the EGS to provide to PPL a copy of a
4 written authorization from a customer.¹⁸ This requirement adds unnecessary delay and
5 expense. Instead, an EGS should be subject to severe, Commission imposed penalties if
6 it misrepresents a customer's information access authorization.

7 SECTION IV

8 **Q. ARE THERE ANY OTHER MEASURES THAT PPL COULD TAKE NOW TO**
9 **PROMOTE COMPETITION?**

10 A. Yes. PPL should commit to having EGS Consolidated Billing available within a
11 specified time period after an EGS requests it, such as 90 days.

12 **Q. WHAT IS EGS CONSOLIDATED BILLING?**

13 A. EGS Consolidated Billing is the issuance by an EGS of a single bill that includes all EGS
14 and electric distribution company (EDC) charges for electric service, i.e., generation,
15 distribution and transmission. Associated obligations include forwarding all approved
16 bill inserts, making all collections and accepting all customer payment risks, and
17 guaranteeing of full payment to the EDC.

18 **Q. DOES EGS CONSOLIDATED BILLING PROMOTE COMPETITION?**

19 A. Yes. EGS consolidated billing fosters the development of the competitive electric retail
20 market by solidifying the relationship between an identifiable EGS and the end-use
21 customer. It also avoids the inefficient practice of dual billing. It is generally recognized
22 that customers prefer to receive and pay only one bill for closely related services.

¹⁸ PPL Supplier Tariff, Rule 5.3.4.

1 Q. **DOES PPL'S CURRENT TARIFF INCLUDE REQUIREMENTS FOR EGS**
2 **CONSOLIDATED BILLING?**

3 A. Yes. PPL's supplier tariff requires an EGS to inform PPL 60 days prior to the scheduled
4 implementation date of its intention to offer EGS Consolidated Billing,¹⁹ but there is no
5 time period specified by which PPL must implement and satisfy the EGS's request. The
6 necessary data interchange processes have been developed by EDEWG to support EGS
7 Consolidated Billing, so requiring the implementation of this pro-competitive billing
8 option within a specified time, such as 90 days, is reasonable. A specified commitment
9 from PPL would facilitate EGSs ability to use the EGS consolidated billing option.

10 Although competitive suppliers are not currently providing EGS consolidated
11 billing where available, EGSs' experience with this option billing in other jurisdictions
12 shows that it works. For example, the Texas competitive retail model requires Retail
13 Electric Providers (REPs) to issue fully bundled consolidated bills. The REP is the
14 functional equivalent of a Pennsylvania EGS.

15 Q. **DOES THIS COMPLETE YOUR DIRECT TESTIMONY.**

16 A. Yes.

¹⁹ PPL Supplier Tariff, Competitive Billing Specifications Rider, ¶ 1.

DOCUMENT

PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 17,
Dated June 1, 2004
Docket No. R-00049255

Q.OTS-RS-78. From an accounting standpoint, how does the Company treat the lost transmission revenues from uncollectible bills since FERC regulates transmission prices and services?

A.OTS-RS-78. PPL Electric records uncollectible account expense on a total Company basis only. This includes its charges for distribution service, POLR service (including transmission service), and the recovery of PUC-authorized stranded costs through the CTC and ITC. As the applicable load-serving entity ("LSE") for POLR customers, PPL Electric bills those customers for transmission service which it must acquire on behalf of its POLR customers from the PJM.

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STRATEGIC EXH. NO. 1

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**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 5,
Dated April 23, 2004**

Docket No. R-00049255

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- Q.OTS-RE-79. Reconcile the difference between the future test year claim for uncollectible accounts expense per Exhibit Future 1, B-4, Page 2, Account 904, in the amount of \$17,500,000 and the future test year claim of \$22,148,000, per Attachment 11-D-1b, Page 2. Which is the correct future test year claim?
- A.OTS-RE-79. The Company's future test year claim for uncollectible accounts expense is \$21.2 million which is comprised of a \$17.5 million provision for the Company's normal uncollectible customer accounts and a \$3.7 million provision applicable to On-Track arrearage forgiveness. The \$3.7 million for On-Track arrearage forgiveness is included in Account 908 as shown on Future 1, Schedule B-4, Page 3 of 3. The difference between the \$21.2 million and the \$22,148,000 shown on Attachment 11-D-1b, Page 2 of 3, of \$948,000, should be included in Miscellaneous. As a result, the Company's future test year claim for Miscellaneous expenses should be \$5,422,000 rather than \$4,474,000.

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**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 5,
Dated April 23, 2004
Docket No. R-00049255**

- Q.OTS-RE-78. With regards to the Company's On Track program, does PPL book either the billing deficiency or the arrearage forgiveness to uncollectible accounts expense? If yes, provide the amounts charged for each to uncollectible accounts expense for each year 2001 through 2003.
- A.OTS-RE-78. PPL Electric records the arrearage forgiveness provision to uncollectible accounts expense. The actual arrearage forgiveness is recorded against the reserve for uncollectible accounts balance. The amount of the provision applicable to arrearage forgiveness in uncollectible accounts expense was \$3 million, \$3.7 million and \$2.7 million in 2001, 2002 and 2003, respectively.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 19,
Dated June 3, 2004
Docket No. R-00049255**

Q.OTS-RE-139. Reference PPL Exhibit Future I, B-4, Page 3 of 3, and PPL's response to OTS-RE-79. Please explain why the \$3.7 million for on-track arrearage forgiveness is also included in uncollectible accounts expense.

A.OTS-RE-139. OnTrack arrearage forgiveness is considered an uncollectible accounts expense because it represents the portion of a customer's receivable balance that is written-off after the customer has successfully participated in the OnTrack program for a specified period of time. As shown on Exhibit Future 1, Schedule B-4, OnTrack arrearage forgiveness is budgeted as a separate cost component in Account 908, Customer Assistance expenses. The Company's normal provision for uncollectible accounts is budgeted in Account 904, Uncollectible Accounts.

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PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 5,
Dated April 23, 2004
Docket No. R-00049255

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Q.OTS-RE-76. Reference Exhibit Future I, B-4, Page 2 of 3, Account 904.

- A. Provide an explanation of how the uncollectible accounts expense claim was developed. Include all supporting calculations.
- B. Does the Company project uncollectibles for all rate schedules (D-3, Page 2, Column 2) or only selected rate schedules? Indicate which customer classes are included in the forecast of uncollectibles.
- C. Does the \$17,500,000 represent total write-offs or only the portion of the bill related to transmission and distribution?
- D. If the \$17,500,000 is only for T & D, provide the total Company forecast for uncollectible accounts and explain how the T & D portion was quantified.

A.OTS-RE-76.

- A. The expense for uncollectible accounts is based on historical write-offs relative to revenue. PPL Electric projects future write-offs based on projected revenue. Historical trends indicate that write-offs are about 0.65% to 0.66% of revenue. Applying 0.655% against projected revenue of \$2.668 billion for 2004 results in about \$17.5 million.
- B. The projected amount of uncollectibles includes all rate schedules and customer classes.
- C. The amount represents total write-offs.
- D. Not applicable.

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**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 18,
Dated June 1, 2004
Docket No. R-00049255**

Q.OTS-RE-135. Reference Attachment II-D-5. Please provide a description of each category of receivables (i.e., Customers, Other, and Property Damage). Please provide a breakdown of the company's uncollectible accounts expense future test year claim of \$21.2 million by category.

A.OTS-RE-135. The category of receivables, defined as 'Customers', refers to bills for electric service. See the response to Question 11 of Interrogatories of the Office of Consumer Advocate, Set III, dated April 27, 2004, for definitions of 'Other' and 'Property Damage' categories.

The future test year claim of \$21.2 million is applicable in total to the 'Customer' category of receivables.

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PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 5,
Dated April 23, 2004

Docket No. R-00049255

- Q.OTS-RE-70. Are any of the costs of social programs, detailed at Exhibit Future I, Page D-8, being allocated to generation? If not, explain the basis for the Company's position that all social costs belong in distribution rates.
- A.OTS-RE-70. PPL has allocated none of the costs associated with the proposed social programs, detailed at Exhibit Future 1, Page D-8, to generation. As a result of the enactment of the Electricity Generation Customer Choice and Competition Act on December 3, 1996 (66 Pa. C.S. 2801 et seq.), PPL Electric became a separate entity that has no generation facilities. The costs associated with these programs are assigned to distribution rates for a variety of reasons depending on the specific program. For example, Sustainable Energy Fund costs were assigned to PPL Electric, as the EDC, by the 1998 settlement of PPL Electric's restructuring proceeding, while Demand Side Response Programs are assigned to the EDC as a POLR responsibility. The recipients of the Community Betterment Initiative, WRAP and OnTrack programs are all within PPL Electric's service territory, therefore, those costs appropriately belong in distribution rates.

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**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 13,
Dated May 4, 2004**

Docket No. R-00049255

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Q.OTS-RS-55. Refer to Exhibits JMK 1 and JMK 2: Provide all supporting schedules, especially those showing how costs relating to generation and transmission were separated from the distribution functions.

A.OTS-RS-55. PPL Electric does not own generation facilities or incur costs to operate and maintain those facilities. The accounting for transmission and distribution costs are as prescribed in the FERC Uniform System of Accounts, and adopted by the PUC, which segregates transmission and distribution by functional account. The cost allocation details for the transmission and distribution functions, and general costs, are provided in Exhibits JMK1 and JMK2, Section III, Part I. For each line item, the code under the Alloc column refers to the allocator used, which is provided in the allocator schedules on pages 32 through 35 of that section.

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**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 7,
Dated April 27, 2004
Docket No. R-00049255**

- Q.OTS-RE-89. Reference 11-D-8, Page 4, PPL Solutions, LLC services.
- A. Provide an explanation for the 30% projected increase in allocated costs from PPL Solutions.
 - B. Provide the actual level of expenses allocated for 2001 and 2002.
 - C. Does the \$1.2 million represent total expenses allocated to PPL Electric from PPL Solutions, or only the T & D portion?
 - D. If the \$1.2 million is only the T & D portion, provide the total costs allocated from PPL Solutions, and provide detail on the allocation between generation and T & D.

- A.OTS-RE-89. A. The increase in 2004 projected expense from 2003 actual expense is \$300,000. The increase primarily is due to a projected increase in services related to customer contacts in support of PPL Electric's customer service department.
- B. During 2001, the services provided by PPL Solutions were part of PPL Electric. The cost for these services were included in O&M expenses of PPL Electric. The cost of services provided by PPL Solutions to PPL Electric in 2002 was \$1.0 million.
 - C. The \$1.2 million represents the total charge for services to be provided. See Exhibit JMK2.
 - D. Not applicable.

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A.8b. PPLSolutions, LLC provides various services to PPL Electric for energy supplier coordination. These services include administration and communications with the various energy suppliers serving customers within PPL Electric's service territory. PPLSolutions also provides energy load scheduling and reconciliation services, as well as miscellaneous other services. Attachment II-D-8b is the Service Agreement, which describes in detail all of the services provided and the price schedule. Charges to PPL Electric in 2003 were \$0.9 million, and are projected to be \$1.2 million in 2004.

**PPL Electric Utilities Corporation
Response to Interrogatories of the
Office of Trial Staff, Set 5,
Dated April 23, 2004**

Docket No. R-00049255

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- Q.OTS-RE-81. Reference II-D-7a, Page 1, environmental remediation expense.
- A. Provide an explanation for the projected 17% increase in remediation expenses.
 - B. Provide an itemized breakdown of the 2003 expense of \$3,025,000 by project, with a brief explanation of each remediation.
 - C. Provide the 2001 and 2002 level of expenses for environmental remediation.
- A.OTS-RE-81. A. The projected 17% increase in remediation expenses for 2004 relates to the continued assessment and remediation costs associated with addressing formerly owned and operated manufactured gas plant site liabilities. The predecessor of PPL Electric had owned or operated a number of manufactured gas plant sites.
- B. The \$3.025 million of net expenditures incurred in 2003 relate to remediation costs at the Sunbury and Tamaqua manufactured gas plant sites as well as PCB remediation costs at substations.
 - C. Environmental remediation costs were \$193,000 in 2001 and \$0 in 2002.

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