

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

September 4, 2015

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Re: Pa. Public Utility Commission v. PPL Electric Utilities Corporation
Docket No. R-2015-2469275

Petition of PPL Electric Utilities Corporation for a Waiver of the Distribution
System Improvement Charge Cap of 5% of Billed Revenues
Docket No. P-2015-2474714

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Statement in Support, in the
above-referenced proceeding.

Copies have been served upon all parties of record as shown on the attached
Certificate of Service.

Sincerely yours,

A handwritten signature in black ink that reads "Lauren M. Burge".

Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. # 311570

Enclosures

cc: Honorable Susan D. Colwell, ALJ
Certificate of Service

211797

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation
Docket No. R-2015-2469275

Petition of PPL Electric Utilities Corporation for a Waiver of the Distribution System
Improvement Charge Cap of 5% of Billed Revenues
Docket No. P-2015-2474714

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Statement in Support, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 4th day of September 2015.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Richard A. Kanaskie, Esq.
Kenneth R. Stark, Esq.
Gina L. Lauffer, Esq.
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Paul E. Russell, Esq.
Kimberly A. Klock, Esq.
PPL Electric Utilities Corporation
2 North Ninth Street
GENTW4
Allentown, PA 18101-1179

Michael W. Gang, Esq.
Christopher T. Wright, Esq.
Post & Schell, P.C.
17 North Second Street, 12th Fl.
Harrisburg, PA 17101-1601

David B. MacGregor, Esq.
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103

Steven C. Gray, Esquire
Sharon Webb, Esquire
Office of Small Business Advocate
300 North Second St.
Suite 202
Harrisburg, PA 17101

Joseph L. Vullo, Esq.
1460 Wyoming Avenue
Forty Fort, PA 18704

Elizabeth R. Marx, Esq.
Joseph Otis Minott, Esq.
Ernest Logan Welde, Esq.
Benjamin Z. Hartung, Esq.
Clean Air Council
135 S. 19th Street, Suite 300
Philadelphia, PA 19103

Eric J. Epstein
4100 Hillsdale Road
Harrisburg, PA 17112

Kenneth L. Mickens, Esq.
316 Yorkshire Drive
Harrisburg, PA 17111

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

Jacob Schlesinger, Esq.
Keyes Fox & Weidman LLP
1400 16th Street
16 Market Square, Suite 400
Denver, CO 80202

Patrick M. Cicero, Esq.
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101

David R. Wooley, Esq.
Keyes Fox & Weidman LLP
436 14th Street, Suite 1305
Oakland, CA 94612

Mark Szybist, Esq.
Natural Resources Defense Council
1152 15th St. NW, Suite 300
Washington, DC 20005

Daniel Clearfield, Esq.
Deanne M. O'Dell, Esq.
Sarah Stoner, Esq.
213 Market Street, 8th Floor
Harrisburg, PA 17101

Michael Panfil, Esq.
1875 Connecticut Ave., NW
Suite 600
Washington, DC 20009

John Finnigan, Esq.
128 Winding Brook Lane
Terrace Park, OH 45174

Heather M. Langeland, Esq.
PennFuture
200 First Avenue, Suite 200
Pittsburgh, PA 15222

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

George Allen
522 Jubilee Street, First Floor
Emmaus, PA 18049

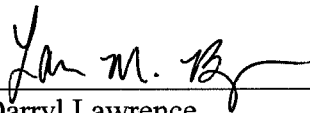
Patricia McGinty
246 Hillcrest Lane
Elizabethtown, PA 17022

Mr. D. Wintermeyer
1406 Carlisle Road
Camp Hill, PA 17011

Michael B. Young
185 Constitution Ave.
Wilkes-Barre, PA 18706-4152

Cathleen A. Woomert
81 Maple Ridge Road
Millville, PA 17846

Joseph E. McAndrew
85 W. Chestnut Street
Macungie, PA 18062



Darryl Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
E-Mail: DLawrence@paoca.org
Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. #311570
E-Mail: LBurge@paoca.org
Hobart J. Webster
PA Attorney I.D. # 314639
E-Mail: HWebster@paoca.org
Counsel for
Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152 211798

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2015-2469275
	:	
PPL Electric Utilities Corporation	:	
	:	
	:	
PPL's Petition for a Waiver of the Distribution	:	
System Improvement Charge Cap of 5% of	:	Docket No. P-2015-2474714
Billed Revenues	:	

STATEMENT IN SUPPORT
OF SETTLEMENT OF THE
OFFICE OF CONSUMER ADVOCATE

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement (Settlement), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On March 31, 2015, PPL Electric Utilities Corporation (PPL or the Company) filed Supplement No. 179 to Tariff Electric – Pa. P.U.C. No. 201, as well its Petition of PPL Electric Utilities Corporation for a Waiver of the Distribution System Improvement Charge Cap of 5% of Billed Revenues (DSIC Petition). PPL serves approximately 1.4 million residential, commercial and industrial customers in over 29 counties throughout Pennsylvania.

The Company sought Commission approval of rates and rate changes that would modify existing tariff provisions and increase the level of rates that PPL charges for providing electric

distribution service to its customers. If Supplement No. 179 to Tariff Electric – Pa. P.U.C. No 201 had become effective as proposed, the Company would have had an opportunity to recover an estimated annual increase in distribution revenues of \$167.5 million, or about 3.9% over total present rates (distribution, transmission, and default service). This represents an approximate increase of 18.5% in distribution-only revenues. The proposed rate increase would have become effective on June 1, 2015. As part of this increase, the Company proposed to increase the residential monthly customer charge from \$14.07 per month to approximately \$20.00 per month, and to move from a monthly customer charge to a daily customer charge. Additionally, in its DSIC Petition, PPL requested a waiver of the DSIC cap of 5% of billed revenues, and proposed to increase the maximum allowable DSIC from 5% to 7.5%.

On April 6, 2015, the OCA filed its Formal Complaint and Public Statement against the proposed revenue increase. On April 27, 2015, the OCA filed an Answer opposing PPL's DSIC Petition. Numerous other parties filed Petitions to Intervene or Formal Complaints against the proposed distribution rate increase, including: the Bureau of Investigation and Enforcement (I&E); the Office of Small Business Advocate (OSBA); PP&L Industrial Customer Alliance (PPLICA); Commission for Economic Opportunity (CEO); Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA); Clean Air Council (CAC); Sustainable Energy Fund (SEF); The Alliance for Solar Choice (TASC); Keystone Energy Efficiency Alliance Energy Education Fund (KEEF); Natural Resources Defense Council (NRDC); Environmental Defense Fund (EDF); and Eric Joseph Epstein (collectively, the Joint Petitioners).

On April 23, 2015, the Commission suspended the Company's proposed tariff supplement pending investigation. The proceeding was assigned to the Office of Administrative

Law Judge and specifically assigned to Administrative Law Judge Susan D. Colwell (ALJ Colwell). On May 7, 2015, ALJ Colwell held an initial prehearing conference in this matter. ALJ Colwell also issued an Amended Scheduling Order on May 7, 2015 which adopted a litigation schedule and modified discovery rules as agreed to by the parties. Additionally, PPL's rate case and the DSIC Petition were consolidated. Two Public Input Hearings were held in Harrisburg on June 2, 2015, and a third was held in Allentown on June 4, 2015.

In accordance with the procedural schedule established in this matter, on June 23, 2015, the OCA filed the Direct Testimonies of: Richard J. Koda,¹ OCA Statement No. 1; David C. Parcell,² OCA Statement No. 2; Glenn A. Watkins,³ OCA Statement No. 3; and Roger D. Colton,⁴ OCA Statement No. 4. The OCA also filed the Direct Testimony of Thomas S. Catlin,⁵ OCA Statement No. 1, in the DSIC Petition proceeding. On July 20, 2015, the OCA filed the

¹ Mr. Koda is a Principal of Koda Consulting, Inc., which provides financial and management consulting services, primarily in the area of utility regulation. Mr. Koda has over 30 years of experience conducting financial analyses and providing consulting services in utility rate cases and other related matters. A more complete description of Mr. Koda's background is provided in OCA Statement No. 1, Appendix A.

² Mr. Parcell is President and Senior Economist of Technical Associates, Inc. (TAI) in Richmond, Virginia. He has been a consulting economist at TAI since 1970, and has filed cost of capital testimony in over 500 utility ratemaking proceedings before more than 50 agencies in the United States and Canada. A complete description of Mr. Parcell's education and experience is provided in OCA Statement No. 2, Attachment 1.

³ Mr. Watkins is a Principal and Senior Economist with Technical Associates, Inc. in Richmond, Virginia. He has over 30 years of experience conducting marginal and embedded cost of service, rate design, cost of capital, revenue requirement, and load forecasting studies involving utilities in 21 states. A more complete description of Mr. Watkins' education and experience is provided in OCA Statement No. 3, Schedule GAW-1.

⁴ Mr. Colton is a Principal of Fisher Sheehan & Colton, Public Finance and General Economics in Belmont, Massachusetts. He provides technical assistance to public utilities and primarily works on low income utility issues. Mr. Colton has devoted his professional career to helping public utilities, community-based organizations and state and local governments design, implement and evaluate energy assistance programs to help low income households better afford their home energy bills. He has been involved with the development of the vast majority of ratepayer-funded affordability programs in the nation. A more complete description of Mr. Colton's education and experience is provided in OCA Statement No. 4, Appendix A.

⁵ Mr. Catlin is a Principal with Exeter Associates, a consulting firm specializing in issues pertaining to public utilities. Mr. Catlin holds a Master of Science degree in Water Resources Engineering and Management from Arizona State University. He has also completed graduate courses in financial and management accounting. Mr. Catlin has over 30 years of experience in the analysis of utility operations with an emphasis on utility rate filings.

Rebuttal Testimonies of: Richard J. Koda, OCA Statement No. 1R; and Glenn A. Watkins, OCA Statement No. 3R. On July 22, 2015, OCA witness Ashley E. Everette⁶ adopted the Direct Testimony of Thomas S. Catlin regarding the DSIC Petition.

The testimonies of OCA witnesses Koda, Parcell, Watkins, Colton, and Catlin/Everette were entered into the record by stipulation of the parties at the hearing on August 11, 2015. Prior to the hearing, the Parties entered into a full settlement in principle that resolved all issues raised by the active parties. Cross examination of all witnesses was waived by all Parties.

Pursuant to the Commission's policy of encouraging settlements that are in the public interest, the Joint Petitioners held numerous settlement discussions. These discussions resulted in this Settlement, which addresses numerous issues raised in this case. The OCA submits that the Settlement is in the public interest and is in the best interest of PPL's ratepayers and should be approved without modification. The terms and conditions of the Settlement satisfactorily address issues raised in the OCA's analysis of PPL's filing. The OCA submits that this settlement, taken as a whole, is a reasonable compromise in consideration of likely litigation outcomes before the Commission.

For these reasons, and those that are discussed in greater detail below, the OCA submits that the Settlement is in the public interest and the best interest of PPL's ratepayers, and should be approved by the Commission without modification.

⁶ Ms. Everette is employed as a Regulatory Analyst by the Pennsylvania Office of Consumer Advocate. She has a Master's degree in Business Administration and a Bachelor's degree in Economics from the University of Illinois. At the OCA, Ms. Everette's responsibilities include, *inter alia*, reviewing utility company filings with the Pennsylvania Public Utility Commission and analyzing the financial, economic, rate of return, and policy issues that are relevant to the filings.

II. SETTLEMENT

A. Revenue Requirement (Settlement ¶¶ 21-22)

In its filing, the Company requested an increase in annual distribution revenues of \$167.5 million. OCA witness Koda testified that the Company's revenue deficiency was significantly less, at approximately \$98.5 million. OCA St. 1 at 6.

The proposed settlement is designed to produce an increase in annual distribution revenue of \$124 million, which is approximately 26% less than the Company's original rate increase request of \$167.5 million. This settlement is a "black box" agreement, although the increase specifically includes: \$14.7 million in reportable storm damage expenses; roll-in of the DSIC amounts; the 2011 amortized storm expense of \$5.324 million to be included in the base rate component of the Storm Damage Expense Rider (SDER); and sets the return on equity (ROE) for the DSIC and Smart Meter Rider as the ROE included in the Commission's Report on the Quarterly Earnings of Jurisdictional Utilities. Settlement ¶ 21.

Based on the OCA's analysis of the Company's filing and discovery responses, this result would be within the range of likely outcomes in the event of full litigation of the case. This increase is appropriate when accompanied by other important conditions contained in the Settlement and yields a result that is just and reasonable. Thus, the OCA submits that the settlement is in the public interest and should be approved by the Commission.

B. Revenue Allocation and Rate Design (Settlement ¶¶ 23-28)

1. Residential Customer Charge

In its filing, PPL proposed to move from a monthly customer charge to a daily customer charge, and to increase the residential customer charge from \$14.09 per month to the equivalent of \$20.00 per month. In its Direct Testimony, the OCA opposed the move to a daily customer

charge and testified that the customer charge should remain at \$14.09 per month based on an analysis of the Company's customer costs. OCA St. 3 at 37-47. The customer charge issue raised significant concerns among consumers, and was the focus of many comments in the Public Input Hearings held in June 2015. See Tr. at 47, 52-55, 58-60, 103-104, 132, 175.

The Settlement maintains the customer charge at the current level of \$14.09 per month. Settlement ¶ 27. PPL has also agreed to withdraw its proposal to move to a daily customer charge, and will continue implementing the customer charge on a monthly basis. Settlement ¶ 26. These provisions adopt the recommendations in the OCA's Direct Testimony. See OCA St. 3 at 37-47.

2. Revenue Allocation

In its filing, the Company proposed to allocate approximately \$157.3 million, or 94.7%, of its proposed overall increase in base distribution rates to residential customers. OCA St. 3 at 30. As OCA witness Watkins pointed out, “[w]hen the authorized increases from the previous three rate cases [2007, 2010 and 2012] are combined with PPL's proposal for this case, the Residential class will have absorbed 96.0% (\$346.2 million) of total Company distribution increases exceeding \$360.0 million.” Id. Mr. Watkins presented a Class Cost of Service Study (CCOSS) that classified plant based on class peak demands, rather than customer counts as in PPL's CCOSS. OCA St. 3 at 2, 3-29. The OCA's proposed revenue allocation instead proposed to allocate approximately \$109.1 million to the residential classes, for a distribution increase of 18.78%. OCA St. 3 at 34. This allocation would more appropriately reflect the cost of service for the residential classes and the concept of gradualism. Id.

The Joint Petitioners have agreed to the distribution of revenue among customer classes as set forth in Settlement paragraph 23. The agreement provides for the allocation of a total of

\$112.675 million to the residential classes. Settlement ¶ 23 (Rate Classes RS and RTS). This allocates approximately 90.87% of the total distribution increase to the residential classes, which is a meaningful reduction from PPL's original proposal that would have allocated 94.7% of the increase to residential customers. Under the Settlement, a typical bill for a residential customer using 1,000 kWh per month will increase by \$7.53 per month, or 5.11%, from \$147.31 to \$154.84 on a total bill basis. This is as opposed to the Company's original proposal, which would have increased the typical residential customer's total bill by \$10.19 per month, or approximately 6.9%. While this provision still allocates a significant proportion of the increase to the residential classes, it is less than originally proposed and, when considered as a whole with the other provisions of the Settlement, is in the public interest.

3. Merchant Function Charge (MFC) and Purchase of Receivables (POR)

Additionally, the Joint Petitioners have agreed that PPL will withdraw its proposal to annually adjust the uncollectible accounts expense percentages for the Merchant Function Charge (MFC) and Purchase of Receivables (POR). Settlement ¶ 28. The Joint Petitioners also agreed that the percentages will both be set at 2.31% for PPL's uncollectible rate for the residential class.. Id. The OCA expressed its concern in Rebuttal Testimony that the MFC and POR be set consistently at the uncollectible rate for the residential class. OCA St. 3R at 4-6. OCA witness Watkins also explained in Rebuttal that an annual adjustment of the MFC appeared to violate 66 Pa. C.S. § 1408, and explained that setting different uncollectible rates could lead to discrimination against low income customers in shopping for alternative generation suppliers. Id. Settlement paragraph 28 addresses the OCA's concerns by removing the annual adjustment proposal and setting MFC and POR charges at the same percentage.

The OCA submits that these provisions are just and reasonable and are in the public interest, and as such they should be approved by the Commission.

C. DSIC (Settlement ¶¶ 32-35)

In its DSIC Petition, PPL requested a waiver of the DSIC cap of 5% of billed revenues, and proposed to increase the maximum allowable DSIC from 5% to 7.5%. In Direct Testimony, OCA witness Catlin/Everette opposed the waiver and the increase in the maximum allowable DSIC because it was unnecessary and would remove an important customer protection provided by Act 11. OCA St. 1 at 3-6.

In the Settlement, PPL has agreed to withdraw its request for a waiver and its proposal to increase the DSIC cap from 5% to 7.5% of billed revenues. Settlement ¶ 34. As such, the 5% cap will remain in place and continue to provide necessary protection for customers. The DSIC provisions in the settlement are therefore in the public interest and should be approved without modification.

D. Storm Damage Expense Rider (Settlement ¶¶ 36-41)

The Company's Storm Damage Expense Rider (SDER) was originally proposed in PPL's 2012 base rate case. The OCA opposed the creation of this rider, and the legality of the SDER is currently under consideration by the Commonwealth Court. As such, the Settlement provisions regarding storm damage expense serve to maintain the current operation of PPL's SDER and its method for recovering storm damage expenses. The Settlement acknowledges that the parties are awaiting a decision from the Commonwealth Court on this issue, and that the appellate court's determination will control the legality of the SDER going forward. Settlement ¶ 41.

E. Customer Assistance Programs (Settlement ¶¶ 42-49)

In his Direct Testimony, OCA witness Colton raised concerns regarding the need to adjust CAP credits to reflect the over-collection of bad debt expenses, adjust arrearage forgiveness credits for the over-collection of bad debt expenses, and apply a working capital offset to arrearage forgiveness credits. OCA St. 4 at 20-29, 30-36, and 36-38. In order to address these issues, the settlement provides for a fixed Universal Service Rider (USR) credit of \$100 per month for all CAP customers above 44,000. Settlement ¶ 47.

OCA witness Colton also raised issues related to late charges and the sequencing of residential customer payments. OCA St. 4 at 38-46. After examining discovery, Direct, and Rebuttal Testimony, it was unclear whether PPL was appropriately sequencing payments in accordance with its tariff provisions. Mr. Colton expressed concern that customers are being charged compound interest on unpaid late fees in violation of the Commission's regulations, and that PPL is applying residential payments against newer, non-interest bearing late charges before applying those payments to older, interest-bearing principal. OCA. St. 4 at 38. The Settlement addresses this by clarifying that late fees will not be compounded, and that PPL will follow Rule 9.D(8) in its Tariff, which states that:

Payments which are insufficient to pay for both a balance due for prior use and billing for current use are first applied to the balance due for prior use, except when an unpaid bill is a disputed bill or when a payment plan for an overdue balance is agreed upon.

Settlement ¶ 48. This addresses Mr. Colton's concerns and adopts his recommendation that PPL follow the rule as stated in its tariff.

Finally, the OCA raised issues concerning CAP customer shopping. OCA St. 4 at 16-20. While CAP customers are allowed to shop for alternative electric generation suppliers, they do not receive any benefit for effective shopping decisions or bear the cost of any ineffective

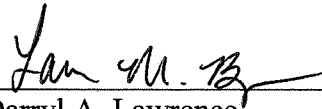
shopping decisions, and thus do not have any meaningful incentive to shop. OCA St. 4 at 19. OCA witness Colton testified that CAP customers should experience any benefit or burden associated with receiving a supplier price that is lower or higher than PPL's Price to Compare (PTC). OCA St. 4 at 19-20. In the Settlement, PPL has committed to holding a stakeholder collaborative by May 31, 2016 to evaluate CAP customer participation in the competitive shopping market. Settlement ¶ 49. Stakeholders will also have the opportunity to address these issues in PPL's next default service procurement plan proceeding. Id.

This settlement provision will provide the parties with an opportunity to address these issues in future proceedings. As such, the OCA submits that the provisions pertaining to Customer Assistance Programs represent a reasonable compromise and should be approved by the Commission.

III. CONCLUSION

The OCA submits that the terms and conditions of the proposed Settlement of this rate investigation, taken as a whole, represent a fair and reasonable resolution of the issues and claims arising in this proceeding. Therefore, the OCA submits that the Settlement should be approved by the Commission without modification as being in the public interest.

Respectfully Submitted,



Darryl A. Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
E-mail: DLawrence@paoca.org

Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. # 311570
E-mail: LBurge@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

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

DATED: September 4, 2015

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