



17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Main Fax
www.postschell.com

Michael W. Gang

mgang@postschell.com
717-612-6026 Direct
717-731-1985 Direct Fax
File #: 167910

October 16, 2017

VIA HAND DELIVERY

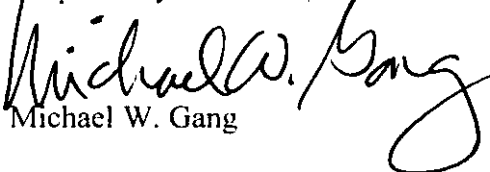
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Application of PPL Electric Utilities Corporation for Approval of Intercompany Restructuring
Docket No. A-2017-**

Dear Secretary Chiavetta:

Enclosed for filing, please find the Application of PPL Electric Utilities Corporation for Approval of Intercompany Restructuring. Also enclosed is a check in the amount of \$350.00, made payable to the Commonwealth of Pennsylvania for the filing fee. Copies of this Application will be provided as indicated on the Certificate of Service.

Respectfully submitted,


Michael W. Gang

MWG/skr
Enclosure

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of PPL Electric Utilities :
Corporation for Approval of Intercompany : Docket No. A-2017-
Restructuring :

**APPLICATION OF PPL ELECTRIC UTILITIES CORPORATION
FOR APPROVAL OF INTERCOMPANY RESTRUCTURING**

I. INTRODUCTION

1. By this Application, PPL Electric Utilities Corporation ("PPL EU"), by and through its legal counsel, requests all approvals required under the Pennsylvania Public Utility Code for a proposed corporate restructuring. The corporate restructuring would interject two new Delaware holding companies, PPL Subsidiary Holdings, LLC ("Newco 1") and PPL Energy Holdings, LLC ("Newco 2,") between PPL EU and its current parent, PPL Corporation.

2. The complete name and address of the Applicant are as follows:

PPL Electric Utilities Corporation
Two North Ninth Street
Allentown, PA 18101

3. The attorneys for Applicant are:

David B. MacGregor (ID # 28804)
Michael W. Gang (ID # 25670)
Lindsay A. Berkstresser (ID # 318370)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: mgang@postschell.com
E-mail: dmacgregor@postschell.com
E-mail: lberkstresser@postschell.com

Kimberly A. Klock (ID #89716)
Amy E. Hirkakis (ID #310094)
PPL Services Corporation
Two North Ninth Street

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PA PUC
SECRETARY'S BUREAU
FRONT DESK

Allentown, PA 18101
Phone: 610-774-5696
Fax: 610-774-4102
E-mail: kklock@pplweb.com
E-mail: aehirakis@pplweb.com

II. DESCRIPTION OF THE RELEVANT ENTITIES

PPL Corporation

4. PPL Corporation was formed in 1994 as a utility holding company. PPL Corporation is the parent company of PPL EU and PPL Energy Funding Corporation (“PPL EF”), as well as other subsidiaries (together the “PPL Group”). PPL Corporation’s current simplified legal entity structure is attached as “Exhibit A.”

PPL EU

5. PPL EU is a Pennsylvania business corporation formed in 1920.

6. PPL EU is a public utility as defined in Section 102 of the Public Utility Code, 66 Pa.C.S. § 102. PPL EU provides electric service to approximately 1.4 million customers in eastern and central Pennsylvania.

PPL EF

7. PPL EF is a holding company within the PPL Corporation affiliated group. PPL EF owns, indirectly, 100% of the interest in PPL Corporation’s electricity distribution businesses in the United Kingdom and, prior to the 2015 spinoff, directly and indirectly owned 100% of PPL Corporation’s competitive generation business.

III. THE PROPOSED RESTRUCTURING

8. PPL Corporation proposes to undertake a corporate restructuring (the “Proposed Restructuring”). In the first step, PPL Corporation will form two new Delaware holding companies, “Newco 1” and “Newco 2”. Newco 1 will be owned directly by PPL Corporation and Newco 2 will be owned directly by Newco 1. In the second step, PPL Corporation plans to

contribute all of the interests it holds in certain of its direct, wholly owned subsidiaries, including its shares in PPL EU and PPL EF, to Newco 1. Newco 1 will then contribute all of the shares received from PPL Corporation in the second step to Newco 2. Under the proposed corporate structure, PPL EU will be a direct subsidiary of Newco 2 and an indirect subsidiary of Newco 1 and PPL Corporation. The resulting proposed corporate structure is attached as "Exhibit B."

9. The Proposed Restructuring is straightforward and involves no change in the ultimate control of PPL EU or any of the other entities involved. All of these entities will be 100% owned by PPL Corporation both before and after the restructuring, albeit such ownership will be indirect following the restructuring. There will be no changes in the management or operations of PPL EU. Accordingly, there is no change in control.

10. PPL EU respectfully requests a decision on the proposed legal entity structure by February 1, 2018.

IV. LEGAL STANDARD FOR COMMISSION APPROVAL OF THE PROPOSED RESTRUCTURING

11. Section 1102(a)(3) of the Public Utility Code, 66 Pa.C.S. § 1102(a)(3), provides, in pertinent part, that the Commission's prior approval, evidenced by a certificate of public convenience, is required:

For any public utility . . . to acquire from, or transfer to, any person or corporation . . . by any method or device whatsoever, including the sale or transfer of stock and including a consolidation, merger, sale or lease, the title to, or the possession or use of, any tangible or intangible property used or useful in the public service.

12. To provide direction for future applicants, the Commission issued a Statement of Policy on October 22, 1994, establishing clear standards regarding the circumstances under

which a transfer of voting interest constitutes a change in *de facto* control of the utility. The Commission's Statement of Policy provides, in pertinent part, as follows:

(1) A transaction or series of transactions resulting in a new controlling interest is jurisdictional when the transaction or transactions result in a different entity becoming the beneficial holder of the largest voting interest in the utility or parent, regardless of the tier. A transaction or series of transactions resulting in the elimination of a controlling interest is jurisdictional when the transaction or transactions result in the dissipation of the largest voting interest in the utility or parent, regardless of the tier.

(2) For purposes of this section, a controlling interest is an interest, held by a person or group acting in concert, which enables the beneficial holders to control at least 20% of the voting interest in the utility or its parent, regardless of the remoteness of the transaction. In determining whether a controlling interest is present, voting power arising from a contingent right shall be disregarded.

52 Pa. Code § 69.901. Thus, Commission approval is required for any transaction that creates or eliminates a controlling interest and results in a different entity becoming the largest voting interest. The determination of the interests involved in a transaction considers all tiers of interest in the utility or parent of the utility and, thus, both direct and indirect ownership interests in a utility are considered under the Commission's Policy Statement.

13. There is no ultimate change in control resulting from the Proposed Restructuring, since PPL Corporation will own all of the interests in all of the involved entities both before and after the restructuring, albeit indirectly. Nevertheless, the Commission has concluded that internal reorganizations are subject to review and approval under Section 1102(a)(3) of the Public Utility Code, *Policy Statement Regarding Interpretation of 66 Pa.C.S. § 1102(a)(3)*, Docket No. M-930490, 1994 Pa. PUC LEXIS 56 (Order entered September 13, 1994). Specifically, the Commission stated:

Internal transactions usually involve corporate reorganizations which can have fundamental effect on the management and operations of a utility. Accordingly, we believe that the legislature intended that these transactions be subject to regulatory review under Section 1102(a)(3) to the extent they constitute a transfer of de facto control as defined by the policy statement heretofore issued. (emphasis added)

Policy Statement, 1994 Pa. PUC LEXIS 56 at *11.

14. Section 1103 of the Pennsylvania Public Utility Code sets forth the procedure to obtain certificates of public convenience. Under Sections 1102 and 1103 of the Public Utility Code, the Applicants must demonstrate that the party to whom the assets and service obligations are being transferred is legally, technically, and financially fit. *Seaboard Tank Lines*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. Publ. Util. Comm'n*, 138 A.2d 240, 243 (Pa. Super. 1958).

15. The Commission may issue a certificate of public convenience upon a finding that “the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public.” 66 Pa.C.S. § 1103(a). This standard requires the Commission to find that the transaction will “affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way.” *City of York v. Pa. P.U.C.*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972). The “substantial public interest” standard is satisfied by a simple preponderance of the evidence of benefits, and such burden can be met by showing a likelihood or probability of public benefits that need not be quantified or guaranteed. *Popowsky v. Pa. P.U.C.*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007). Further, the substantial public benefit test does not require that every customer receive a benefit from the Proposed Transaction. *Popowsky*, at 617-618, 937 A.2d at 1061.

16. In construing the above standards, the Commission should consider that the express purpose of reviewing an internal reorganization is to determine whether this Proposed Restructuring has a fundamental effect on the management and operations of a utility. For reasons explained in the following section of this Application, the Proposed Restructuring has no effect on the operations and management of PPL EU.

V. PURPOSE OF THE PROPOSED RESTRUCTURING

17. The Proposed Restructuring will allow PPL Corporation to effectively manage the movement of cash within the group of entities in the corporate structure as shown in "Exhibit B." In the context of the existing structure as shown in "Exhibit A," PPL Corporation is faced with potential future limitations on its ability to distribute cash from certain of its subsidiaries without creating negative Federal or State income tax consequences due to limited tax basis in those subsidiaries. In order to fund capital expenditures as well as dividends to shareholders of PPL Corporation, subsidiaries of PPL Corporation must regularly distribute cash to PPL Corporation. To the extent that such distributions exceed accumulated earnings and profits, the distributions will be characterized as returns of basis to the extent thereof and then as capital gains. While returns of basis are "tax neutral" from both a Federal and State income tax perspective, capital gains may trigger a tax cost. This cost poses a clear impediment on the PPL Group's options for efficiently mobilizing cash to serve its needs. The Proposed Restructuring significantly mitigates this potential cost by consolidating the tax basis of the relevant subsidiaries within both Newco 1 and Newco 2. In turn, this proposed structure will allow for more flexibility in making future distributions without triggering a negative tax impact.

18. PPL Corporation's existing corporate structure was created over a period of years in the context of operating numerous regulated and non-regulated electric generation,

transmission and distribution businesses within the United States and internationally. In June 2015, PPL Corporation completed a spinoff of its competitive generation business, which was immediately combined with the generation assets owned by Riverstone Holdings to form a new independent power producer called Talen Energy Corporation (“Talen Energy”). The spinoff was the final step of PPL Corporation’s transition to a company solely focused on high-performing regulated utilities in both the United States and internationally. PPL Corporation’s former power plants located in Pennsylvania and Montana were transferred to Talen Energy as part of the spinoff. Other PPL Corporation subsidiaries, including PPL EU, were not affected by the spinoff transaction and remain part of PPL Corporation. In light of the 2015 spinoff of the competitive generation business, PPL Corporation believes the proposed structure to be more effective for operating its remaining regulated businesses. PPL Corporation will be positioned as a pure holding company. Intercompany financing, including managing the capital structures of the regulated utilities to comply with regulatory requirements, will be facilitated through the lower tier holding companies rather than PPL Corporation. Additionally, PPL Corporation believes that utilizing the subsidiary holding companies provides a more effective structure to facilitate any future business acquisitions it may undertake, as well as any combination or merger of existing non-regulated corporate entities to gain efficiencies.

VI. EFFECTS OF THE PROPOSED RESTRUCTURING

19. PPL EU will remain legally, technically and financially fit after the Proposed Restructuring. The Proposed Restructuring will have no impact on PPL EU’s ability to provide service. PPL EU will continue to be indirectly owned and managed by PPL Corporation. PPL EU will maintain the same employees that it has now and will provide the same services to

customers. In addition, PPL EU will maintain a separate investment grade rating from credit rating agencies. There will be no changes in the management or operations of PPL EU.

20. The Proposed Restructuring promotes the public interest. The Proposed Restructuring will enable PPL Corporation to more effectively distribute cash from its subsidiaries for purposes of funding capital expenditures, including PPL EU's capital projects. The creation of subsidiary holding companies will also promote efficiency by providing a more effective structure for future business acquisitions and/or mergers of non-regulated corporate entities.

VII. CONCLUSION

The Proposed Restructuring, as described in this Application, is necessary and proper for the service, accommodation and convenience of the public.

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve this Application by February 1, 2018, and grant all necessary or appropriate relief authorizing the Proposed Restructuring.

Respectfully submitted,



Kimberly A. Klock (ID #89716)
Amy E. Hirakis (ID #310094)
PPL Services Corporation
Two North Ninth Street
Allentown, PA 18101
Phone: 610-774-5696
Fax: 610-774-4102
E-mail: kklock@pplweb.com
E-mail: aehirakis@pplweb.com

David B. MacGregor (ID # 28804)
Michael W. Gang (ID # 25670)
Lindsay A. Berkstresser (ID # 318370)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: mgang@postschell.com
E-mail: dmacgregor@postschell.com
E-mail: lberkstresser@postschell.com

Date: October 16, 2017

Attorneys for PPL Electric Utilities Corporation

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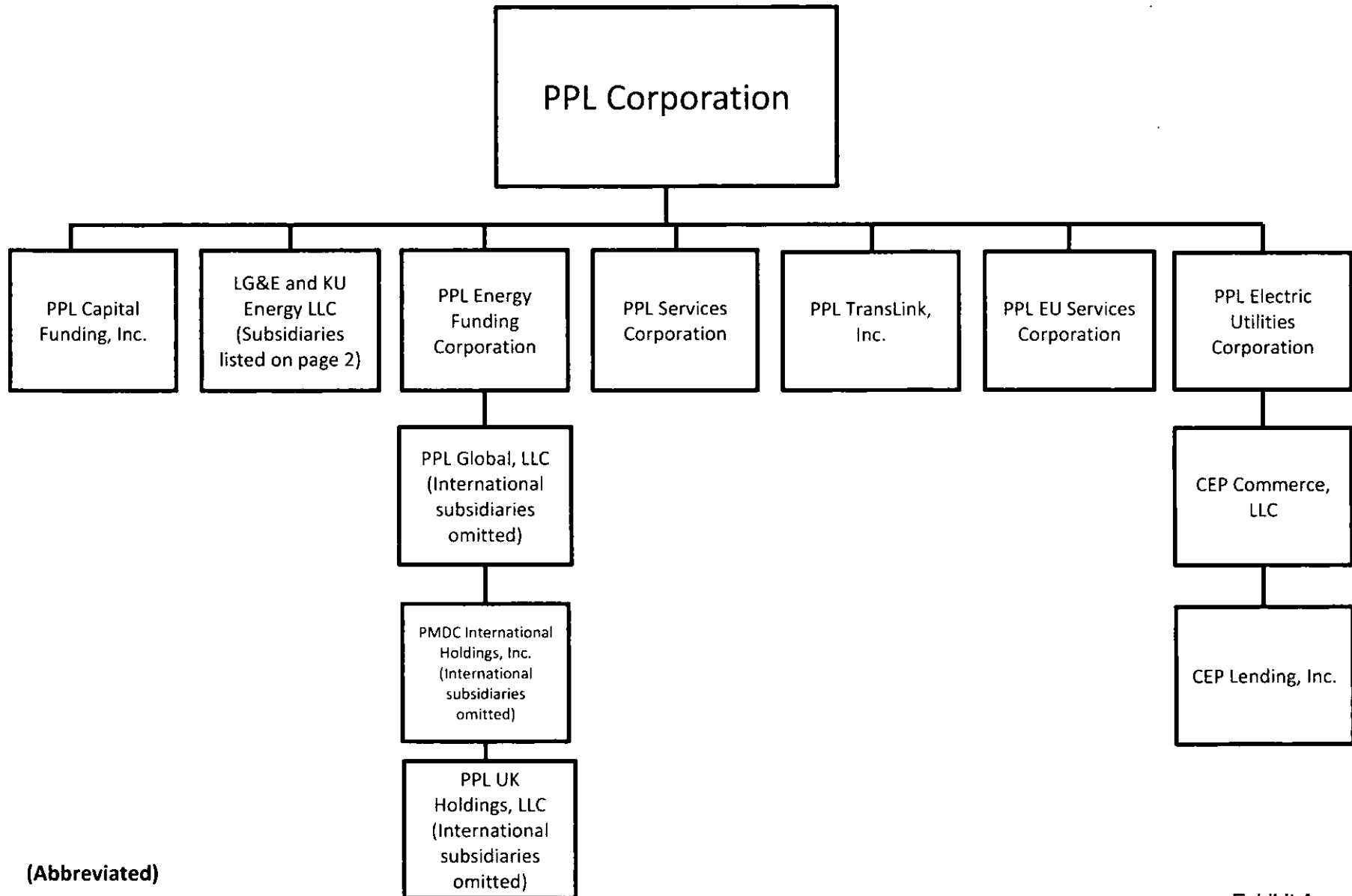
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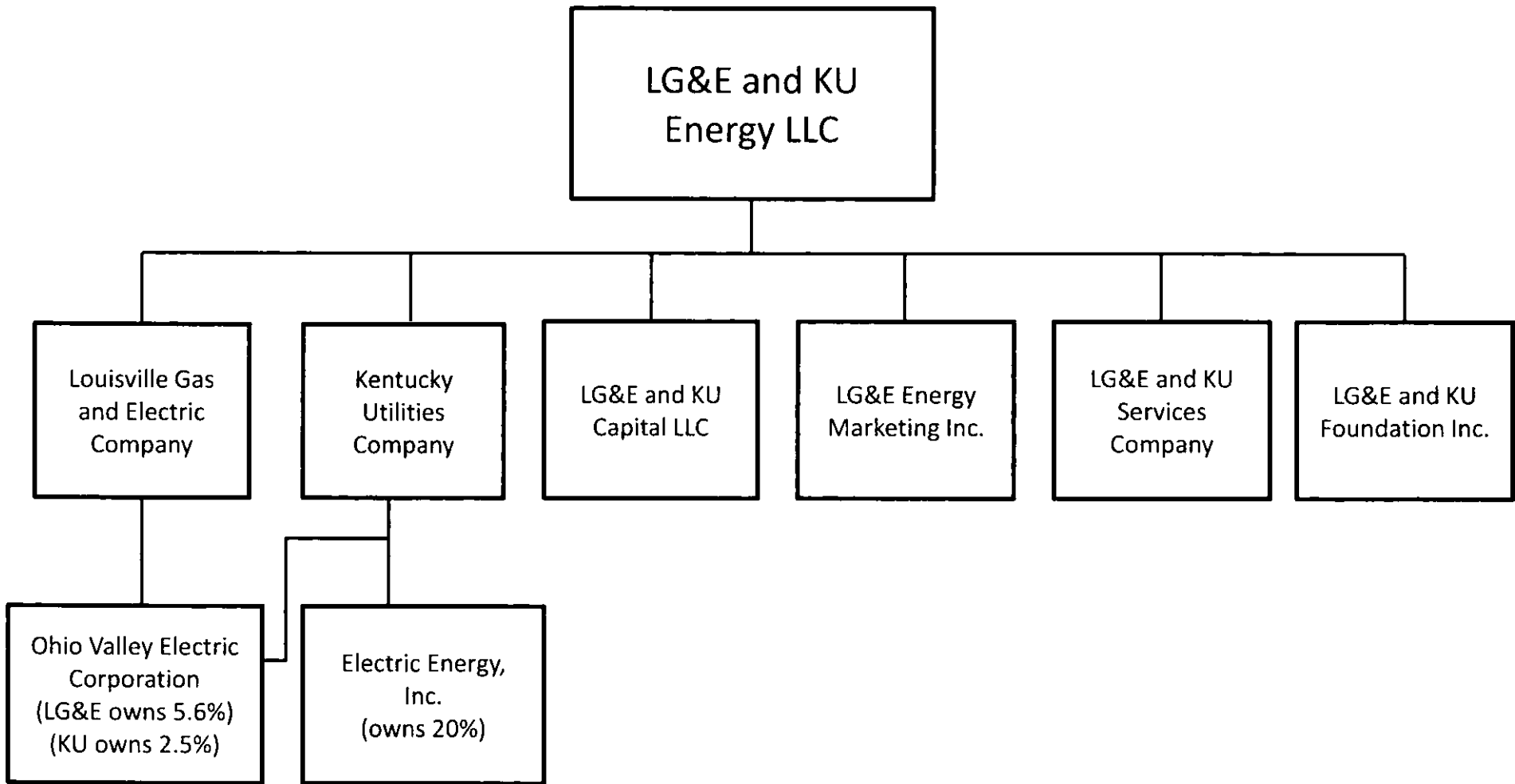
Exhibit A

Current Corporate Organizational Structure October 2017



(Abbreviated)

Exhibit A



(Abbreviated)

Exhibit A

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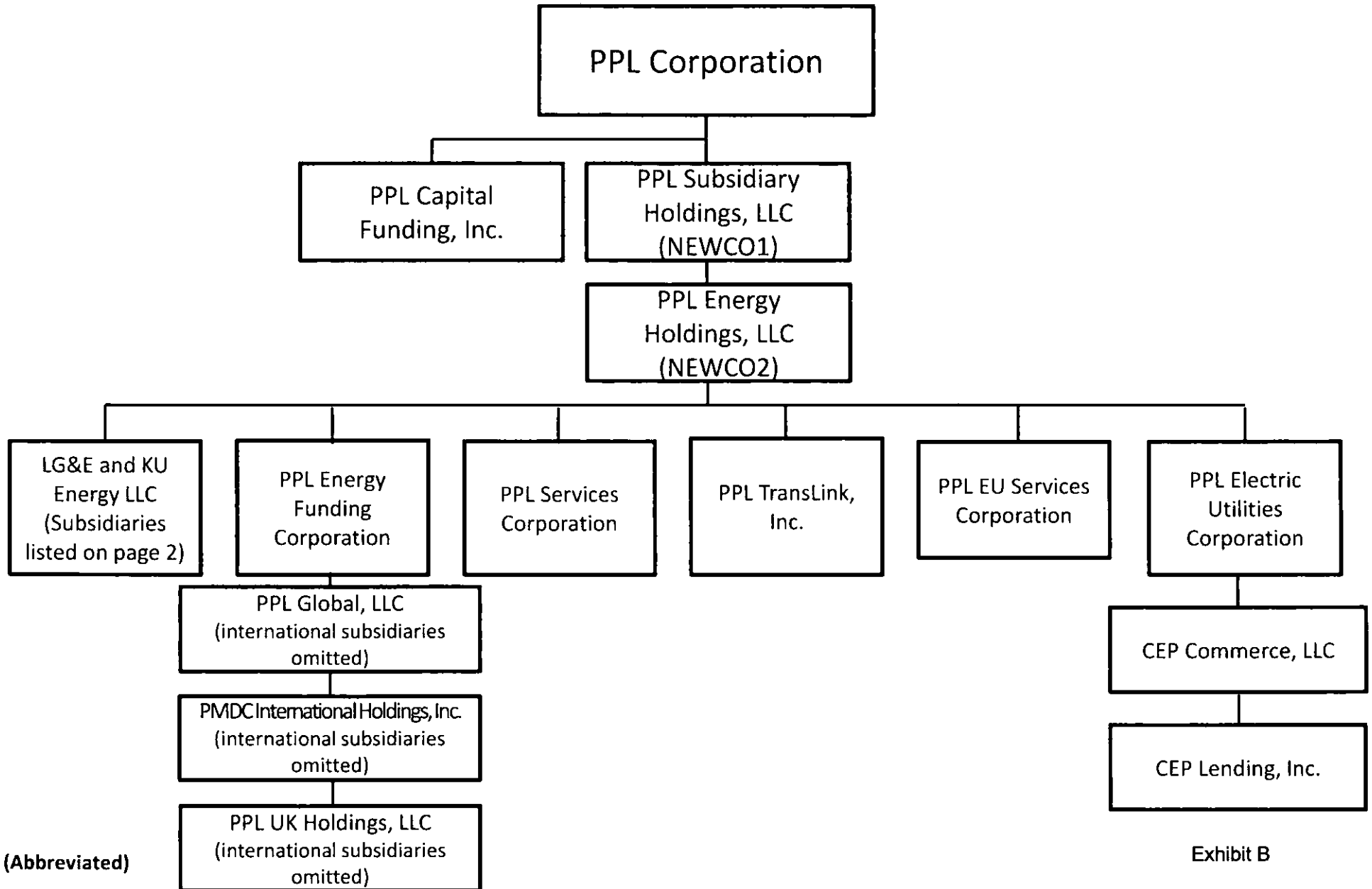
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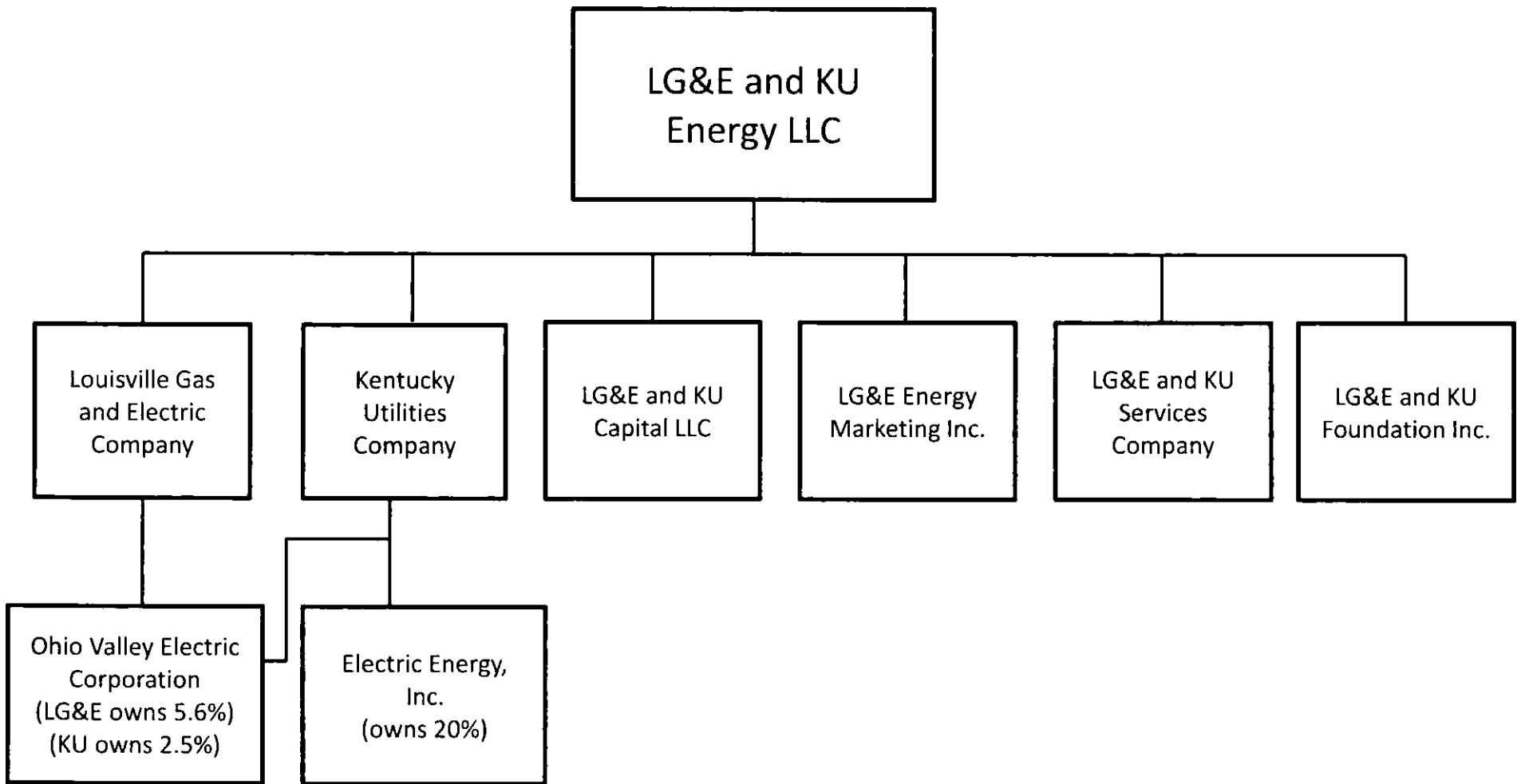
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Exhibit B

Proposed Corporate Organizational Structure

October 2017





(Abbreviated)

Exhibit B

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA FIRST CLASS MAIL

John R. Evans
Small Business Advocate
Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101

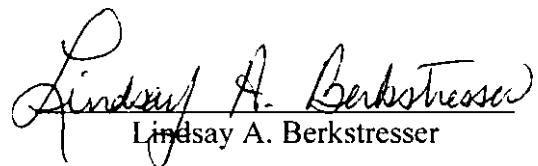
Tanya J. McCloskey
Senior Assistant Consumer Advocate
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Richard A. Kanaskie
Bureau of Investigation & Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

Paul T. Diskin
Bureau of Technical Utility Services
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 3rd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

Robert F. Young
PA Public Utility Commission
Law Bureau
Commonwealth Keystone Building
400 North Street, 3rd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

Date: October 16, 2017


Lindsay A. Berkstresser

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