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June 29, 2018

VIA ELECTRONIC FILING

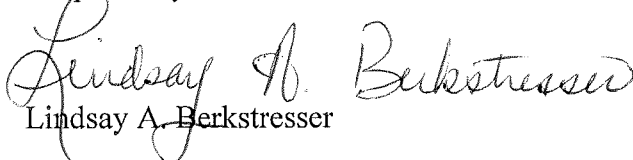
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Application of PPL Electric Utilities Corporation for Approval of Intercompany
Restructuring
Docket No. A-2017-2629534**

Dear Secretary Chiavetta:

Enclosed please find the Main Brief of PPL Electric Utilities Corporation in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,


Lindsay A. Berkstresser

LAB/skr
Enclosure

cc: Certificate of Service
Honorable Joel H. Cheskis
Honorable Benjamin J. Myers

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).

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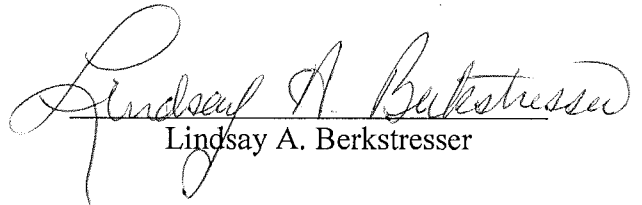

Lindsay A. Berkstresser

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I. BACKGROUND

On October 16, 2017, PPL Electric Utilities Corporation (“PPL Electric”) filed an Application for Approval of Intercompany Restructuring (“Application”) requesting that the Pennsylvania Public Utility Commission (“Commission”) approve its proposed internal restructuring (“Proposed Restructuring”).

PPL Electric is a direct operating subsidiary of PPL Corporation. PPL Corporation currently owns all of the shares of PPL Electric directly. Under the Proposed Restructuring, two new holding companies, PPL Subsidiary Holdings, LLC and PPL Energy Holdings, LLC, would be placed between PPL Corporation and certain of its operating subsidiaries, including PPL Electric. Under the proposed corporate structure, PPL Subsidiary Holdings, LLC would be wholly owned by PPL Corporation, PPL Energy Holdings, LLC would be wholly owned by PPL Subsidiary Holdings, LLC, and PPL Electric and certain other subsidiaries currently owned by PPL Corporation directly would be owned by PPL Energy Holdings, LLC. Ultimately, PPL Electric and all of its other regulated and non-regulated subsidiary companies would still be owned and controlled by PPL Corporation. (PPL Electric Exhibit No. 1, pp. 2-3) A diagram of the updated corporate structure is attached as “Appendix A.”

The Proposed Restructuring is intended to allow PPL Corporation to more effectively manage its intercompany cash flows. PPL Corporation will serve as a holding company with intercompany financing accomplished through the lower tier holding companies. This new structure will allow for more efficient operation of PPL Corporation’s businesses. The proposed corporate structure will allow it to prudently manage its tax liabilities. (PPL Electric Statement No. 1, pp. 4-5).

The Office of Small Business Advocate (“OSBA”) and Office of Consumer Advocate intervened in this proceeding. The Commission’s Bureau of Investigation and Enforcement

entered a notice of appearance. The Application was assigned to Administrative Law Judges Joel H. Cheskis and Benjamin A. Myers for recommended decision. A prehearing conference was held on January 22, 2018, during which a procedural schedule was established for the submission of testimony, hearing and briefs. The OSBA and PPL Electric are the only parties who submitted testimony in this proceeding. The parties agreed to waive cross examination and submit their respective evidence for the record through stipulation, which was submitted on June 13, 2018. Pursuant to the procedural schedule, PPL Electric hereby submits its Main Brief in support of the Application.

II. LEGAL STANDARD

The Commission's approval is required before a utility can transfer property that is used or useful in the public service. Specifically, Section 1102(a)(3) of the Public Utility Code, 66 Pa.C.S. § 1102(a)(3) provides:

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.

The Commission has issued a Statement of Policy to provide guidance 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, 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.

The Commission has concluded that internal reorganizations are subject to review 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.

Section 1103 of the Pennsylvania Public Utility Code sets forth the procedure to obtain certificates of public convenience and the standard for Commission review. 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). Under Sections 1102 and 1103 of the Public Utility Code, the Applicants must demonstrate that the party acquiring the assets and service obligations 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). Where there is an actual change in the ultimate control of a utility and, therefore, a transfer of property under Section 1103(a)(3), the Commission must 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) (*City of York*).

III. SUMMARY OF ARGUMENT

The Commission’s focus in evaluating Section 1102 Applications that involve a proposed internal restructuring is whether the proposed restructuring would result in an ultimate change in control of the utility. Where there is no change in ultimate control and no impact on the management and operations of the utility, the utility should not be required to show that the proposed restructuring will result in affirmative public benefit. The fundamental management and operations of PPL Electric will remain unchanged by the Proposed Restructuring. Thus, the Application should be approved on this basis alone.

However, the Commission need not resolve this issue in this proceeding. Specifically, even if the Commission were to determine that affirmative public benefit is required to issue a Section 1103 certificate, the Application should still be approved because PPL Electric has demonstrated that the proposed restructuring will benefit its customers. The Proposed Restructuring will strengthen the financial position of PPL Corporation, the ultimate source of equity capital for PPL Electric. In turn, PPL Electric’s customers will benefit from PPL Corporation’s ability to raise capital at reasonable rates. The Proposed Restructuring will also facilitate PPL Corporation’s ability to effectively manage its tax liabilities.

IV. ARGUMENT

- A. PPL EU SHOULD NOT BE REQUIRED TO SHOW THAT THE PROPOSED RESTRUCTURING WILL RESULT IN AFFIRMATIVE PUBLIC BENEFIT, NOR SHOULD IT BE REQUIRED TO OBTAIN A CERTIFICATE OF PUBLIC CONVENIENCE, BECAUSE THE PROPOSED RESTRUCTURING AMOUNTS TO A TECHNICAL CHANGE IN CONTROL AND WILL HAVE NO NEGATIVE EFFECT ON UTILITY OPERATIONS.

The Commission has adopted a practical approach to reviewing internal reorganizations that do not result in an ultimate change in control of the utility or its management and operations. *See, e.g., Joint Application of Frontier Communications of Breezewood, Inc., et al. for Approval of Restructurings from Corporations to Limited Liability Companies*, Docket No. A-310400F004, 2003 Pa. PUC LEXIS 323 (Order entered October 17, 2003) (*Frontier*); *Application of Duquesne Light Company to Convert to a Limited Liability Company*, Docket No. A-2017-2599375 (Order entered August 31, 2017) (*Duquesne Light*). PPL Electric's proposed restructuring is merely a technical change in control because PPL Corporation will no longer hold PPL Electric's stock directly. Instead, two holding companies will be inserted between PPL Corporation and PPL Electric. However, this change in structure will not negatively affect the day-to-day management or operations of the utility in any way. Therefore, the proposed restructuring should be approved.

In reviewing PPL Electric's Application, the Commission should consider that the express purpose stated in the Order adopting the Policy Statement for reviewing an internal reorganization is to determine whether the proposed transaction would have a fundamental effect on the management and operations of a utility. *See Policy Statement*, 1994 Pa. PUC LEXIS 56 at *11. The Commission's Order adopting the Policy Statement focuses on transfers of utility property accomplished by mergers of utility parents or selling utility stock and changing ultimate ownership of utility property. *Id.* No transfer of property to a new ultimate owner occurs as a

result of PPL Electric's proposed internal reorganization. In this regard, the Policy Statement is not binding law and the determination of whether a certificate under 1102(a)(3) is needed turns on whether the transaction results in transfer of ownership.

While the Commission has not excluded internal transactions from review, the Commission has indicated that it will review an internal transaction to determine whether it will affect the management or operations of the utility. Where there are no such changes in management and operations and no change in ultimate ownership, the Commission may so find in an order and conclude that there is no requirement to obtain a certificate under Section 1102 (a)(3). *See, e.g., Duquesne Light* (Commission reviewed and approved proposed restructuring in the form of conversion from Corporation to LLC without requiring affirmative benefit or issuing a certificate pursuant to Section 1102 (a)(3) where there was no change in the utility's management finances or ownership).

Moreover, the Commission has not required demonstration of affirmative public benefit when evaluating internal organizations that do not result in a fundamental change in control. *See Frontier*. Unlike PPL Electric's Application which proposes a straightforward internal reorganization, *City of York*, 295 A.2d 825 (1972), involved a comprehensive merger of three companies. *City of York* at *138.

In *Frontier*, the Commission determined that *City of York* did not apply to a proposed corporate restructuring in which the existing utilities would be converted from business corporations to Pennsylvania LLCs because there would be no change in the managerial, technical and financial resources available to the utilities, and the entities would remain under the direct or indirect control of the existing parent. The Commission stated:

. . . since there will be no change in control of the utility services nor any change in the resources available to the incumbent and successor utilities, it will

not be necessary to demonstrate an affirmative public benefit or the promise thereof pursuant to *City of York* as is normally required for acquisitions and changes in control of a utility.

However, if the change in business entity is accompanied by any change in the ownership of the utility, changes in senior management, or diminution of resources, a conventional application will be required and the standards of *City of York* will apply.

Frontier at *6. The Commission approved Frontier's Application but did not issue a certificate of public convenience, suggesting that Section 1102 approval is not required at all for internal reorganizations that do not result in an ultimate change in control.

The Commission has recognized that it is not necessary to evaluate internal reorganizations using the same affirmative public benefits standard that is applied in transactions that will result in a fundamental change in the management and operations of the utility. *See Frontier* at *6. Instead, the Commission should evaluate such internal reorganizations that do not result in a change in ultimate control using the standard set forth in Section 1103(a), i.e. whether the proposed transaction is "necessary or proper for the service, accommodation, convenience, or safety of the public." 66 Pa.C.S. § 1103(a).

The management and operations of PPL Electric will not change as a result of the proposed restructuring. PPL Corporation will own all of the interests in all of the involved entities both before and after the restructuring, albeit indirectly. PPL Subsidiary Holdings, LLC and PPL Energy Holdings, LLC will simply serve as holding companies for tax and finance purposes. All of the management and operations personnel of PPL Electric will remain at PPL Electric. PPL Electric will continue to raise debt capital and maintain credit ratings from rating agencies. (PPL Electric Statement No. 1-R, p. 3)

The manner of service PPL Electric provides to its customers will also remain unchanged. PPL Electric will remain legally, technically and financially fit, and the proposed

restructuring will have no negative impact on PPL EU's ability to provide service. Accordingly, service to PPL Electric's customers will be completely unaffected by the proposed restructuring. (PPL Electric St. No. 1, pp. 5-6) The Commission should approve the proposed restructuring because it will have no direct effect on the operations and management of PPL Electric and does not amount to an ultimate change in control.

B. EVEN IF THE COMMISSION APPLIES THE AFFIRMATIVE PUBLIC BENEFIT STANDARD TO PPL ELECTRIC'S APPLICATION, THE PROPOSED RESTRUCTURING MEETS THIS STANDARD.

Although PPL Electric maintains that the appropriate standard for evaluating the proposed restructuring is whether there will be a change in the fundamental management and control of the utility, there are potential benefits to PPL Electric's customers as a result of the proposed restructuring, such as improved ability to manage internal cash flow and raise equity capital at more favorable rates. Therefore, even if the Commission were to evaluate the proposed restructuring based on affirmative public benefit as set forth in *City of York*, the Application should be approved.

When evaluating Section 1102(a) Applications, the Commission has accepted the following public benefits as sufficient justification to approve the proposed transactions: improved ability of utility to focus its operational and managerial efforts (*See Application of Verizon North Inc. for any Approvals required under the Public Utility Code for Transactions related to the Restructuring of the Company to a Pennsylvania-only Operation and Notice of an Affiliate Transaction*, Docket No. A-2009-2111330, 2009 Pa. PUC LEXIS 2341 (Order entered November 19, 2009)); improved financial strength and greater financial resources to support jurisdictional activities (*See Joint Application of Adelphia Business Solutions, Inc., et al. for Approval of a Change in the de facto Control of the Five Adelphia Utilities as their Parent*,

Adelphia Business Solutions, Inc. and Certain Subsidiaries Emerge from Bankruptcy, Docket No. A-310470F0008, 2004 Pa. PUC LEXIS 663 (Order entered April 30, 2004)); improved availability of resources to the utility (See Application of 360Networks (USA) Inc. for a change in Indirect Control, Docket No. A-310880F0004, 2003 Pa. PUC LEXIS 427) (Order entered January 23, 2003)); improved and stabilized financial strength (See *Joint Application of Global Crossing Ltd., its Pennsylvania Jurisdictional Subsidiaries, and GC Acquisition Limited for approval of the Transfer of Control of the Subsidiaries, Global Crossing Local Services, Inc., Global Crossing Telecommunications, Inc., Global Crossing Telemanagement, Inc., Global Crossing North American Networks, Inc., and Budget Call Long Distance, Inc. to GC Acquisition Limited*, Docket No. A-310703F0003 2003 Pa. PUC LEXIS 268 (Order entered January 17, 2003)).

The proposed restructuring will not result in any cost to PPL Electric and will benefit PPL Electric's customers. For example, the efficient flow of cash to PPL Corporation without creating new tax liabilities will strengthen PPL Corporation, the ultimate source of equity capital for PPL Electric. Mitigating potential future tax payments means that more cash is potentially available to PPL Corporation, and in turn, PPL Electric. This increased source of equity capital will reduce the need for PPL Corporation to go the equity market and will reduce the need for PPL Electric to raise additional external debt, thereby improving its financial condition. These benefits are not theoretical. On the regulatory side of the business, PPL Electric is in the midst of a major infrastructure program and tax reform has increased requirements to raise capital in public markets. See *Petition of PPL Electric Utilities Corporation for Approval of its Second Long-Term Infrastructure Improvement Plan*, Docket No. P-2017-2622393 (Order entered December 21, 2017). While PPL Electric raises its own debt directly in public markets, equity

capital is raised by PPL Corporation, which has announced a major issuance of equity. (PPL Electric Statement No. 1-R at pp. 6-7)

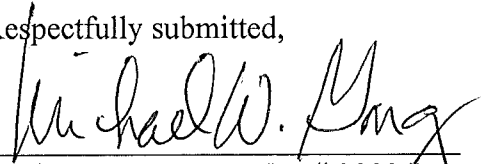
Managing tax payments would benefit PPL Electric's customers because a financially stronger PPL Corporation will have lower capital needs. It will also have improved ability to raise capital and would be more likely to raise such capital at reasonable rates, and there will be more internal capital available to PPL Electric which will reduce the need for it to further leverage its business and increase its financial risk.¹ While PPL Electric does not agree that any such benefit is a requirement to approve the Proposed Restructuring, a financially healthier PPL Corporation clearly benefits PPL Electric in many significant ways. (PPL Electric Statement No. 1-R at pp. 6-7) These types of public benefits have been expressly recognized by the commission as affirmative public benefits and provide more than sufficient justification to approve the Application as "necessary or proper for the service, accommodation, convenience, or safety of the public." 66 Pa.C.S. § 1103(a).

¹ An increase in debt has a corresponding increase to financial risk.

V. CONCLUSION

For the foregoing reasons, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve the Application for Approval of Intercompany Restructuring as necessary or proper for the service, accommodation, convenience, or safety of the public and issue a certificate of public convenience pursuant to 66 Pa.C.S. § 1103(a).

Respectfully submitted,



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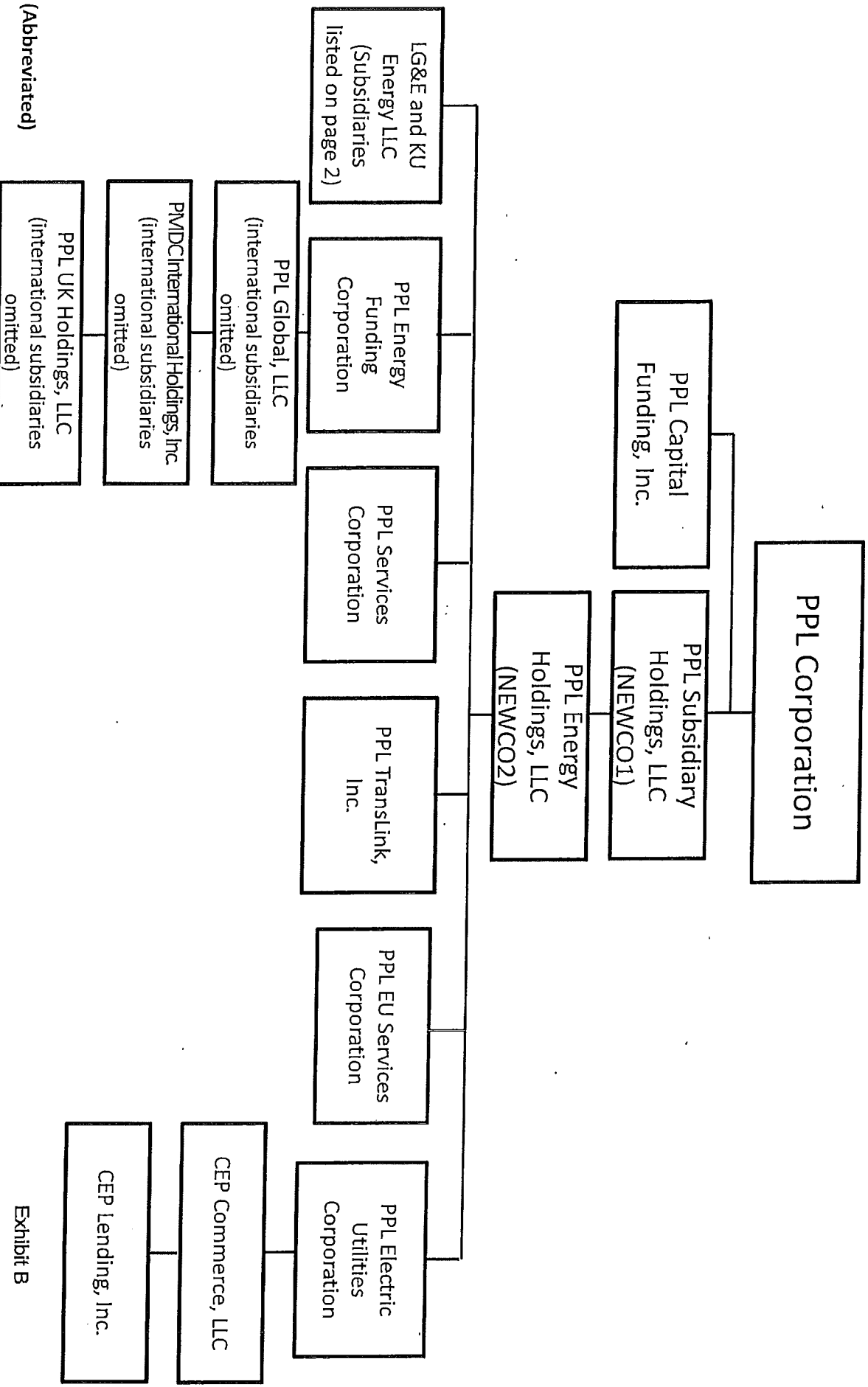
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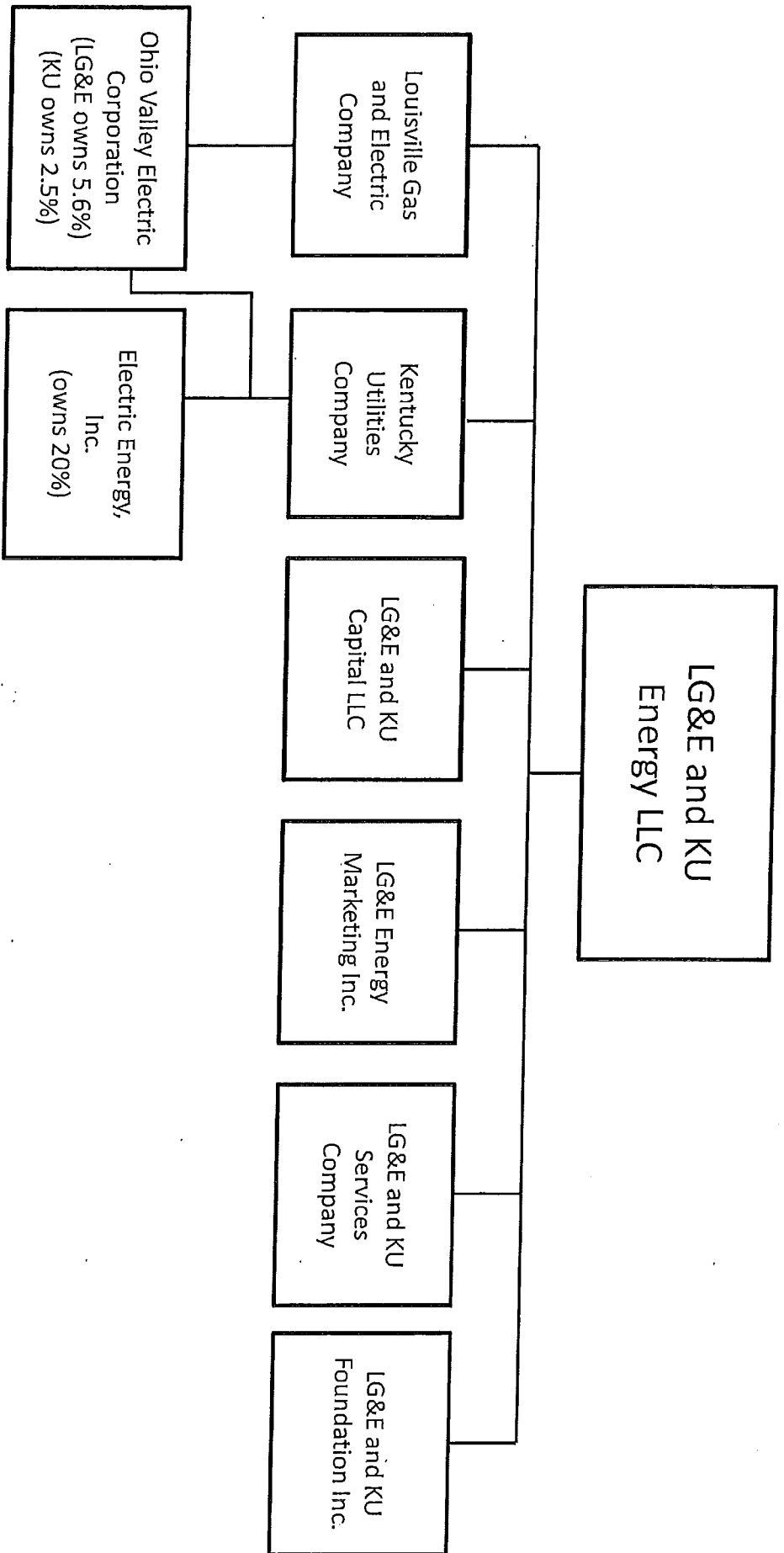
Appendix A

Proposed Corporate Organizational Structure October 2017



(Abbreviated)

Exhibit B



(Abbreviated)