

September 3, 2020

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2<sup>nd</sup> Floor  
Harrisburg, PA 17120

**VIA ELECTRONIC FILING**

**Re: Petition of PPL Electric Utilities Corporation for Approval of Its Default Service Plan for the Period June 1, 2021 through May 31, 2025; Docket No. P-2020-3019356**

Dear Secretary Chiavetta:

Please find enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") the Main Brief of the Industrial Energy Consumers of Pennsylvania in the above-referenced proceeding.

All parties are being served a copy of this document in accordance with the enclosed Certificate of Service.

Please contact the undersigned if you have any questions concerning this filing.

Sincerely,

SPILMAN THOMAS & BATTLE, PLLC

By 

Derrick Price Williamson  
Barry A. Naum

BAN/sds  
Enclosures

c: Administrative Law Judge Elizabeth H. Barnes (Via E-mail)  
Certificate of Service

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities Corporation :  
for Approval of Its Default Service Plan for : Docket No. P-2020-3019356  
the Period June 1, 2021 through May 31, :  
2025 :

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a true copy of the foregoing document upon the following parties to this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by participant).

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Dated: September 3, 2020

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Petition of PPL Electric Utilities Corporation :  
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2025 :

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**MAIN BRIEF OF  
THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA**

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## I. INTRODUCTION

The Pennsylvania Public Utility Commission ("PUC" or "Commission") recently conducted an investigation into default service and PJM Interconnection, LLC ("PJM") settlement reforms at Docket No. M-2019-3007101 ("PJM Settlement Reforms Investigation"). In that investigation, parties raised issues regarding the means by which Pennsylvania Electric Distribution Companies ("EDCs") calculate and allocate capacity and transmission costs. Of particular note, industrial parties in that docket, including the Industrial Energy Consumers of Pennsylvania ("IECPA"), recommended that EDCs modify the methodology used to calculate customers' Network Service Peak Load ("NSPL") obligations by employing a single zonal peak calculation. See Investigation into Default Service and PJM Interconnection, LLC Settlement Reforms, Docket No. M-2019-3007101 (Secretarial Letter issued Jan. 23, 2020) ("PJM Investigation"), p. 4. This industrial recommendation applied specifically to PPL Electric Utilities Corporation ("PPL" or "Company"), as these parties noted that PPL's retail methodology deviates from PJM's wholesale allocation approach, undermining the competitive retail market. See Reply Comments of IECPA, Docket No. M-2019-3007101 (Filed Aug. 26, 2020), p. 3; see also Comments of PP&L Industrial Customer Alliance ("PPLICIA"), et al. (collectively, "Industrials"), Docket No. M-2019-3007101 (Filed July 26, 2019), p. 7.

Acknowledging that there is not a uniform methodology employed throughout Pennsylvania for the calculation and allocation of capacity and transmission cost obligation, the Commission declined to make a "major overhaul" in that docket; however, the Commission also determined that the issue "could benefit from some additional scrutiny" and thereby requested that each EDC provide information and analysis of this issue in their next Default Service Plan ("DSP") filings. PJM Investigation Secretarial Letter, p. 5. The present proceeding represents PPL's first DSP filing since the Commission's PJM Investigation, and PPL has accordingly provided the

requested information and analysis, and according to that analysis, has indicated that it intends to retain the Company's current methodology for allocating both PJM capacity and transmission costs to its customers. See generally PPL Statement No. 1, Direct Testimony of James M. Rouland (hereinafter, "PPL St. 1"), pp. 86-90.

Consistent with its position in Docket No. M-2019-3007101, IECPA intervened in this case in order to address the specific issue of PPL's calculation and allocation of NSPL transmission costs and again respectfully requests that the Commission require the Company to modify its retail calculation of NSPLs in order to reflect the single coincident peak ("1 CP") methodology used by PJM to allocate costs on the wholesale level to PPL. As stated herein, IECPA believes that this modification would be more consistent with proper cost causation principles and would lead to a more uniform treatment of these costs throughout the Commonwealth, which in turn will support a more efficient and accurate retail competitive market.

## **II. PERTINENT PROCEDURAL HISTORY**

On March 25, 2020, PPL filed with the Commission a Petition for approval of its fifth Default Service Program and Procurement Plan ("DSP V") for the period from June 1, 2021 through May 31, 2025.

On May 6, 2020, IECPA filed a Petition to Intervene in this proceeding. IECPA is an association of energy-intensive, trade-exposed<sup>1</sup> industrial consumers with members taking service from PPL primarily pursuant to the Company's current industrial distribution and transmission rates. IECPA's membership for the purpose of this case is listed in the "Appendix A" accompanying IECPA's Petition to Intervene.

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<sup>1</sup> "Energy-intensive" means small changes in price translate into large changes in cost, while "trade-exposed" means that these businesses cannot pass cost increases on to their customers without risking the loss of those customers to competition based in other states or other countries.

On May 20, 2020, presiding Administrative Law Judge ("ALJ") Elizabeth H. Barnes issued a Procedural Order, granting numerous parties' interventions, including IECPA's, and establishing the procedural schedule for this case.

On June 25, 2020, intervening parties, including IECPA and the PPLICA, submitted Direct Testimony. IECPA specifically pre-served the verified Direct Testimony of David F. Ciarlone, addressing the single issue of PPL's calculation of NSPL contribution for the purpose of allocating to retail customers the transmission costs incurred by PPL on the PJM system. PPLICA submitted the Direct Testimony of Michael Peters, also addressing this issue.

On July 23, 2020, certain parties submitted Rebuttal Testimony in response to positions set forth by the various intervening parties' Direct Testimony. To that end, PPL submitted pre-served Rebuttal Testimony responding to IECPA's and PPLICA's position on the Company's NSPL calculation methodology and transmission cost allocation.

On August 6, 2020, certain parties, including IECPA and PPLICA, submitted Surrebuttal Testimony. IECPA pre-served the verified Surrebuttal Testimony of Mr. Ciarlone, and PPLICA submitted the Surrebuttal Testimony of Mr. Peters, again primarily responding to PPL's Rebuttal Testimony on the NSPL and transmission allocation issue.

On August 10, 2020, PPL submitted limited Rejoinder Testimony that also addressed the transmission allocation and NSPL issue in response to IECPA's and PPLICA's Surrebuttal Testimony.

On August 13, 2020, ALJ Barnes conducted an Evidentiary Hearing at which the parties indicated that a partial settlement had been achieved between some parties but reserving, among other issues, the question of PPL's calculation of NSPL calculation and allocation of PJM transmission costs for litigation through the submission of briefs. That said, all parties, including

IECPA and PPL, agreed to waive cross-examination of witnesses and to the stipulation of the preserved testimony as evidence in this proceeding. Upon the admission of evidence by stipulation, ALJ Barnes set the remaining litigated issues for briefing, with Main Briefs due on September 3, 2020, and Reply Briefs due on September 17, 2020.

In accordance with the procedural schedule, IECPA hereby submits this Main Brief.

### **III. SUMMARY OF ARGUMENT**

The single issue of dispute between IECPA and PPL in this case is the question of the appropriate assignment and allocation of PJM transmission costs through PPL's calculation of NSPL obligations. This question appears to be a clear-cut disagreement of principle and appropriate regulatory policy. IECPA and PPLICA agree that PPL should follow cost causation ratemaking principles and assign those transmission costs on the retail level on the same basis that PJM assigns them to PPL on the wholesale level, so that retail costs (and prices) reflect wholesale costs (and prices). Specifically, IECPA and PPLICA maintain that PPL should calculate NSPL contributions to customers in a manner that reflects PJM's 1 CP transmission allocation. PPL disagrees and maintains that its five coincident peak ("5 CP") allocation methodology should be maintained. Though acknowledging that its approach does not match PJM's, PPL claims that its methodology maintains transmission costs at a consistent level and prevents certain customers from taking advantage of load reduction opportunities to negatively impact other customers by "shifting" costs to those customers.

PPL's position does not reflect sound ratemaking policy. First, PPL's methodology is not an accurate cost-of-service based approach for allocating costs. Rather, PPL is attempting to create a result for customers that appears to be based on a notion of fairness but disregards accurate cost causation. Second, PPL's concerns regarding a "shifting" of costs from one group of customers who are able to reduce load during peak periods to other customers who are not able to do so is

unfounded. The presumption and insinuation that certain large industrial and manufacturing customers are looking to take advantage of other customers, in addition to misstating the impact of such load reductions, is unsupported, erroneous, and irrelevant. Third, PPL's apparent attempt at protecting some customers from Large Commercial and Industrial ("C&I") load reductions that might impact a single CP transmission peak, however well-intentioned it may be in theory, ignores the fact that no other customer or market representatives have opposed IECPA's and PPLICA's cost allocation proposal. Fourth, PPL's 5 CP methodology remains an outlier among EDCs in the Commonwealth of Pennsylvania that places all of its customers, but particularly those who face business competition, at a disadvantage in comparison with other Pennsylvania customers who enjoy wholesale electric transmission costs that are allocated substantially similarly to the way that PJM assigns them on the wholesale level.

For these reasons, and as explained herein, IECPA respectfully requests that the Commission require PPL to implement a retail transmission cost methodology that reflects the 1 CP approach employed by PJM.

#### **IV. ARGUMENT**

PPL witness Rouland provided the initial summary of the process employed by the Company for allocating PJM capacity and transmission costs for recovery from customers through the creation of Installed Capacity ("ICAP") tags (for capacity) and Network Integration Transmission Service ("NITS") tags (for transmission), noting that the two methodologies "are very similar." PPL St. 1, p. 86. Specifically, Mr. Rouland explained that PPL, following the PJM Manual, creates ICAP tags on a "per customer basis, determining each customer's contribution to peak events" (*i.e.*, their Peak Load Contribution ("PLC")) and then aggregates these ICAP tags by Load Serving Entity ("LSE") and reports them to PJM, who in turn provides PPL with the 5 CPs occurring through the June to September period. *Id.* at 87. According to Mr. Rouland, PPL

specifically uses the 5 CPs provided by PJM in this process by identifying each customer's hourly usage during these 5 CPs and averaging them together (after applying both loss and reconciliation factors). Id.

As for transmission, Mr. Rouland explained that "[m]irroring the PLC tag methodology, PPL Electric uses 5 CPs when calculating a customer's NITS tag to obtain an accurate representation of each customer's use of the transmission system." Id. at 89. However, contrary to PPL's assertion that these NITS tags "are used to allocate costs to and recover transmission costs from the LSE's customers based on actual energy usage of the LSE's customers being served during PPL Electric's system peak event," the methodology employed by PPL in the creation of NITS tags and NSPL contribution does not appear to be based on actual customer usage during peak events. Id.

Specifically, as noted by Mr. Rouland, to create each customer's NITS tag, PPL "identifies each customer's usage during the transmission 5 CPs (rather than the PJM 5 CPs as used for ICAP tag creation), then applies both loss factors and reconciliation factors, and averages the results to create a single NSPL tag for each customer." Id. This use of "transmission 5 CPs" is an important distinction because it does not follow the PJM Manual nor does it reflect the fact that PJM assigns transmission obligations to the PPL system on a 1 CP basis. See IECPA Statement No. 1, Direct Testimony of David F. Ciarlone (hereinafter, "IECPA St. 1"), p. 6; see also PPL Statement No. 5-R, Rebuttal Testimony of Gary M. Hartman, Jr. (hereinafter, "PPL St. 5-R"), p. 4; and PPLICA Statement No. 1, Direct Testimony of Michael Peters (hereinafter, "PPLICA St. 1"), p. 5. As such, and unlike with the creation of ICAP tags and the allocation of PLCs, PPL's methodology deviates from PJM's allocation approach, and -- despite PPL's indications -- does not reflect the actual usage of customers during PPL's transmission peak period.

As IECPA stated in the course of the Commission's PJM Investigation and presented in evidence in the current proceeding, this discrepancy between the transmission cost allocation methodology employed by PJM on the wholesale level and the methodology employed by PPL at the retail level is problematic and should be adjusted.

**A. PPL's 5 CP Methodology for Allocating Transmission Costs is Inconsistent with Proper Cost Causation Principles and Should Be Modified to Reflect the 1 CP Methodology Employed by PJM.**

The Commission has long recognized cost of service, or cost causation, to be a "polestar" of ratemaking. See Lloyd v. Pennsylvania Pub. Util. Comm'n, 904 A.2d 1010, 1020 (Pa. Commw. 2006); see also JAMES H. CAWLEY AND NORMAN J. KENNARD, PENNSYLVANIA PUBLIC UTILITY COMM'N, A GUIDE TO UTILITY RATEMAKING 138-141 (2018 Ed.). At its core, this "polestar" principle means that cost causation must guide the decisions that utilities make in allocating their cost of service to ratepayers.

It is undisputed in this proceeding that PJM -- the entity that manages the regional transmission system -- assigns and allocates transmission costs and obligations to LSEs on a 1 CP basis, meaning that PJM determines that these costs are caused to the transmission system based on the single highest coincident peak for each LSE. This was confirmed by PPL. See PPL St. 5-R, p. 4. This is the "polestar" cost causation basis for PJM wholesale transmission costs. Despite this, however, PPL allocates -- and has allocated for 20 years -- these costs on the retail level on the 5 CP methodology previously described. See PPL St. 1, p. 90.

IECPA noted in this case that PPL is allocating and collecting transmission costs from customers differently than how the customer is contributing to the transmission cost incurred by PPL from PJM. IECPA St. 1, p. 7. Because PJM plans and structures its transmission system to meet the single CP for each customer, and thus allocates costs to LSEs on this basis, by deviating from this wholesale allocation, PPL's retail methodology likewise deviates from direct cost causation. Id. This

difference in transmission cost methodology, while relatively small in terms of the overall DSP submitted by PPL, is not insignificant to individual customers.

As explained by IECPA witness Ciarlone:

[A]pplication of PPL's methodology for allocating transmission cost obligations in a manner that deviates from PJM's approach means that a customer that is accessing competitively priced power in the market must monitor five potential transmission peaks rather than monitoring just the single transmission peak that PJM identifies for each customer. Id. And because PPL's transmission peaks may occur at any time during the year, a customer cannot rely on the five capacity peaks that PPL (and PJM, coincidentally) tracks for that customer in the summer months. Id. at 7-8. In other words, though managing its operations in order to consume electricity as efficiently as possible and help lower peak demand, the customer is burdened by PPL's methodology, which requires an additional layer of unnecessary load management responsibility throughout the year.

Id. at 7-8.

PPL attempts to provide a cost causation justification for its 5 CP methodology, claiming that PPL's methodology for allocating transmission costs is "consistent with the process used by PJM to allocate and collect capacity costs." PPL Statement No. 5-RJ, Rejoinder Testimony of Gary M. Hartman, Jr. (hereinafter, "PPL St. 5-RJ"), p. 3 (emphasis added). In further explanation, PPL asserts that PJM's 1 CP is intended to "ensure that the transmission costs collected from suppliers are equal to the total amount owed to the transmission owner," and therefore "ensures no reconciliation exists between collected dollars and dollars owed." Id. According to PPL, PJM "could have used another set of values, such as 5 CP, to achieve the same result." Id.

But the point is that PJM does not use another set of values; it uses a 1 CP allocation. And it does not matter that PPL's approach for allocating transmission costs is consistent with PJM's approach for capacity; it simply is not consistent with PJM's transmission methodology and is therefore not consistent with accurate cost causation. Moreover, PPL is a transmission owner, so what PJM does in terms of allocating transmission costs directly impacts the allocation of costs to PPL's ratepayers; and unlike other components of utility costs for which PPL earns a return,

transmission costs are allocated directly to PPL from PJM and are (or should be) passed through directly to customers. Therefore, PPL, as a transmission owner, should recover those costs in the same way that those costs are assigned to it by PJM.

Regardless of PPL's suggested cost causation justification, as noted by PPL witness Mr. Rouland and confirmed by PPL witness Mr. Hartman, PPL's primary motivation for employing a 5 CP methodology for the calculation of NSPLs and the allocation of PJM transmission costs actually appears to be an effort to "reduce the likelihood a customer could adjust their usage to avoid consuming during a peak hour and shift transmission costs among LSEs and ultimately between customers." PPL St. 1, pp. 89-90; see also PPL St. 5-RJ, pp. 5, 7. In other words, PPL clearly views the potential of some customers reducing load during the identifiable single peak as a detriment, rather than a benefit, to its system.

But by propagating its 5 CP transmission allocation, PPL is actively working against the objective of minimizing peak loads on the transmission system, which is indeed a widely recognized benefit to the entire system. IECPA St. 1, p. 8; see also PPLICA St. 1, p. 6. Because a 1 CP allocation approach is consistent with PJM's methodology, it follows that the nexus between the benefits to individual customers reducing load during that single peak and the benefits to the PPL system as a whole is closer than if customers are instead required to adjust for 5 CPs over a 12-month period, as reducing load during those 5 CPs very likely has no relationship to any benefits available to the system by avoiding PJM's single peak.

Furthermore, by actively, and admittedly, seeking to limit the ability of customers to manage their load during peak transmission periods, PPL's 5 CP methodology for allocating PJM transmission costs sends inaccurate price signals to customers, particularly as they may compete with other business who have the benefit of paying retail transmission costs that align with PJM's

wholesale allocation, and impedes their ability to most efficiently use the PPL and PJM transmission systems. Id. 8-9. This imposes a particularly heavy and unjustified burden on energy-intensive, trade-exposed businesses who compete with rivals in other jurisdictions that can reduce their costs by limiting their contribution to peaks in the systems serving them.

1. PPL's primary argument for maintaining a 5 CP methodology constitutes little more than an arbitrary argument of "fairness."

The core of PPL's unwillingness to move from its current methodology appears to be the concern that a few large customers who are able to reduce load during transmission peaks would impose upon other customers, as PPL stated in Direct Testimony. PPL St. 1, pp. 89-90 ("Mirroring the PLC tag methodology . . . also helps reduce the likelihood a customer could adjust their usage to avoid consuming during a peak hour and shift transmission costs among LSEs and ultimately between customers"). PPL repeated this stance in Rebuttal Testimony, arguing that "adopting the 1 CP methodology would allow customers who can forecast and reduce load during the single peak hour to shift costs to customers without the same ability," which according to PPL "would inflate costs to customers who are unable to forecast and reduce load during peak periods and their costs would not be in line with their typical usage during peak periods." PPL St. 5-R, p. 5. Apart from the curious lauding of an approach that purposefully frustrates efficient use of the PPL system, this position constitutes little more than an argument of "fairness," which is not the most appropriate or reasonable basis for the allocation of costs or ratemaking, particularly when strong cost causation principles dictate otherwise. Moreover, instead of being founded on objective and stable cost-causation criteria, it is entirely subjective and arbitrary.

Confronted with IECPA's observation regarding the fundamentally flawed position of "fairness" as a ratemaking approach,<sup>2</sup> PPL's primary response was simply to reiterate the same fairness argument. Though stating that he "strongly disagree[d]" with IECPA's statement, PPL witness Mr. Hartman asserted that PPL's methodology is intended to find "the most accurate way to align typical peak customer usage with the costs assigned to PPL Electric by PJM," but "more critically" stated that requiring PPL to move from its current 5 CP allocation would force the Company to "abandon its methodology in favor of one that provides a significant cost savings to a handful of uniquely situated customers . . . to benefit those customers at the expense of the majority of PPL Electric's customers." PPL St. 5-RJ, p. 7 (emphasis added). Neither of these positions are reliable cost-of-service based principles, and both require an analysis that still favors basing transmission cost allocation on what is "fair," rather than on what is correct.

First, to the extent PPL desires to allocate costs on a basis that aligns this cost responsibility with "typical usage," rather than on actual usage, the 5 CP methodology still fails to meet the cost causation polestar standard. IECPA understands that PPL may want to keep individual customers' transmission cost obligation at a steady level to meet expectations, but to do so through improper cost allocation at the expense of customers desiring to more efficiently consume electricity is certainly not fair to those customers who are looking to limit their own contributions to peak periods and thus to reduce the system's overall peak capacity and transmission loads. But that said, even if Mr. Hartman's position on this is sound, then what could be a more "accurate way to align typical peak customer usage with the costs assigned to PPL Electric by PJM"<sup>3</sup> than simply using the same method used by PJM?

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<sup>2</sup> See IECPA St. 1, pp. 2-3.

<sup>3</sup> PPL St. 5-RJ, p. 7 (emphasis added).

Second, this proceeding involved the participation of a number of parties representing other customers and rate classes, as well as parties representing market interests. None of these parties objected to or opposed the proposal by IECPA and PPLICA to match retail allocation of transmission costs to PJM's wholesale methodology through a 1 CP methodology. Furthermore, as explained by IECPA witness Ciarlone, Large C&I customers who may reduce load during capacity and transmission peak periods do so in coordination with Conservation (or Curtailment) Service Providers ("CSPs"), often in conjunction with both wholesale and retail load response programs -- programs that are not exclusively available to Large C&I customers but are also offered to other customer classes, including programs administered by PPL itself through Act 129 Energy Efficiency and Conservation ("EE&C") offerings. See IECPA Statement 1-SR, Surrebuttal Testimony of David F. Ciarlone (hereinafter, "IECPA St. 1-SR"), pp. 4-5. Thus, presumably, other customers that PPL fears may be impacted by peak load reductions have similar opportunities.<sup>4</sup> Though insinuating that it is inappropriate for some customers to take advantage of them, PPL itself presumably supports such opportunities.

**B. Even if Transmission Costs Could be Based on What PPL Deems to be "Fair," PPL's Concern with the Potential Impact on Customers through So-Called "Cost Shifting" is Unfounded.**

As indicated above, PPL implies that customers seeking to adjust load during peak periods is something to be avoided, and based on this supposition asserts that "careful consideration of impacts to customers and the market would be necessary prior to implementing any change to NSPL and PLC tag calculation processes." PPL St. 1, p. 90. This, in turn, feeds PPL's assessment that it should limit the ability of customers to respond to the Company's single transmission

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<sup>4</sup> In this regard, it is important to note that because of the number and variety of load reduction programs available to customers, some of which are operated by PPL, this group of customers is not limited to just a "handful of uniquely situated customers," as asserted by Hartman on page 7 of his Rejoinder Testimony, but to a significantly larger and more diverse collection of PPL customers beyond just the Large C&I class. See IECPA St. 1-SR, p. 4.

coincident peak and thereby "shift costs" to other customers. This is, in fact, the foundation of the "fairness" argument that PPL has raised in justification for its 5 CP methodology; however, even if the Commission was inclined to support PPL's "fairness" argument based on the potential for "cost shifting," the evidence presented in this proceeding demonstrates that PPL's analysis of the supposed negative impacts and ulterior motives of customers reducing their peak loads is unfounded.

If PPL requires evidence that customer impacts are necessary in order to make a change, then IECPA and PPLICA have demonstrated that PPL's current methodology does indeed have an impact on certain Large C&I customers (and other customers participating in peak load reduction programs) by requiring them to monitor 12 months of potential coincident peaks if they want to use PJM's and PPL's transmission systems as efficiently as possible. See IECPA St. 1, pp. 8-9. For purposes of transmission, PPL is a "season-neutral" peaking utility; its transmission peak may occur at any point during the year. PPL St. 1, p. 88. As such, by employing a 5 CP methodology instead of the 1 CP that PJM reports and uses to assign LSEs their transmission load obligations, a customer desiring to efficiently use the transmission system must monitor every month of usage instead of just the single peak identified by PJM.

Most importantly, however, PPL's allegation that Large C&I customers reducing peak loads results in cost shifting is just not correct. Customers reducing their electric load during a peak period do not "shift" any costs to other customers; they simply do not cause those costs to be incurred.

PPL witness Harman presented a hypothetical scenario in order to depict the "cost shifting" that the Company claims occurs when a customer reduces load,<sup>5</sup> but this example only

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<sup>5</sup> PPL St. 5-R, Ex. GMH-1R.

demonstrates that load reduction during peak periods simply allocates costs that are actually incurred to those customers who cause those costs to the system. This is entirely consistent with, and appropriate under, traditional cost causation principles. Indeed, this is by definition "cost causation." A customer who reduces load during a peak period, whether a capacity or transmission peak period, does not contribute certain costs to the PPL system, and therefore does not "shift" anything to other customers. See IECPA St. 1-SR, p. 3. As explained by IECPA witness Mr. Ciarlone, other customers may certainly incur a greater proportion of the costs that are incurred by the system (less the amount of capacity or transmission obligation that is not caused by the load-reducing customer), but no costs are "shifted" from the load-reducing customer to other customers because the load-reducing customer does not cause those costs. Id.

In response to this, PPL witness Harman obliquely argued in Rejoinder Testimony that "[a] single customer's usage during a peak day has very little impact upon transmission costs" which "are largely driven by PPL Electric's efforts to improve reliability, replace aging infrastructure and increase safety," which, in turn, "benefit all customers and all customers should pay for these services." PPL St. 5-RJ, p. 5. Then, shifting entirely away from any cost causation principle, he suggests again that a 1 CP allocation methodology "makes it easier for a customer to reduce usage during the period(s) used to allocate costs, resulting in the customer avoiding paying for any of the benefits, while not actually reducing that customer's cost impact on PPL Electric's system." Id. (emphasis added). This position, by appearing to claim that transmission cost obligation should be decoupled from actual cost causation, is very curious and perfectly illogical.

If a customer's reduction during a peak period "has little impact upon transmission costs," then it certainly follows that the customer's reduction will have little impact on the payment for the benefits of PPL's investments on the transmission system. And even if a customer reduces

load during the single zonal peak period, that customer does not avoid paying transmission costs over the course of year; that transmission cost obligation is simply reduced proportionally (and appropriately) due to a lower peak period contribution. See IECPA St. 1-SR, p. 3. The customer will still pay for costs (and "benefits") on the transmission system, but they will do so at a lower proportion than they might otherwise pay. Regardless, the customer does not avoid responsibility for paying for any of the benefits, as Mr. Hartman alleged.

Furthermore, even if Mr. Hartman's assertion was accurate, the end result is the same whether PPL employs a 1 CP or 5 CP methodology, though it is, indeed, simply more difficult -- obviously by PPL's design -- for a customer to more efficiently manage its load under the 5 CP methodology. In this regard, it is clear that PPL simply wants to obstruct a customer from easily reducing its peak contribution, which as explained above, is counter to many of the Commonwealth's stated electric usage policies and goals. It is also inconsistent with the intent of the PUC's implementation Order for Act 58 of 2018 supporting the most efficient utilization of energy infrastructure. See Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities, Docket No. M-2018-3003269 (Implementation Order issued Apr. 25, 2019), p. 4 (quoting 66 Pa. C.S. § 1330(a)(2): "It is the policy of the Commonwealth that utility ratemaking should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service.").

Finally, it bears noting that if PPL is correct that "a single customer's usage during a peak day has very little impact upon transmission costs," then PPL's prior assertions regarding the necessity for a 5 CP methodology in order to "reduce[] the chance of a single customer or group of like customers from carrying a significant burden on the annual costs," as well as the entire

argument supporting the 5 CP methodology as a necessary means to prevent some customers from manipulating the system in order to produce an equitable result for all customers, are completely unsupported and irrelevant. PPL St. 5-R, p. 5; see also, e.g., PPL St. 5-RJ, p. 8. For if it is true that a single customer's usage has little impact on overall transmission costs, then there appears to be no reason whatsoever for PPL to object to employing the 1 CP methodology, as there should likewise be very little impact on any other customers if that customer, or group of customers, avoids the peak. The absence of any opposition from other customer classes or market representatives supports this logical conclusion.

**C. Use of a 1 CP Methodology for the Calculation and Allocation of Transmission Costs Would Create a More Uniform Approach for Pennsylvania and Would Support a More Efficient and Accurate Retail Competitive Market.**

PPL notes that there is not a uniform approach throughout the Commonwealth for the calculation and allocation of transmission costs by EDCs. See PPL St. 5-R, p. 8. On this point, IECPA certainly agrees. See IECPA St. 1, p. 8. That said, as was demonstrated in the course of the Commission's recent PJM Investigation, although the various large EDCs in Pennsylvania do not follow the same precise methodology, PPL is an obvious and significant outlier in its approach to the allocation of transmission costs. See Reply Comments of IECPA, Docket No. M-2019-3007101, p. 3; see also Comments of Industrials, Docket No. M-2019-3007101, p. 7.

IECPA is not seeking a uniform allocation process for all EDCs, but maintains that each EDC's retail methodology should at least reflect proper cost causation principles and therefore reflect the wholesale methodology employed by PJM as closely as possible. In this, PPL's methodology -- by significantly deviating from the PJM methodology and the various methodologies of the other EDCs -- is unduly burdensome to customers and to the efficient use of the transmission system by requiring customers seeking to access competitively-priced power in the market to monitor five potential transmission peaks rather than monitoring just the single

transmission peak that PJM identifies for each customer. IECPA St. 1, p. 7. As explained by IECPA witness Ciarlone, because PPL's transmission peaks may occur at any time during the year, a customer cannot rely on the five capacity peaks that PPL (and PJM, coincidentally) tracks for that customer in the summer months. Id. at 7-8. In other words, though managing its operations in order to consume electricity as efficiently as possible and help lower peak demand, the customer is unduly burdened by PPL's methodology, which requires an additional unwarranted and unjustified layer of unnecessary load management responsibility throughout the year. Id. at 8.

PPL claims that it does not send any price signals to customers by using a 5 CP methodology, and states that the transmission price "is calculated by dividing the total transmission costs by the transmission peak day usage and that price is fixed once those components are determined." PPL St. 5-RJ, pp. 5-6. PPL further explains that it "averages the 5 CP values and scales them to equal the transmission peak day value so all costs are recovered from suppliers," creating a "typical usage value for the customer during a peak period" to recover transmission costs "which have very little to do with an individual customer's usage." Id. at 6. This explanation misses the point entirely. PPL is fixing the transmission price based on peak day usage and scaling its 5 CP methodology to match the PJM single zonal peak. But if the PJM single zonal peak is artificially high because customers who might otherwise reduce load at that peak are not able to efficiently do so, then the overall transmission price is also artificially inflated. Thus, the 5 CP allocation does indeed send a price signal to customers that transmission is more expensive than it otherwise would be if customers were able to track and reduce load if PPL used a 1 CP allocation methodology. This discrepancy in pricing creates a competitive disadvantage, particularly for

Large C&I and other business customers who compete with other energy-intensive, trade-exposed on other EDC systems throughout Pennsylvania.<sup>6</sup> See IECPA St. 1, pp. 8-9

Moreover, PPL's explanation obfuscates the issue. Just because the system's single zonal peak may be included in PPL's 5 CP calculation with "scaling" does not mean that PPL's 5 CP methodology will match the 1 CP. In fact, it is impossible to know whether these methodologies will produce a matched result since all of the coincident peaks (as well as PPL's "scaling") are moving targets over the course of PPL's 12-month transmission peak period. The only way to insure that PPL's retail transmission allocation will match PJM's wholesale allocation is for the Company to actually use PJM's 1 CP methodology. Although there is no uniform methodology in Pennsylvania, IECPA believes that the other EDCs' approaches at least recognize this and attempt to more closely structure their allocation of transmission obligations to the PJM 1 CP approach.

In short, PJM plans and structures its transmission system based on the single zonal peak usage for each customer on each LSE. PPL's methodology for allocating transmission costs works against the objective of minimizing peak loads on the transmission system. IECPA St. 1, p. 8. To incentivize customers who are able to manage their peak demand and reduce the transmission costs incurred by PPL from PJM, the Company should use the same methodology as PJM. Id. The most efficient use of this transmission system -- a 1 CP methodology -- would encourage customers to reduce their load at the single zonal peak, thereby reducing the overall system obligations for the PPL zone and making the competitive market more accurate and more efficient throughout Pennsylvania.

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<sup>6</sup> Moreover, it is both illogical and nonsensical for PPL to claim that they are not sending any price signals. The very existence of a market means that customers receive signals that affect their behaviors. The source of a signal, either intended or inadvertent, is irrelevant. PPL has an obligation to ensure that the price signals it sends align with the principle of cost-causation and other policies.

## V. CONCLUSION

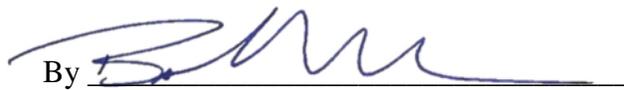
As described herein, the contested issue of the proper allocation methodology for PPL to employ for the purpose of assigning and allocating transmission cost obligations is a fundamental disagreement on proper ratemaking policy. On the one hand, PPL seems to suggest that the proper methodology is one that discourages or hinders the ability of a customer or group of customers to reduce their peak load in order to reduce their share of the transmission system obligation. In other words, PPL clearly views the ability of customers to make such load reductions as something to be prevented and has structured its transmission cost allocation methodology accordingly by employing the 5 CP allocation approach. As such, PPL appears to believe that these customers should contribute as much as possible to the cost of the transmission system, irrespective of their ability to reduce theirs (and the system's) overall cost obligation or the amount of peak transmission costs that these customers actually cause to the system.

On the other hand, IECPA (and PPLICA) assert that transmission cost allocation should follow cost causation principles by matching, as closely as possible, the retail cost allocation to the allocation methodology used by PJM at the wholesale level to assign those costs to the PPL system. These parties further believe that the efficient use of the transmission system is something that should be encouraged for all customers, on the basis that using the system most efficiently will reduce the overall costs to all customers. Accordingly, IECPA and PPLICA have again recommended that the Commission required PPL to use the same 1 CP allocation methodology on the retail level that PJM employs for the wholesale market.

Because this 1 CP methodology indeed mirrors the approach used by PJM and follows proper cost causation principles, which the Commission has acknowledged to be a polestar of ratemaking in Pennsylvania, IECPA respectfully requests that the Commission issue an Order requiring PPL to change its transmission cost allocation methodology from the current 5 CP

methodology to a 1 CP approach. This measure -- unopposed by any other intervening party -- will not only reflect correct ratemaking but it will also encourage a more efficient use of the transmission system and thereby make the competitive market in Pennsylvania more efficient and reliable to the benefit of all customers.

Respectfully submitted,

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