

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17120**

**Pennsylvania Public Utility
Commission v. PPL Electric
Utilities Corporation**

**Public Meeting December 5, 2012
2290597-OSA
Docket No. R-2012-2290597**

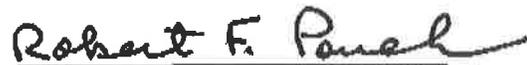
**MOTION OF
CHAIRMAN ROBERT F. POWELSON**

Before us today for disposition is the Recommended Decision of Administrative Law Judge Susan D. Colwell in the above-referenced PPL Electric Utilities Corporation's (PPL) base rate case, filed on March 30, 2012. Exceptions and Reply Exceptions were filed.

Rate of return on common equity (ROE) is frequently the most material and most contested item in a base rate case proceeding. This case is no different, and the setting of ROE is even more critical as our Pennsylvania utilities implement plans to accelerate the much-needed replacement of aging infrastructure. Attracting capital to Pennsylvania at reasonable rates has never been more important to PPL, its customers, and the Commonwealth.

In this case the range of ROE recommendations presented by the parties, based on the Discounted Cash Flow (DCF) methodology, is 8.38% to 11.25%. I would adjust this initial range to 9% to 11.25%, which excludes a proposed adjustment to the DCF growth rate based on linear regression analysis. Based upon my review of the testimony, data and cost models presented, as well as briefs and exceptions, I believe that the record evidence in this case supports an ROE finding in the reasonable range of 9.75% to 10.5% using the DCF method as the foundation. Considering PPL's need to fund \$1.6 Billion of distribution system improvements from 2012 to 2016, along with the results of ROE models other than DCF (a necessary check that negates the need for a leverage adjustment) and management effectiveness, the ROE should be 10.4%.

THEREFORE, I move that the Office of Special Assistants prepare an Order consistent with this Motion.



Robert F. Powelson
Chairman

Date: December 5, 2012

EXHIBIT 4

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**Pennsylvania Public Utility
Commission v. PPL Electric
Utilities Corporation**

**Public Meeting: December 5, 2012
22905974-OSA
Docket Nos. R-2012-2290597**

PARTIAL DISSENT OF COMMISSIONER CAWLEY

Item 10: Uncollectible Accounts Expense: Appropriate Percentage for Uncollectible Accounts Expense

The record in this case very clearly supports the reasoned decision of Administrative Law Judge (ALJ) Susan D. Colwell. In her Recommended Decision (RD), the ALJ noted that I&E Witness Morrissey prepared a table showing the actual new write-off uncollectible percentages from 2007 to 2011:

Actual Net Write-Off Uncollectible Percent				
2007	↑ 2008	↓ 2009	↓ 2010	↑ 2011
1.57%	1.72%	1.63%	1.49%	1.97%

I&E MB at 22.

The RD specifically confirmed that the recommended uncollectible percent should be 1.7%, consistent with the 5 year average write-off amount (1.676%) and 3-year write-off amount (1.696%). PPL Electric Utilities Corporation (PPL) instead argued for recovery of \$40 million¹ (2.23%), relative to uncollectible accounts expense of only \$24.6 million in 2009, and \$31 million in 2010. These increases are further heightened by substantial increases in low income program costs, whose impact is alleged to help lower bad debt expense, not result in increases. From 2009 to 2011, CAP spending also increased from \$9.4 million to \$13.2 million. As can be seen from the chart above, bad debt expense is very volatile, and the use of averages provides a firmer platform from which to assess proper cost recovery. However, using a percentage which is even outside (above) historical performance is contrary to good ratemaking principles. And it has the effect of rewarding the company with higher rates based on its projection for the worst collection performance in 5 years.

Item 11: Rate Case Expense - Normalization Period

The ALJ rejected PPL's proposal to amortize its rate case expense over two years and recommended adoption of I&E's proposal that PPL's rate case expense

¹ When combined with PPL's additional claim for reserve for uncollectible accounts, PPL's total uncollectible expense claim is \$42.1 million. Exceptions at 31.

be normalized over 32 months, which is the average time between rate cases since 2004. While PPL does indicate it will implement an extensive capital investment plan, it is highly likely that PPL will be filing for a Distribution System Improvement Charge (DSIC) in order to recover all reasonable and prudent costs incurred to repair, improve, or replace infrastructure that PPL Electric uses to deliver electricity to its customers. Furthermore, PPL can already increase its transmission rates to recover investments in transmission infrastructure through its FERC jurisdictional transmission charges. Given these additional opportunities by PPL to recover current costs without filing another base rate case, it is not just and reasonable to adopt the company's speculative position regarding a shorter than average time difference between rate cases.

Items 15-17: Rate of Return

The ALJ provides a very detailed and technical analysis of her recommendation of a 9.74% Return on Equity (ROE), which, with the thoroughness of discussion in the RD, need not be repeated in this dissent.² Given the volumes of testimony provided by the Bureau of Investigations and Enforcement (BI&E), and the Office of Consumer Advocate (OCA), who advocated for an 8.38% and 8.97%³ ROE, respectively, based on their DCF analyses, the ALJ's decision is eminently reasonable. Further, even PPL's DCF ROR analysis comes in at 9.67%.⁴ Additionally, PPL's notion that it needs higher returns to support its aggressive capital investment program lacks any credible support. In fact, the company recently acquired \$250 million of new debt at 2.61%, fully 300 basis points below its current average cost of debt (5.56%)!⁵ In short, there is no substantial evidence for supporting a 10.4% ROE, absent placing weight on very speculative and generous adjustments to current economic parameters relative to very low cost of capital in current markets.

Items 19-20: Rate Structure - Cost of Service: Cost of Service Study (COSS) and Revenue Allocation

The company's proposal to depart from traditional COSS approaches that the Commission used prior to 2010 results in the assignment of the vast majority of the increase in rates being assigned to residential customers. This is unjust and unreasonable, absent a very strong fundamental justification for allocating additional costs to residential customers. OCA's historical COSS approach should have been adopted.

First, it should be noted that all parties agree that the process of developing a cost of service study is subject to considerable discretion. When exercising this discretion, the impact of shifting costs should be carefully considered in the ultimate decision. Given the bias against residential customers, this impact appears to have been ignored.

² RD at pages 50-94.

³ OCA rounded this analysis up to 9.0%. RD at 64.

⁴ PPL Exceptions at 6 n.2.

⁵ OCA reply exceptions at 3-4.

Secondly, the company relies on a "minimum size" model, based on its interpretation of the 1992 NARUC Electric Utility Cost Allocation Manual. However, the majority of states (30+) have not adopted the 1992 NARUC Manual, which brings into question the appropriateness of placing too much emphasis on one document.

Additionally, the underlying assumption in the Company's study based on the "minimum size" model is that primary and secondary distribution plant has a customer component to cost allocation. This is fundamentally contrary to most state COSS approaches, since a particular line may have 10 customers, or 100 customers, and still cost the same. It is clear that customer count is not a strong determinant of the line cost. Only if very large numbers of customers are on the line does the underlying cost increase – which is a function of demand, or kW – not number of customers. Therefore, as was the case prior to 2010, almost all costs were allocated based on demand for distribution facilities. However, both BI&E and OCA acknowledge that there are legitimate customer based charges, such as metering and billing costs, which clearly are a function of the number and type of customers. These costs, however, are a small subset of the overall cost of service.

Both parties further debate the "minimum size" parameters at great detail. But the company never really fundamentally addresses why its model is appropriate, when other states have rejected this model. In fact, OCA presents valid arguments that this model is not well suited for the PPL service area. If, for example, a disproportionate number of residential customers lived in rural or suburban areas, the higher, less dense costs of serving these customers might justify allocating more costs to residential customers. However, the density studies provided by PPL showed just the opposite, that various classes of customers were very evenly distributed across its service area. Thus, there was no clear justification for why the "minimum size" model should be used in this instance to allocate more costs to the residential class.

In further support of this argument, OCA cited a study which discredits the minimum size model. Professor Bonbright, at page 491 of his treatise, PRINCIPLES OF PUBLIC UTILITY RATES (2nd ed., 1988), states that

[there] is the very weak correlation between the area (or the mileage) of a distribution system and the number of customers served by this system. For it makes no allowance for the density factor (customers per linear mile or per square mile). Our casual empiricism is supported by a more systematic regression analysis in (Lessels, 1980) where no statistical association was found between distribution costs and number of customers. Thus, if the company's entire service area stays fixed, an increase in number of customers does not necessarily betoken any increase whatever in the costs of a minimum-sized distribution system.

Lastly, the more recent 2000 NARUC report (2000 NARUC Report) does not indicate that distribution plant must be classified as partially demand-related and partially customer-related, but the 2000 NARUC Report indicates that the majority of states use a basic customer method in which all distribution costs, except for service and meters, are classified as demand related. This report provides: There are a number of methods for differentiating between the customer and demand components of embedded distribution plant. The most common method used is the basic customer method, which classifies all poles, wires, and transformers as demand related and meters, meter-reading, and billing as customer-related. This general approach is used in more than thirty states.

22. Rate Structure: Tariff Structure: Rate Design: Residential Customer Charge

The ALJ recommended adoption of PPL's alternative Residential Customer Charge of \$14.09,⁶ which is marginally lower than PPL's proposed \$16.00 per month customer charge, yet substantially higher than the current \$8.75/month customer charge.

While PPL does raise some interesting discussions about some additional costs which may have a strong customer component, the record does not support including the full range of costs proposed by PPL. As an example, it is not clear that Meter Data Management System costs have any relationship to the number of customers. For that reason, the positions of BI&E and OCA, espousing an \$8.75 customer charge per month should be adopted.

Overall Comments

The very thorough efforts of BI&E staff and OCA should be commended, in combination with the thoughtful and detailed Recommended Decision of ALJ Colwell. It is regrettable that many of her recommendations have been rejected. Notwithstanding my respect for my colleagues' discretion and independent judgment in complex cases such as this, I believe that the result here fails to equitably balance the interests of consumers and this utility.

December 5, 2012


James H. Cawley
Commissioner

⁶ Based on the "Aqua" Solution, which includes costs associated with meters and services net plant and related O&M expenses, meter reading and billing and collection expenses, and the company's Meter Data Management System when determining the fixed monthly customer charge.



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PUC Conducts Binding Poll on PPL Rate Increase Request

December 05, 2012

HARRISBURG – The Pennsylvania Public Utility Commission (PUC) today conducted a binding poll on the issues related to the \$104.6 million rate increase request by PPL Electric Utilities Corp.

The binding poll is designed to provide a mechanism for the Commission to publically discuss the issues in complex cases where there are questions to be addressed by the Commission and where parties have intervened in the proceeding. Commissioners base their findings on the record developed in the proceeding, the recommended decision from the presiding Administrative Law Judge (ALJ) and the briefs and exceptions filed by the parties in the case.

In this case, the ALJ issued a **recommended decision** on Oct. 19, 2012, and parties filed exceptions to that decision as well as reply exceptions. All of the **documents** from the case are available on the Commission's website. More information on the **ratemaking process** also is available.

The positions of the Commissioners presented during the poll are binding. Commission staff will prepare a Final Order based on the results of the poll. The action of the Commission does not become effective until a Final Order is entered by the Commission. A **video** of the meeting including the binding poll is available online.

The Commission voted 4-1 on a **motion** by Chairman Robert F. Powelson establishing a rate of return on common equity (ROE) at 10.4 percent, which is based in part on PPL's need to fund \$1.6 billion in infrastructure improvements. The range of ROE recommendations by the parties in the case was 8.38 percent to 11.25 percent. Commissioner James H. Cawley dissented on the motion.

"Rate of return on common equity (ROE) is frequently the most material and most contested item in a base rate case proceeding," Chairman Powelson said in the motion. "This case is no different, and the setting of ROE is even more critical as our Pennsylvania utilities implement plans to accelerate the much-needed replacement of aging infrastructure. Attracting capital to Pennsylvania at reasonable rates has never been more important to PPL, its customers, and the Commonwealth."

The Commission also voted 5-0 to approve a **motion** by Commissioner Cawley that directed PPL to track all incremental costs, including costs since inception, associated with implementation of its purchase of receivable (POR) service if it desires to seek any further administrative cost recovery in the future.

Commissioner Cawley issued a **statement** dissenting on residential rate design; uncollectible account expenses; rate case expense – normalization period; rate of return; and cost of service study/revenue allocation.

Commissioner Wayne E. Gardner issued a **statement** dissenting on the cost of service study.

On May 21, 2012, the Commission suspended the company's \$104.6 million request for investigation. According to the original proposal, the average total annual residential bill for customers using 1,000 kWh would increase about \$7 (6.3 percent) from \$111.60 to \$118.59 per month. Because the positions of the Commissioners presented during the binding poll affect the

customer bills, the bill impact still must be calculated.

PPL provides electricity to about 1.4 million customers in 29 counties in Central and Eastern Pennsylvania.

The Pennsylvania Public Utility Commission balances the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner. For recent news releases, video and audio of select Commission proceedings or more information about the PUC, visit our website at www.puc.pa.gov.

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Docket No. R-2012-2290597

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