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E-File

May 31, 2017

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Alternative Rulemaking Methodologies
Docket No. M-2015-2518883

Dear Ms. Chiavetta:

Enclosed for filing on behalf of PPL Electric Utilities Corporation ("PPL Electric") is an original of PPL Electric's Comments in the above-captioned proceeding. These Comments are being filed pursuant to the Tentative Order issued on March 2, 2017 in the above captioned proceeding.

Pursuant to 52 Pa. Code § 1.11, the enclosed document is to be deemed filed on May 31, 2017, which is the date it was filed electronically using the Commission's E-filing system.

If you have any questions regarding these comments, please call me at (610)774-5696 or Megan Toomey, Business Finance Specialist for PPL Electric at (610) 774-5777.

Very truly yours,

A handwritten signature in black ink that reads "Kimberly A. Klock". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.
Kimberly A. Klock

Enclosures

cc via email: Tanya J. McCloskey, Esquire
Mr. John R. Evans
R. Kanaskie, Esquire
Certificate of Service

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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Date: May 31, 2017


Kimberly A. Klock

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Alternative Ratemaking Methodologies

:
:
:

Docket No. M-2015-2518883

**COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

On March 2, 2017, the Pennsylvania Public Utility Commission (“PUC” or the “Commission”) entered a Tentative Order¹ in the above-captioned proceeding. In the Tentative Order, the Commission requested information from public utilities and interested parties about alternative ratemaking methodologies. PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) has supported and continues to support the Commission’s efforts to explore alternative ratemaking methodologies and appreciates the opportunity to provide input on this important topic. As an electric distribution company (“EDC”) significantly interested in alternative ratemaking methodologies, PPL Electric believes its comments will provide the Commission with a valuable perspective in resolving the matters discussed in the Tentative Order.

As explained in more detail below, PPL Electric supports the use of a multi-year rate plan (e.g., three to five years) with full revenue decoupling and performance incentives. The multi-year rate plan would set forth detailed budgets for each year, including revenues, expenses, and

¹ See *Alternative Ratemaking Methodologies*, Docket No. M-2015-2518883 (Order Entered Mar. 2, 2017) (“Tentative Order”).

capital additions, and PPL Electric would use a full revenue decoupling mechanism to adjust the Company's rates on a quarterly or semiannual basis to reflect differences between actual and budgeted or forecasted sales. Although PPL Electric believes that this proposal is most appropriate for the Company and its customers, the Commission should not take a one-size-fits-all approach to alternative ratemaking but should allow each EDC to design and implement the most appropriate methodology for its company and customers.

In accordance with the Tentative Order, the Company submits the following Comments.

I. BACKGROUND

PPL Electric is a public utility and an electric distribution company ("EDC") as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803. PPL Electric furnishes electric distribution, transmission, and default supply services to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of 29 counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania.

The Commission held an *en banc* hearing on March 3, 2016, seeking information about alternative ratemaking methodologies. The Commission received testimony and input from a wide variety of interested parties, including PPL Electric.

On March 2, 2017, the Commission entered its Tentative Order requesting information from public utilities and interested parties about alternative ratemaking methodologies. Further, Vice Chairman Place, Commissioner Sweet, and Commissioner Powelson issued statements requesting that the parties address additional issues in their comments.

II. COMMENTS

PPL Electric continues to support the Commission's efforts to explore alternative ratemaking methodologies and appreciates this opportunity to offer its perspective on the Tentative Order.

Alternative ratemaking mechanisms have a long and largely successful history in Pennsylvania. Traditional cost-of-service ratemaking is not required by the Public Utility Code. The only requirement is that a public utility's rates are "just and reasonable." 66 Pa. C.S. § 1301. The Commission has approved many alternative rates over the years, such as low-income rates,² time-of-use ("TOU") rates,³ competitive rates,⁴ value of service pricing,⁵ phase-in plans,⁶ demand charges,⁷ and interruptible rates.⁸ Additionally, the Commission has permitted certain utilities with little or no rate base to use an "operating ratio" to develop rates.⁹ Further,

² See *Petition of National Fuel Gas Distribution Corp.*, Docket Nos. P-00961054, *et al.*, 1997 Pa. PUC LEXIS 77, at *2-5 (Order Entered Feb. 24, 1997).

³ See *Petition of PECO Energy Co. for Approval of its Initial Dynamic Pricing and Customer Acceptance Plan*, Docket No. M-2009-2123944, 2011 Pa. PUC LEXIS 5, at *3-4, 33-37 (Order Entered Apr. 15, 2011).

⁴ See *Pa. PUC v. Pennsylvania-American Water Co.*, Docket Nos. R-00943231, *et al.*, 1996 Pa. PUC LEXIS 199, at *1-2, 16-17 (Order Entered June 6, 1996); *Pa. PUC v. Duquesne Light Co.*, Docket No. R-00963610, 1996 Pa. PUC LEXIS 98, at *1-5 (Order Entered Apr. 25, 1996).

⁵ See *Pa. PUC v. The Peoples Natural Gas Co.*, Docket Nos. R-00922180, *et al.*, 1993 Pa. PUC LEXIS 138, at *35-39 (Order Entered Oct. 1, 1993).

⁶ See *Petition of PECO Energy Co. for Approval of Its Market Rate Transition Phase-In Program*, Docket No. P-2008-2062741, 2009 Pa. PUC LEXIS 1578, at *1-2, 9-11, 29-31 (Feb. 24, 2009) (Recommended Decision), *adopted*, 2009 Pa. PUC LEXIS 533 (Order Entered Mar. 13, 2009).

⁷ See *Pa. PUC v. Pa. Power & Light Co.*, Docket Nos. R-822169, *et al.*, 1983 Pa. PUC LEXIS 22, at *194-95 (Order Entered Aug. 19, 1983); *Pa. PUC v. Equitable Gas-Energy Co.*, Docket Nos. R-880941, *et al.*, 1988 Pa. PUC LEXIS 501, at *50-54 (Order Entered Nov. 10, 1988); *Petition of West Penn Power Co. to Change Transmission Rates to a Single Kilowatt-Hour Rate Structure and to Commence Reconcilable Transmission Service Charge*, Docket No. P-2010-2158084, 2011 Pa. PUC LEXIS 1060, at *10, 12-18, 31-32 (Jan. 5, 2011) (Recommended Decision), *adopted*, 2011 Pa. PUC LEXIS 839 (Order Entered Feb. 11, 2011).

⁸ *Pa. PUC v. West Penn Power Co.*, Docket Nos. R-80021082, *et al.*, 1981 Pa. PUC LEXIS 94, at *87 (Order Entered Jan. 30, 1981) (observing that West Penn "has offered an interruptible rate for over twenty years"); *Pa. PUC v. Pa. Power & Light Co.*, Docket No. R-00943271, 1995 Pa. PUC LEXIS 187, at *2-8 (Order Entered Oct. 26, 1995) (approving the utility's compliance filing, which included a redesign of the utility's interruptible rate offering).

⁹ See 52 Pa. Code § 53.54(b) (setting forth requirements for small water and wastewater utilities that want to use an operating ratio ratemaking methodology); *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154-56 (Pa. Cmwlth. 1996) (per curiam) (holding that the Commission has discretion to decide whether an operating ratio can be used to calculate just and reasonable rates).

the Commission has approved forms of decoupling mechanisms for Philadelphia Gas Works and Columbia Gas of Pennsylvania, Inc.¹⁰

In addition, automatic adjustment clauses were originally authorized over 100 years ago under the Public Service Company Law enacted in 1913,¹¹ and Section 1307 of the Public Utility Code has been in place since the Code's enactment.¹² Since that time, the Commission has approved automatic adjustment clauses under Section 1307 to facilitate the recovery of many different expenses, including: (1) purchased gas costs;¹³ (2) costs of fossil fuels used to generate electricity;¹⁴ (3) customer education expenses;¹⁵ (4) customer assistance programs;¹⁶ (5) certain state taxes;¹⁷ (6) competitive transition charges;¹⁸ (7) PennVest loan repayments;¹⁹ (8) energy efficiency and conservation charges;²⁰ (9) smart meter technologies;²¹ (10) non-utility generation

¹⁰ See *Pa. PUC v. Phila. Gas Works*, Docket No. R-00017034 (Order Entered Aug. 8, 2002) (approving settlement in PGW's 2002 base rate proceeding, under which PGW would implement a weather normalization adjustment as soon as its systems modifications were available); *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2012-2321748 (Order Entered May 23, 2013) (approving settlement in Columbia's 2012 base rate proceeding, under which Columbia would implement a weather normalization adjustment on a pilot basis).

¹¹ See Act of July 26, 1913, P.L. 1374, No. 854, art. III, § 1, effective January 1, 1914. Automatic adjustment clauses also were authorized by Section 307 of the Public Utility Law, Act of May 28, 1937, P.L. 1053, No. 286.

¹² See Act of July 1, 1978, P.L. 598, No. 116, § 1.

¹³ *Re: Gas Costs Rate*, Docket No. M-78050055, 1978 Pa. PUC LEXIS 134, 52 Pa. PUC 217 (Order Entered May 21, 1978).

¹⁴ *Pa. PUC v. Pa. Elec. Co.*, Docket Nos. 18944, *et al.*, 1971 Pa. PUC LEXIS 58, 45 Pa. PUC 275 (Order Entered Mar. 29, 1971), *Pa. PUC v. Pa. Power & Light Co.*, Docket Nos. 19244, *et al.*, 1972 Pa. PUC LEXIS 37, 46 Pa. P.U.C. 33 (Order Entered Mar. 28, 1972).

¹⁵ *Joint Petition of Metropolitan Edison Co. and Pennsylvania Electric Co. for their Default Service Plan*, Docket No. P-2009-2093053, 2009 Pa. PUC LEXIS 2306 (Order Entered Nov. 6, 2009).

¹⁶ *Petition of UGI Utilities, Inc. – Electric Division to Expand Participation in UGI-ED's Customer Assistance Program, Increase the Maximum Allowed Discounts, and Implement a Funding Mechanism to Recover Certain Associated Costs*, Docket Nos. P-2008-2066579, *et al.*, 2010 Pa. PUC LEXIS 383 (Order Entered Feb. 17, 2010).

¹⁷ *State Tax Adjustment Procedure*, 44 Pa. PUC 545 (1970).

¹⁸ *Application of Pennsylvania Power & Light Co. for Approval of its Restructuring Plan under Section 2806 of the Public Utility Code*, Docket No. R-00973954, 1998 Pa. PUC LEXIS 197 (Order Entered Aug. 27, 1998).

¹⁹ *Pa. PUC v. Rivercrest Public Serv. Water Corp.*, Docket Nos. R-881052, *et al.*, 1988 Pa. PUC LEXIS 516, 68 Pa. PUC 564 (Order Entered Dec. 12, 1988).

²⁰ *Joint Petition of Metropolitan Edison Co., Pennsylvania Electric Co. and Pennsylvania Power Co. for Consolidation of Proceedings and Approval of Energy Efficiency and Conservation Plans*, Docket Nos. M-2009-2092222, *et al.*, 2009 Pa. PUC LEXIS 2255 (Order Entered Oct. 28, 2009).

charges;²² (11) solar voltaic requirement charges;²³ (12) costs to comply with the Alternative Energy Portfolio Standards Act of 2004;²⁴ and (13) purchased water charges.²⁵ PPL Electric has utilized a number of Section 1307 mechanisms, including its Act 129 Compliance Rider, Competitive Enhancement Rider, Distribution System Improvement Charge (“DSIC”), Storm Damage Expense Rider (“SDER”), Smart Meter Rider, and Universal Service Rider. Moreover, the Electric Competition Act authorizes the Commission to approve “performance-based rates as an alternative to existing rate base/rate of return ratemaking.” 66 Pa. C.S. § 2806(i).

These examples demonstrate that Pennsylvania has been and continues to be a leader in the development of alternative ratemaking methodologies. The Company appreciates the work of the Commission and General Assembly for continuing to explore alternative ratemaking methodologies. Indeed, the DSIC was a result of collaborative efforts by the Commission, the General Assembly, and stakeholders and has enabled EDCs to recover eligible investments to improve the reliability and safety of their electric service. PPL Electric believes that the implementation of additional alternative ratemaking methodologies is crucial to addressing emerging issues confronted by EDCs.

Specifically, EDCs are now faced with new technological and economic developments. Electric transmission and distribution systems were designed around the central generating station model, with power generated from large central generating stations stepped up in voltage

²¹ *Petition of PECO Energy Co. for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123944, 2010 Pa. PUC LEXIS 161, 281 P.U.R.4th 140 (Order Entered May 6, 2010).

²² *In re: Application of Metropolitan Edison Co. for Approval of Restructuring Plan*, Docket Nos. R-00974008, *et al.*, 1998 Pa. PUC LEXIS 85 (Order Entered Apr. 24, 1998).

²³ *Joint Petition of Metropolitan Edison Co. and Pennsylvania Electric Co. for Approval of Their Default Service Programs*, Docket Nos. P-2009-2093053, *et al.*, 2009 Pa. PUC LEXIS 2306 (Order Entered Nov. 6, 2009).

²⁴ *Petition of PECO Energy Co. for Approval of (1) A Process to Procure Alternative Energy Credits During the AEPS Banking Period and (2) A Section 1307 Surcharge and Tariff to Recover AEPS Costs*, Docket No. P-00072260, 2007 Pa. PUC LEXIS 53 (Order Entered Dec. 6, 2007).

²⁵ *Pa. PUC v. Newtown Artesian Water Co.*, Docket Nos. R-2009-2117550, *et al.*, 2010 Pa. PUC LEXIS 757 (Order Entered Apr. 15, 2010).

for long distance transmission and then stepped down in voltage for service to local customers.²⁶ However, new and rapidly expanding technologies like distributed energy resources (“DERs”) (*i.e.*, any generation, storage, or energy control resource deployed locally) present new and significant challenges for the energy industry as well as PPL Electric’s transmission and distribution systems. As solar and other local generation, storage and energy management technologies become more affordable, customers will increasingly demand new electric generation options and deploy advanced technologies.

PPL Electric has seen a significant increase in distributed generation installations in recent years, with a nearly 430% increase between 2015 and 2016.²⁷ In addition to solar, PPL Electric and the industry have seen unprecedented growth in the adoption of other DERs, including combined heat and power (“CHP”) and energy management products such as smart thermostats. The Company expects this trend to continue into the foreseeable future as technologies become more accessible and economic. These changes will create substantial uncertainty in utility load, demand, revenue and rate forecasts and, DERs in particular, will present unique operational challenges for the grid requiring new tools and innovation to accommodate two-way power flows, generation intermittency, and power quality issues. Net of load increases due to electrification or economic development, PPL Electric has concluded that the deployment of DER technology will decrease future load on its system.

Included in this load decrease is the expectation that customers will continue to implement energy efficiency and conservation (“EE&C”) measures to reduce their electric

²⁶ See *Centralized Generation of Electricity and its Impacts on the Environment*, UNITED STATES ENVIRONMENTAL PROTECTION AGENCY, <https://www.epa.gov/energy/centralized-generation-electricity-and-its-impacts-environment> (last visited May 30, 2017).

²⁷ Majority of systems installed were solar photovoltaic, in the Harrisburg, Lancaster and Lehigh regions of PPL Electric’s service area.

consumption and demand. Over the past several years, the EDCs' Act 129 EE&C programs have had great success in encouraging customers to implement EE&C measures and reduce their electric usage and demand. Moreover, customers implement EE&C measures independent of EE&C program incentives, and changes in energy codes and standards have led, and will continue to lead, to additional efficiency improvements.

Undoubtedly, DER technologies, fuel switching, and EE&C measures are desired by PPL Electric's customers and produce environmental and economic benefits for the Commonwealth. As these technologies are deployed and changes to the grid materialize, it is important to carefully and proactively address the impacts on EDCs and customers in a fair and reasonable fashion.

Specifically, changes due to DER and EE&C deployment are projected to adversely affect EDCs' operations and services as well as impact their financial health and stability. For example, an EDC's revenues may decrease if DERs and EE&C measures reduce customers' usage (for residential) or demand (for non-residential). Conversely, new technologies, such as electric vehicles, may increase electric consumption and demand. Because EDCs are tasked with preserving the integrity of the distribution system and ensuring that all electric distribution customers receive adequate, safe, reliable, and reasonable electric service, they must be able to adapt to address the impacts of DERs, EE&C measures, and other technologies that may adversely affect the EDCs' operations, services, and financial position.

Like other EDCs, PPL Electric currently uses a combination of traditional and alternative ratemaking methodologies to recover its revenues, expenses, and a return of and on its capital investments. However, facing a future of significant load volatility due to complex technological, economic, and policy variables, PPL Electric believes the Commission has an

opportunity to promote alternative ratemaking methodologies. Thus, PPL Electric strongly encourages the Commission to provide EDCs with the tools and flexibility needed to adopt the alternative ratemaking methodologies necessary to respond to the new challenges facing EDCs.

As explained herein, the Company supports the development of multi-year rate plans (e.g., three to five years) with full revenue decoupling and performance incentives. This multi-year rate plan approach would consist of three parts. First, rates would be set based on pre-approved budgets for each year of the plan, including revenues, expenses, and capital additions, and there would be a general moratorium on base rate case filings for the duration of the multi-year rate plan. Second, revenues would be fully decoupled and the Company's rates would be adjusted on a periodic basis (e.g., quarterly or semiannually) to recover differences between actual and budgeted costs and sales. Third, such a multi-year rate plan mechanism could include performance incentives.

PPL Electric's proposal would have several benefits. First, the Company believes its proposal provides additional opportunity for investment transparency because the Company's capital additions, expenses and its revenue requirement would be established and detailed in advance. This would allow interested parties and the Commission the opportunity to comment on and propose changes to the Company's plan, be more involved in the system planning process and be better able to hold the Company accountable for plan execution. Therefore, the Company's proposal encourages sound financial planning and investments in system improvements.

Second, the Company would be able to invest in system improvements, including security measures, needed to address DERs, fuel switching, and EE&C measures. These technologies may produce significant benefits for customers and the Commonwealth; however

widespread implementation of DERs, in particular, could adversely affect the safety and reliability of PPL Electric's electric service. A multi-year rate plan would enable PPL Electric to make the necessary improvements to its transmission and distribution systems, while providing an efficient and cost effective means to fund those improvements. Moreover, the general moratorium on base rate case filings during the multi-year plan period would help reduce the administrative burden and expenses of PPL Electric, interested parties, and the Commission.

A third benefit of the Company's plan is full revenue decoupling, which would permit the Company to recover its allowed revenue requirement and at the same time be unaffected by a customer's choice to incorporate DER, fuel switching, and EE&C measures. Importantly, certain DERs, fuel switching, and EE&C measures are projected to significantly reduce customers' electric usage and peak demand. Full revenue decoupling as proposed by PPL Electric will ameliorate the impacts of reduced demand and usage while at the same time enabling the Company to make investments in its distribution system to provide safe and reliable service inclusive of these new technologies.

Fourth, the Company observes that its proposal for a multi-year rate plan with full revenue decoupling does not address rate design issues. Therefore, alternative rate design proposals could be implemented separately, or in conjunction with, PPL Electric's proposal in the future.

PPL Electric is not proposing a one-size-fits-all approach to ratemaking. Indeed, not all parties may support the use of the Company's approach for other EDCs, as aspects of other utilities' systems and operations may support different ratemaking methodologies. To that end, the most prudent approach is to avoid a single, uniform methodology and provide EDCs flexibility in implementing alternative ratemaking methodologies that most appropriately address

their needs and the interests of their customers. The details of each EDC's proposal, as well as the proposal's specific customer impacts, would be addressed in an EDC-specific filing before the Commission.²⁸

To further assist the Commission in preparing the Final Order in this proceeding, PPL Electric responds to each of the issues identified by the Commission in the Tentative Order as follows:

A. ALTERNATIVE RATEMAKING METHODOLOGIES

1. Revenue Decoupling

Revenue decoupling can come in many forms, and the Commission accurately summarizes those options in the Tentative Order. In general, decoupling refers to three rate mechanisms: (1) revenue cap decoupling, which sets the authorized revenues in a base rate proceeding and caps the EDC's revenue recovery to those levels until its next base rate filing; (2) inflation and productivity decoupling, which adjusts authorized revenues between base rate proceedings "based on assumed known changes in inflation and company productivity"; and (3) revenue per customer ("RPC") decoupling, which determines an RPC value (*i.e.*, the average revenue per customer for each volumetric rate) and then adjusts the authorized revenues between base rate proceedings by multiplying the RPC value by the number of customers served by that rate. *See* Tentative Order, pp. 6-7. Further, there are three ways to determine the revenue excess or shortfall: (1) full decoupling based on billing determinants; (2) limited decoupling, which utilizes a variety of other factors such as weather and energy efficiency; and (3) partial

²⁸ PPL Electric recognizes that the Commission is seeking detailed proposals and analyses from interested parties in their comments to the Tentative Order. As seen in these Comments, the Company has set forth a very specific proposal and has been able to identify several associated benefits. Additional details should be developed in a PPL Electric specific proceeding based on input from the Commission and other interested parties.

decoupling, which limits the rate adjustment to some portion, less than 100%, of revenues eligible for decoupling. *See* Tentative Order, pp. 7-8.

As explained in more detail below, PPL Electric believes that a multi-year rate plan with full revenue decoupling is most appropriate to address the needs of the Company and its customers.²⁹ Such a mechanism assures that an EDC will recover its expected revenue requirement, no more and no less. In contrast, limited decoupling and partial decoupling do not reflect all impacts on EDC's sales. It is becoming increasingly difficult to isolate the causes of volatility in energy usage and demand. As a result, limited decoupling and partial decoupling can be difficult to calculate with precision and provide a less than optimal remedy. Moreover, full revenue decoupling does not favor any specific technology, variable, or event that affects usage and demand going forward. Therefore, full revenue decoupling is better suited to respond to future changes in usage and demand.

2. Lost Revenue Adjustment ("LRA")

Under an LRA, the EDC's revenue is adjusted based on the revenues lost from a specific cause, such as weather. *See* Tentative Order, p. 8. As the Commission noted in its Tentative Order, LRAs are "similar to limited decoupling, as they are based on recovery of lost revenues from specific causes." *See* Tentative Order, p. 8. The Company maintains that, like limited decoupling, an LRA is not as desirable as full revenue decoupling. As noted above, many technologies, variables and events are impacting EDC demand and usage. Full revenue decoupling addresses all of the effects, whereas an LRA would not reflect all of the factors affecting an EDC's sales. Therefore, an LRA is not sufficient on its own to address the

²⁹ *See* Section II.B.1.b, *infra*.

challenges caused by DERs and other emerging technologies that are facing PPL Electric and other EDCs.

3. Straight Fixed/Variable (“SFV”) Pricing

Under SFV pricing, customers pay fixed charges that “reflect the amount of fixed costs of the distribution system” for their customer class. *See* Tentative Order, p. 8. SFV pricing is a useful and appropriate rate design for EDC distribution rates. It reflects cost of service and provides better revenue protection than a volumetric rate design. PPL Electric currently uses a form of SFV pricing for its commercial and industrial (C&I) customers, *i.e.*, those base rates contain only customer and demand charges. Moreover, in its recent base rate cases, PPL Electric has increased the customer charges in its residential rates to reflect customer cost of service and enhance revenue protection. PPL Electric supports and utilizes SFV pricing, which will be compatible with the Company’s recommendation to implement a multi-year rate plan with full revenue decoupling.

4. Cost Trackers (*i.e.*, Surcharges and Riders)

Cost tracking mechanisms come in a variety of surcharges and riders and are utilized to recover specific expenses, such as default service costs, storm damage expenses, and universal service costs. As explained in more detail below, PPL Electric currently uses several surcharges and riders.³⁰ These cost trackers are providing important benefits, such as reducing regulatory lag, accelerating cost recovery, providing an opportunity for full expense recovery, and providing the opportunity for the recovery of incremental capital costs (where authorized by statute). In fact, the Company’s experience with cost trackers has formed a strong foundation

³⁰ *See* Section II.B.1.a, *infra*.

upon which to implement the Company's approach of a multi-year rate plan with full revenue decoupling.

5. Choice of Test Year

PPL Electric uses a combination of all three test years, *i.e.*, Historic Test Year ("HTY"), Future Test Year ("FTY"), and Fully Projected Future Test Year ("FPFTY"), the latter of which is used to set rates.

6. Multi-year Rate Plans

Under a multi-year rate plan, the EDC presents the projections of its revenues, expenses, and capital additions for the duration of the plan period, usually three or five years. The EDC's rates are then set based upon those projections, and a general moratorium on base rate filings is in place for the plan period. Rates are automatically adjusted periodically during the plan period through an established method (*See* Tentative Order, p. 10).

Multi-year rate plans with full revenue decoupling provide several benefits and are well-suited to address the challenges presented by DERs and EE&C measures that the Company now faces:

1. Under a multi-year rate plan, the utility must present a detailed investment plan for the next three to five years (depending on the length of the plan). This will provide customers and interested parties with transparency about the utility's planned expenses and capital additions.
2. The frequency of rate cases is more certain, as the timing of the next rate case is set by the investment plan period (*e.g.*, three or five years), thereby reducing administrative burdens and expenses of having to litigate base rate filings on a more frequent basis.

3. The EDC's revenue recovery would be limited to the authorized level of revenues, as adjusted periodically, which provides a level of certainty around customer rates.
4. The Commission's experience with the DSIC provides a strong foundation for implementing multi-year rate plans because they both involve multi-year investment plans.
5. The EDC will be able to realize all of the benefits outlined previously for full revenue decoupling.³¹

7. Demand Charges

Demand charges recover costs from customers based upon the distribution system capacity used by those customers, *e.g.*, kilowatts of peak billing demand. Demand charges yield many benefits, such as providing greater revenue certainty and incentivizing customers to reduce peak demand. For these reasons, PPL Electric has used demand charges for many years for its C&I customers. One potential concern with the application of demand charges to all customers, especially residential customer classes, is educating customers on the change and how they can manage their energy consumption to influence demand charges. The methodology proposed by the Company of a multi-year rate plan with full revenue decoupling is compatible with the utilization of demand rates. Alternative ratemaking that focuses on rate design (customer charges, demand charges, etc.) could be implemented separately from, or in conjunction with, the Company's proposed plan.

³¹ See Section II.A.1.

8. Standby and Backup Charges

Standby charges recover the EDC's costs to maintain supply to serve customers that self-supply and need electric service when their self-supply fails. *See* Tentative Order, p. 11. Backup charges are similar, but the backup service is designed for planned outages with a "long lead-time notice." *Id.* PPL Electric currently utilizes standby and backup charges for Large C&I and Small C&I customers who fully or partially self-supply their electric service. This is a reasonable practice to continue because it preserves PPL Electric's ability to serve customers that have decided to invest in technology that allows them to operate separately from the grid. As with all customer facing rate design methodologies, Standby and Backup Charges are compatible with the Company's proposed multi-year rate plan with full revenue decoupling.

9. Demand Side Management ("DSM") Performance Incentive Mechanism

Performance incentive mechanisms ("PIMs") connect an EDC's authorized revenue recovery to its ability to meet certain performance goals. *See* Tentative Order, p. 12. PPL Electric is supportive of this approach provided it is implemented as part of a comprehensive alternative ratemaking program. In fact, PPL Electric encourages an exploratory approach to PIM implementation which would allow utilities, regulators, customers and other stakeholders to better understand the wide-ranging benefits of this broad and complex subject. PIM deployment could begin in Pennsylvania with state-wide metrics, such as customer satisfaction and reliability. Metrics could be applied state-wide to utilities of the same type through best-in-class benchmarks that are already defined by the industry and the Commission. Deploying performance incentives in this way provides the opportunity for improvements that could result in electric service innovation and potentially savings for customers, and it also provides a base

for additional incentive-based performance metrics. PPL Electric is open to cost sharing with customers and is willing to consider incentive caps.

The Company also believes that PIMs should not be limited to EE&C programs. Act 129 EE&C Plans have produced substantial benefits for its customers and the Commonwealth by helping customers reduce their usage and conserve electricity. PIMs that are specific to EE&C performance should be complementary to Act 129 objectives.

B. UTILITY IMPLEMENTATION OF ALTERNATIVE RATEMAKING METHODOLOGIES

1. Electric Utilities

- a. Identify the alternative rate methodologies used and the percentage of total costs or revenues each separate mechanism recovers.**

PPL Electric currently utilizes various alternative rate methodologies to recover revenues and expenses from its ratepayers. Specifically, the Company uses: (1) straight fixed/variable pricing for its Large C&I, Small C&I and residential customers; (2) a Fully Projected Future Test Year ("FPFTY") as authorized by Act 11 of 2012; (3) demand charges for Large C&I and Small C&I customers; and (4) standby/backup charges for Large C&I and Small C&I customers. PPL Electric also uses a formula rate as approved by FERC to recover its costs and earn a return on its transmission investments.

The Company's tariff also sets forth 10 riders and four surcharges.³² The table below provides, as a percentage of total 2016 costs or revenues, the costs or revenues that each of these mechanisms recovered:

³² See Supplement No. 208 to Electric Pa. P.U.C. No. 201, Fourteenth Revised Page No. 14D (containing a Rider Matrix that shows the applicability of each cost tracker to each rate class). In addition to the 10 active riders listed on the Rider Matrix, PPL Electric's tariff also sets forth a Generation Supply Charge-1 ("GSC-1"), a Generation Supply Charge-2 ("GSC-2"), a Transmission Service Charge ("TSC"), and a State Tax Adjustment Surcharge ("STAS"). See Supplement No. 204 to Electric Pa. P.U.C. No. 201, Fifteenth Revised Page No. 19Z.4;

ACR3 (Act 129 Compliance Rider – Phase 3)	3.06%
GER (Competitive Enhancement Rider)	0.02%
DSIC (Distribution System Improvement Charge)	-0.08%*
SDER (Storm Damage Expense Rider)	-0.29%*
SMR2 (Smart Meter Rider – Phase 2)	0.26%
USR (Universal Service Rider)	5.92%
GSC (Generation Supply Charge)	30.24%
TSC (Transmission Service Charge)	6.63%

*Note: negative values represent over-collections in previous years that are currently being returned to customers.

In addition, PPL Electric's parent company, PPL Corporation, has experience with additional alternative ratemaking methodologies through other regulated subsidiaries. These methodologies include performance incentives (and penalties) offered to Western Power Distribution Limited ("WPD") for pre-established targets to total expenditures, reliability (customer interruptions and minutes lost) and customer satisfaction, and limited decoupling in effect for retail gas service at Louisville Gas and Electric Company ("LG&E"). PPL Electric believes that its experience with alternative rate methodologies, as well as that of its parent company, has created a solid foundation for its analysis of the issues outlined in the Tentative Order and the development of the Company's decoupling proposal.

b. If any, what alternative rate methodologies could and should be used by EDCs?

As mentioned previously, PPL Electric believes it is not prudent to adopt a one-size-fits-all approach to alternative ratemaking. Individual EDCs should have the flexibility to design and

implement alternative ratemaking methodologies to address their individual company needs and benefit their customers.

For PPL Electric, a multi-year rate plan with full revenue decoupling is most appropriate for the Company and its customers. Under this approach, the Company would file a multi-year rate plan that sets forth budgets for each year of the plan period (*e.g.*, three or five years). To support these budgets, PPL Electric would present details about its projected revenues, expenses, and capital additions. There would also be a general moratorium on base rate case filings for the length of the multi-year rate plan. PPL Electric would then use a full revenue decoupling mechanism to true-up actual versus projected sales and adjust the Company's rates accordingly on a quarterly or semiannual basis. The full revenue decoupling mechanism would reflect all changes in sales and billing determinants and allow PPL Electric to fully recover its authorized revenues during the multi-year period. Moreover, PPL Electric supports the inclusion of performance incentives that are based on metrics such as customer satisfaction and reliability. PPL Electric envisions that these metrics would be accompanied by a target improvement level and that the utility incentive would be in the form of a return on equity adder or cash incentive. For example, the Company could be provided with a return on equity adder for achieving top quartile performance in utility normalized reliability, as determined by industry standards. PPL Electric believes that its proposal is the most appropriate for several reasons.

First, PPL Electric's multi-year rate plan proposal provides the opportunity for transparency and stakeholder engagement regarding the Company's investments, while facilitating the efficient recovery of those investments. Under the Company's proposal, PPL Electric would file with the Commission an investment plan for the rate plan period, thereby providing the public with more information about the Company's planned expenses and

investments in exchange for fixed revenue and undisputed rates for the duration of the plan period. As a result, its customers and the Commission are aware of PPL Electric's planned investments in advance, such as improvements to safety and reliability and to facilitate the implementation of DERs and EE&C measures. Therefore, the multi-year rate plan provides the opportunity for transparency around the Company's investments, and encourages sound financial planning and investment by PPL Electric. Moreover, interested parties and stakeholders would be able to provide their comments on the proposed multi-year rate plan, such as proposing changes to the plan and stating whether they support or oppose the plan. Ultimately, the Commission would review the multi-year rate plan and the parties' arguments and would determine whether to approve, disapprove, or modify the plan.

Second, the multi-year rate plan would enable the Company to invest in new technology and system improvements without annual rate cases. As mentioned previously, PPL Electric and other electric utilities are facing frequent, incremental adjustments to ratemaking, rate design, or both in the future due to significant load volatility caused by DERs, fuel switching, and EE&C measures. Although these technologies may provide substantial societal and grid benefits, uncoordinated widespread implementation could adversely affect the safety and reliability of the Company's electric service, and would erode PPL Electric's distribution revenue thereby impairing its ability to continue to invest in its system. PPL Electric's multi-year rate plan would address these challenges head-on by enabling the Company to invest in new technology and improvements to its distribution system that will accommodate DERs and EE&C measures without the need for annual rate cases. The Company would be able to include these investments in its plan for the three to five-year period and not need further Commission approval during the plan period. Therefore, the Company's proposal would enable PPL Electric to make the

investments necessary to accommodate DERs and EE&C measures while establishing a rational and equitable way to fund these investments over a three to five-year period.

Third, PPL Electric's multi-year rate plan proposal would reduce the frequency of rate case filings. As explained above, PPL Electric anticipates that significant load decreases in the future caused by DERs and EE&C measures may require frequent base rate case filings to maintain an adequate level of revenue. However, a multi-year rate plan would institute a general moratorium on base rate case filings for the duration of the plan period (e.g., three or five years), resulting in certainty as to the timing of PPL Electric's next base rate case when adjustments will be made to ratemaking and rate design. Further, such reduction in the number of base rate case filings would help to reduce the administrative burden and expenses of PPL Electric, interested parties, and the Commission.

Fourth, in an environment where DER and EE&C measures are prevalent, full revenue decoupling would have a more favorable impact on PPL Electric's customers than traditional ratemaking. By severing the connection between sales and revenues, full revenue decoupling would allow the Company to be unaffected by a customer's choice to incorporate DER and EE&C measures. Also, properly implemented through a prospective usage adjustment, full revenue decoupling should provide an incentive to EDCs to maintain multi-part rate designs that include a usage component which provides a greater incentive for customer conservation. On the other hand, if demand for electricity increases, such as through wider deployment of electric vehicles, customers would receive reduced distribution charges when compared to traditional cost of service ratemaking. For example, if PPL Electric's sales increase above the projected levels, the full revenue decoupling mechanism would return any revenues in excess of the

authorized level of revenues to customers. As a result, full revenue decoupling is the method most appropriate to encourage the implementation of DERs and EE&C measures.

Fifth, full revenue decoupling would have no direct impact on PPL Electric's existing energy efficiency and peak demand reduction programs, and customers that successfully reduce electric usage or peak demand would still see a bill reduction under the Company's approach.

Sixth, performance incentives would provide additional opportunity to advance technologies and practices that are in the best interest of PPL Electric's customers and the Commonwealth. Indeed, the performance incentives could be crafted around state-wide metrics, such as reliability and customer satisfaction. Incentives could include, among other things, an enhanced return on equity. Further, the Company's recommended exploratory approach for PIMs would allow utilities, regulators, customers and other stakeholders to better understand the wide-ranging benefits of this broad and complex subject.

Seventh, PPL Electric believes that it is fully capable of providing the necessary resources and staff to educate customers about any changes that they may experience as a result of the multi-year rate plan with full revenue decoupling. PPL Electric believes it is important to begin the education process early so that customers are aware of the changes ahead of time with ample time to prepare.

In addition, the Company's multi-year rate plan with full revenue decoupling and performance incentives provides several benefits to customers. Under the multi-year plan, the Company will file with the Commission its capital spending plan for the multi-year period. This plan will be subject to review by interested stakeholders and approval by the Commission. This would be a substantial improvement over the traditional ratemaking system where EDCs unilaterally decide where to spend capital resources and then are subject to review in a

subsequent rate proceeding filed after the capital investments are completed and in service. Under a pre-approved multi-year plan, customers will know that the EDCs' spending plans have been reviewed by the Commission and found to be in the public interest before the investments are made. Relatedly, under a multi-year rate plan, the EDC will have assurance that its capital investments will be recovered in rates and therefore, all else equal, should be more willing to make investments that improve service to customers. The EDC's revenue recovery would be limited to the authorized level of revenues, as adjusted periodically, which provides a level of certainty around customer rates. Moreover, as there will be a general moratorium on rate cases during the multi-year plan period, the number and frequency of base rate cases should be reduced. Therefore, the overall cost of regulation should decrease, and these savings will be passed on to customers.

Furthermore, under full revenue decoupling, customers will know that an EDC's revenue is unaffected by conservation and DER programs and that an EDC will not favor or disfavor certain programs due to differences in amount and timing of rate recovery. Also, properly implemented through a prospective usage adjustment, full revenue decoupling should provide an incentive to EDCs to maintain multi-part rate designs that include a usage component, which provides a greater incentive for customer conservation. In addition, full revenue decoupling assures that a utility will collect its revenue requirement, no more and no less. If usage falls, rates are periodically adjusted upwards to reflect lost revenue. On the other hand, if usage rises, *e.g.*, due to increased electrification, rates would be periodically adjusted downwards and the additional revenues refunded to customers. This fair and balanced approach to revenue recovery provides benefits to both the EDC and its customers.

Moreover, performance incentives will help assure that the EDC does everything it can to operate efficiently and successfully implement capital investment under the multi-year rate plan, and that the benefits to customers from the multi-year rate plan are actually achieved. These incentive mechanisms also can be designed to provide a sharing of savings, which would further benefit customers through reduced rates.

Based on the foregoing, a multi-year rate plan with full revenue decoupling and performance incentives is the most appropriate approach for the Company and its customers. This approach helps to enable PPL Electric to confront the challenges presented by DERs and other technological advances while continuing to provide adequate, safe, reliable, and reasonable service. Moreover, the approach provides the opportunity for transparency around PPL Electric's investments, thereby encouraging sound financial planning and enabling customers and stakeholders to hold the Company more accountable. Further, PPL Electric's proposed multi-year rate plan with full revenue decoupling and performance incentives will provide many benefits to customers and the public. For these reasons, PPL Electric believes that a transition to this ratemaking methodology is in the best interest of PPL Electric and its customers and that its proposal should be given serious consideration by the Commission as it studies alternative ratemaking mechanisms.

c. How would the particular alternative rate methodologies interact with existing mechanisms or traditional ratemaking principles currently in use or available to EDCs?

PPL Electric believes that once full revenue decoupling and multi-year planning are in place, the Company may be able to reduce the number of cost trackers, and potentially avoid the introduction of new ones. Nevertheless, the Company would continue to leverage the successes it has achieved through the establishment of mechanisms such as the DSIC. Indeed, the DSIC legislation and regulations have established a set of principles, such as timely investment

recovery and multi-year planning, which would allow the Company to implement its full revenue decoupling proposal while continuing to provide safe and reliable service.

d. How would the alternative rate methodologies be implemented and in what timeframe?

The manner and timing in which an alternative ratemaking methodology can be implemented depends on the specific aspects of that methodology. Some alternative ratemaking methodologies may require legislation, while others do not. The analysis is very fact-specific and nuanced considering the wide variety of alternative ratemaking methodologies that could be implemented by utilities. Moreover, implementation of certain alternative ratemaking methodologies may require significant time for legislative or regulatory processes, including stakeholder engagement. Given the increasing and near-term challenges presented by emerging technologies such as DERs and EE&C measures, sufficient lead-time is needed to implement alternative ratemaking methodologies that can respond to those challenges.

2. Natural Gas Utilities

No comments.

3. Water and Wastewater Utilities

No comments.

C. NEXT STEPS

The next steps taken by EDCs, stakeholders, and the Commission depend on the specific aspects of the alternative ratemaking methodology that the EDC seeks to implement. Although the Commission has approved a variety of alternative ratemaking methodologies over the years, the Commission's authority is not unlimited. For example, Act 129 prohibits an EDC from using a Section 1307 mechanism to recover lost revenues from reduced energy consumption or changes in energy demand. *See* 66 Pa. C.S. § 2806.1(k)(2). Furthermore, the Electric

Competition Act specifically provides that EDCs can use performance-based rates as an alternative to traditional rate base/rate of return ratemaking. *See* 66 Pa. C.S. § 2806(i). Also, Section 1307 mechanisms cannot be used to recover capital costs unless expressly authorized by the General Assembly. *See Popowsky v. Pa. PUC*, 869 A.2d 1144, 1159 (Pa. Cmwlth. 2005) (“*Popowsky 2005*”), *appeal denied*, 2006 Pa. LEXIS 101 (Pa. Mar. 7, 2006). These limitations on the Commission’s authority may affect its ability to approve some alternative ratemaking methodologies. Therefore, some alternative ratemaking methodologies may benefit from enabling legislation clarifying the Commission’s authority.

In addition, the Company does not believe that the Commission should adopt a one-size-fits-all approach. Rather, EDCs should have flexibility to design and implement the alternative ratemaking methodologies that are most appropriate for them and their customers. The Company looks forward to hearing the Commission’s and interested parties’ feedback on its proposal.

III. RESPONSES TO INDIVIDUAL COMMISSIONERS

A. VICE CHAIRMAN PLACE

In his Statement dated March 2, 2017, Vice Chairman Place requested input on an advance rate design proposal for EDCs. Generally, under this proposal, there would be a three-part rate—a customer charge, a demand charge, and a volumetric charge—that EDCs would move toward over nine years in three-year increments. *See* Place Statement, p. 2. The demand charge component would be based on “coincident peak usage intervals during the day, month, season or year.” *Id.* Further, Vice Chairman Place raised the prospect of “a reliability performance-based mechanism” and requested comments on such a mechanism. *Id.*

PPL Electric appreciates the opportunity to comment on Vice Chairman Place’s proposal. Through the more traditional cost of service ratemaking model currently employed by the

Company, a customer charge, a demand charge and a volumetric charge are incorporated into rate designs for various customer classes. For example, residential customers are charged a customer charge and volumetric charge. With regard to Large C&I and Small C&I customers, the Company collects distribution charges by using customer and demand charges, where demand is the average number of kilowatts supplied during the 15 minute period of maximum use during the current billing period.

There is nothing in the Vice Chairman's proposal that precludes the usage of customer, volumetric and demand charges with PPL Electric's proposed alternative ratemaking approach. Nor is there anything in his proposal that would preclude a gradual implementation of these additional methods of alternative ratemaking or different calculations for demand charges. Indeed, the Vice Chairman's model is compatible with PPL Electric's preferred method of full revenue decoupling with a multi-year rate plan.

Moreover, as explained in Section II.A.9 above, PPL Electric supports the use of performance-based incentives, including those that are based on reliability metrics, provided that these incentives are implemented as part of a comprehensive alternative ratemaking program. PPL Electric encourages an exploratory approach to PIM implementation which would allow utilities, regulators, customers and other stakeholders to better understand the wide-ranging benefits of this broad and complex subject. This is due in part to the experiences of PPL Electric's sister company-WPD-which is subject to performance incentives (and penalties) for pre-established targets including reliability. PPL Electric believes that PIM deployment could begin in Pennsylvania with state-wide metrics, such as reliability and customer satisfaction. Metrics could be applied state-wide to utilities of the same type through best-in-class benchmarks that are already defined by the industry and the Commission. Deploying

performance incentives in this way provides the opportunity for improvements that could result in electric service innovation and potentially savings for customers, and it also provides a scalable solution to build upon as additional opportunities for incentive-based performance materialize. With respect to performance-incentives, PPL Electric is open to cost sharing with customers and is willing to consider incentive caps.

The Vice Chairman also poses the question of cost impacts, and what modifications should be considered for Low-Income/Customer Assistance Program participants to maintain affordability and ratepayer equity. PPL Electric is committed to the utilization of just and reasonable rates and ratemaking methodology for all customers, including low-income customers. The Company actively explores opportunities to enhance its service and assistance to low-income customers and is committed to providing effective assistance at affordable rates. As with any modifications to rates or ratemaking methodology, the Company realizes an extensive education program is necessary and is well equipped to communicate with all customers about any changes.

B. COMMISSIONER SWEET

In his Statement dated March 2, 2017, Commissioner Sweet encouraged commenters to provide information on two key policy areas: (1) how potential ratemaking methodology(ies) impacts all customers, but in particular impacts on low-income customers; and (2) information as to how a proposed methodology(ies) may impact infrastructure replacement and the associated DSIC mechanism.

In addition to the impacts to all customers described in the Comments above, with respect to low-income customers, PPL Electric remains steadfast in its commitment to provide valuable programs such as OnTrack for payment troubled low-income customers. Indeed, PPL Electric's

Customer Assistance Programs have a long history of providing assistance to vulnerable customers.³³

With regard to on-going infrastructure investment to maintain safe and reliable service, PPL Electric's proposed approach to use a multi-year rate plan with full revenue decoupling and performance incentives will provide the Company with a more stable stream of revenue to invest in infrastructure than traditional rate cases combined with the DSIC mechanism. The Company believes that the DSIC paved the way for this methodology through the introduction of multi-year investment planning and customers have benefited through initiatives such as the Smart Grid and other system enhancements with improved reliability.

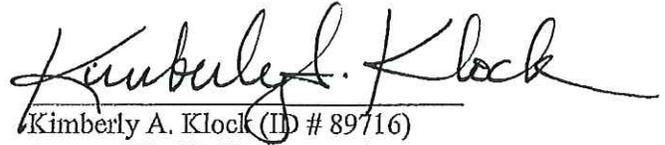
IV. CONCLUSION

Based on the foregoing, PPL Electric maintains that the most prudent, reasonable, and beneficial approach is for all EDCs to be able to design and implement the alternative ratemaking methodology that is most appropriate for them and their customers. As outlined in these comments, the Company believes that the most appropriate methodology for PPL Electric and its customers is a multi-year rate plan with full revenue decoupling. PPL Electric also supports the exploration of performance incentives to offer additional utility incentives to excel in areas of importance to customers, such as customer satisfaction and reliability. This reasonable and conservative approach will produce numerous benefits for PPL Electric and its customers as the Company addresses the enormous challenges facing the electric industry today.

Thus, for the reasons set forth above, PPL Electric Utilities Corporation respectfully requests that the Commission take these comments into consideration in preparing its Final Order.

³³ See PPL Electric Utilities Corporation's Proposed Universal Service and Energy Conservation Plan for 2017-2019, Docket No. M-2016-2554787, pp. 2-4 (June 30, 2016).

Respectfully submitted,



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