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E-File

July 31, 2017

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

RECEIVED

JUL 31 2017

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

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Dear Ms. Chiavetta:

Enclosed for filing on behalf of PPL Electric Utilities Corporation ("PPL Electric") is an original of PPL Electric's Reply Comments in the above-captioned proceeding. These Reply 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 July 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,

Kimberly A. Klock

Enclosures

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

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

JUL 31 2017

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Alternative Ratemaking Methodologies

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Docket No. M-2015-2518883

REPLY 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. In response, the Commission received 24 Comments filed by interested parties, including PPL Electric Utilities Corporation (“PPL Electric” or the “Company”). Several parties provide support for various elements of PPL Electric’s preferred approach, including multi-year rate plans, revenue decoupling, and performance incentive mechanisms.² However, a few parties oppose revenue decoupling or any new alternative ratemaking methodologies for electric distribution companies (“EDCs”): (1) the Office of Consumer Advocate (“OCA”); (2) the Office of Small Business Advocate (“OSBA”); and (3) the Met-Ed Industrial Users Group (“MEIUG”), Penelec Industrial Customer Alliance (“PICA”), Philadelphia Area Industrial Energy Users Group (“PAIEUG), PP&L Industrial Customer

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

² See, e.g., Advanced Energy Economy Institute Comments, pp. 2-3, 6; Duquesne Light Comments, pp. 6, 13-14; KEEA Comments, pp. 4, 9-13; NRDC, Sierra Club, and Clean Air Council Comments, pp. 3-4, 12-14; PECO Comments, pp. 7-9, 11-15; UGI Distribution Companies Comments, p. 17.

Alliance (“PPLICA”), and West Penn Power Industrial Intervenors (“WPPII”) (collectively, “Industrials”).

PPL Electric hereby submits these Reply Comments, which respond to the Comments submitted by the OCA, OSBA, and Industrials concerning the Commission’s Tentative Order. In support thereof, PPL Electric states as follows:

I. REPLY COMMENTS

The majority of interested parties filed Comments supporting the Commission’s efforts to further explore alternative ratemaking methodologies. In fact, all of the major electric distribution companies (“EDCs”), the Energy Association of Pennsylvania, and several energy efficiency and environmental groups submitted Comments in support.

The Comments revealed a consensus in favor of permitting EDCs to design and implement alternative ratemaking methodologies that reflect the individual circumstances of the EDCs, rather than taking a one-size-fits-all approach,³ and in support of the Commission issuing a policy statement addressing alternative ratemaking methodologies.⁴ To the extent that there is not consensus on certain alternative ratemaking methodologies, issues and concerns relating to a specific proposal can be addressed on a case-by-case basis. A policy statement providing guidance to EDCs and other interested stakeholders could facilitate this process.

³ See Duquesne Light Comments, pp. 3, 8-9; EAP Comments, p. 3; I&E Comments, pp. 5, 9; OSBA Comments, p. 11; PECO Comments, p. 3; UGI Distribution Companies Comments, pp. 4-5; Valley Energy, Citizens’ Electric & Wellsboro Electric Comments, p. 3.

⁴ See Duquesne Light Comments, p. 8; FirstEnergy Comments, p. 13; I&E Comments, p. 8; NRDC, Sierra Club & Clean Air Council Comments, p. 6; OSBA Comments, p. 11.

Although PPL Electric previously outlined its position and alternative ratemaking proposal in its Comments,⁵ the Company appreciates this opportunity to respond to the legal and policy issues raised by those parties who oppose further alternative ratemaking methodologies. In particular, the OCA and Industrials argue that revenue decoupling for EDCs would be contrary to existing law and public policy. As explained in more detail below, these commenters' legal and policy arguments lack merit and should be rejected.

A. THE COMMISSION SHOULD REJECT THE LEGAL ARGUMENTS MADE BY PARTIES OPPOSING ALTERNATIVE RATEMAKING METHODOLOGIES

As noted in PPL Electric's Comments, traditional cost-of service ratemaking is not required by the Public Utility Code. The only requirement is that a public utility's rates must be "just and reasonable," under 66 Pa. C.S. § 1301. Despite this general standard and the Commission's long history of approving alternative rates,⁶ a few commenters argue that the Public Utility Code and Commission precedent prevent the implementation of additional alternative ratemaking methodologies, particularly revenue decoupling. *See, e.g.,* Industrials Comments, pp. 3, 5; OCA Comments, pp. 11, 15; OSBA Comments, pp. 4-5. Although the Public Utility Code, in certain instances, may limit a specific alternative ratemaking methodology, the commenters overstate and misinterpret the Public Utility Code in support of their positions and oversimplify the analysis required to determine whether a specific alternative ratemaking methodology is legally permissible.

⁵ In its Comments, PPL Electric explained that a multi-year rate plan (*e.g.*, three to five years in length) with full revenue decoupling and performance incentives would be the most appropriate for the Company and its customers. *See* PPL Electric Comments, pp. 17-23.

⁶ *See* PPL Electric Comments, pp. 3-5.

First, certain parties contend that the Public Utility Code prohibits revenue decoupling for EDCs. *See* Industrials Comments, pp. 3, 5; OCA Comments, pp. 11, 15; OSBA Comments, pp. 4-5. In support, these parties cite Sections 2806.1(k)(2), 2807(f)(4), or both as prohibiting the use of a revenue decoupling mechanism. *See* Industrials Comments, p. 5; OCA Comments, p. 6; OSBA Comment, pp. 3-6. Section 2806.1(k)(2) provides that an EDC with more than 100,000 customers cannot use a “reconcilable automatic adjustment clause” under Section 1307 to recover the “decreased revenues . . . due to reduced energy consumption or changes in energy demand” related to Act 129 EE&C Plans. 66 Pa. C.S. § 2806.1(k)(2). Further, Section 2807(f)(4) states that the “lost or decreased revenues . . . due to reduced electricity consumption or shifting energy demand” is not a “recoverable cost.” *Id.* § 2807(f)(4)(ii). Relying on these statutes, the OCA, OSBA, and Industrials claim any form of revenue decoupling would require legislation.⁷ *See* Industrials Comments, pp. 3, 5; OCA Comments, pp. 6, 11, 15; OSBA Comments, pp. 4-5.

Although these statutory provisions may limit or affect how revenues are recovered under a decoupling proposal, they do not explicitly prohibit decoupling an EDC’s sales from its revenues. Sections 2806.1(k)(2) and 2807(f)(4) only affect when and how lost revenues due to electric consumption or shifting demand may be recovered. Moreover, because there are many forms of revenue decoupling, which can be combined with other alternative ratemaking

⁷ In support, the OCA also avers that the General Assembly essentially rejected a revenue decoupling approach by enacting Act 129. As explained below, Act 129 does not explicitly prohibit revenue decoupling; it merely limits or affects how lost or decreased revenues due to reduced electricity consumption or changes in energy demand can be recovered. Even if the General Assembly considered but rejected revenue decoupling during a legislative process, the legislative history would not control the question of whether an EDC can decouple its rates under the current statutory framework. *See Marshall v. Port Authority of Allegheny Cnty.*, 568 A.2d 931, 934 (Pa. 1990) (citations omitted) (“[W]here the language of a statute is clear and explicit, consideration of arguments based upon supposed contrary legislative intent or legislative history is improper.”).

methodologies, determining whether these statutory provisions prohibit the use of decoupling requires a much more nuanced and case-by-case analysis.

For example, decoupling need not involve a reconcilable Section 1307 mechanism. As noted in the American Recovery and Reinvestment Act (“ARRA”) Working Group Final Report, an “annual rate adjustment mechanism” likely could be used to adjust customers’ rates so long as any increase in revenues did not constitute a “general rate increase” under Section 1308(d). ARRA Working Group Final Report, Docket No. I-2009-2099881, p. 62 (Jan. 21, 2011).⁸ Indeed, “[t]he Commission could arguably institute this mechanism under existing statutory authority.” *Id.* (citing 66 Pa. C.S. §§ 501, 1308(d), 2806(i)).

Further, Sections 2806.1(k) and 2807(f)(4) recognize that EDCs are permitted to reflect decreased revenues and reduced consumption when calculating rates as part of a Section 1308 rate case. *See id.* §§ 2806.1(k)(3), 2807(f)(4)(i). Importantly, these statutes only reference “section 1308” generally. *See id.* As a result, an EDC arguably could reflect decreased revenues due to reduced consumption or shifting energy demand as part of a Section 1308(b) rate filing or a general rate increase filing under Section 1308(d). Therefore, it is clear that the statutory provisions these parties rely on do not provide for a blanket ban or prohibition on decoupling for EDCs. Thus, although the way in which decreased revenues are reflected in customers’ rates may be affected by Section 2806.1(k)(2) and 2807(f)(4), the OCA, OSBA, and Industrials

⁸ The Commission initiated the investigation at Docket No. I-2009-2099881 as a result of Section 410(a) of the ARRA of 2009. Specifically, “the goals of the investigation were to determine what actions the Commission should implement to ensure that utility financial incentives are aligned with helping their customers use energy more efficiently, and that Commission ratemaking policies provide timely cost recovery and timely earnings opportunities for utilities in ways that promote utility customers[] to use energy more efficiently.” *American Recovery and Reinvestment Act Investigation*, Docket No. I-2009-2099881, p. 2 (Order Entered Jan. 24, 2011). As a part of this investigation, the Commission convened the ARRA working group, led by the Commission’s Law Bureau, to gather information about these issues. The ARRA Working Group Final Report contains the group’s positions on several subjects, including revenue decoupling.

incorrectly contend that any form of revenue decoupling for EDCs is prohibited by the Public Utility Code.⁹

Second, the OCA and Industrials argue that revenue decoupling raises concerns about single-issue ratemaking. Industrials Comments, p. 6; OCA Comments, p. 11. Although the OCA and Industrials contend there is a general principle against single-issue ratemaking “if it impacts on a matter that is normally considered in a base rate case,” nothing in the Public Utility Code explicitly prevents it. *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995) (“*PIEC*”). To the contrary, the Public Utility Code expressly allows single-issue ratemaking for automatic adjustment clauses under Section 1307, through which an EDC can recover expenses: (1) “where expressly authorized by the General Assembly”; or (2) that are “easily identifiable and beyond the utility’s control.” *Popowsky v. Pa. PUC*, 13 A.3d 583, 591 (Pa. Cmwlth. 2011) (“*Newtown*”) (emphasis omitted); see 66 Pa. C.S. § 1307. In fact, single-issue ratemaking has been found to be permissible in both Section 1307 proceedings and Section 1308(b) non-general base rate proceedings. See, e.g., *PIEC*, 653 A.2d at 1350; *Newtown*, 13 A.3d at 593; *McCloskey v. Pa. PUC*, 2015 Pa. Commw. Unpub. LEXIS 919, at *28 (Pa. Cmwlth. 2015); *Popowsky v. Pa. PUC*, 683 A.2d 958 (Pa. Cmwlth. 1996); *Popowsky v. Pa. PUC*, 695 A.2d 448 (Pa. Cmwlth. 1997). As a result, although there may be a general principle against single-issue ratemaking, many exceptions to this principle exist. Thus, an EDC’s revenue

⁹ Additionally, it is important to recognize that the General Assembly declared in Act 129 that “it is in the public interest to adopt energy efficiency and conservation measures” as well as “to expand the use of alternative energy and to explore the feasibility of new sources of alternative energy to provide electric generation in this Commonwealth.” See Act 129 of 2008, 2008 Pa. Laws 129 (describing the public policy findings and declaring the objectives served by Act 129). Therefore, revenue decoupling is consistent with the objectives of Act 129 because it would better incent EE&C measures and DERs.

decoupling proposal could still be designed and implemented even if it constitutes single-issue ratemaking.¹⁰

Third, the Industrials argue that even if decoupling were allowed under the Public Utility Code, it would violate cost causation principles by causing intra- and inter-class cost-shifting and would negatively affect Large Commercial and Industrial (“Large C&I”) customers by subjecting them to “unpredictable price fluctuations simply because other classes have altered their consumption levels.” Industrials Comments, p. 7. Similarly, the OSBA avers that “revenue decoupling will shift revenue/cost responsibility among customers in a given rate class.” OSBA Comments, p. 5. Whether there would be any intra- or inter-class cost-shifting concerns wholly depends on the specific revenue decoupling proposal. Furthermore, nothing in the Public Utility Code defines or prohibits “intra-class cost shifting.”¹¹ In fact, the use of customer class ratemaking, which necessarily involves intra-class cost shifting, is expressly authorized in Section 1304 of the Public Utility Code and has been repeatedly approved by the courts, so long as the differences in rates between the classes are justified. *See* 66 Pa. C.S. § 1304; *Phila. Suburban Transp. Co. v. Pa. PUC*, 281 A.2d 179, 182-88 (Pa. Cmwlth. 1971); *U.S. Steel Corp. v. Pa. PUC*, 390 A.2d 849, 853-58 (Pa. Cmwlth. 1978); *Phila. Suburban Water Co. v. Pa. PUC*, 808 A.2d 1044, 1059-60 (Pa. Cmwlth. 2002). Thus, revenue decoupling can be implemented consistent with cost causation principles.

¹⁰ PPL Electric observes that the Supreme Court of Illinois recently held that a decoupling rider mechanism did not constitute single-issue ratemaking. *See People ex rel. Madigan v. Ill. Comm. Comm'n*, 25 N.E.3d 587, 598-600 (Ill. 2015).

¹¹ The only provisions in the Public Utility Code that address intra-class cost shifting pertain to: (1) the rate caps under 66 Pa. C.S. § 2211 for natural gas distribution companies (“NGDCs”) during restructuring; and (2) EDCs’ competitive transition charges under 66 Pa. C.S. § 2808 to recover their transition or stranded costs. *See* 66 Pa. C.S. §§ 2211(e), 2808(a), 2812(g).

Fourth, the Industrials and OCA raise issues about whether revenue decoupling would produce “just and reasonable” rates, as required by the Public Utility Code.¹² *See* Industrials Comments, pp. 3, 6; OCA Comments, pp. 11, 14. The Public Utility Code does not prescribe a particular ratemaking method. It only requires that rates be “just and reasonable.” 66 Pa. C.S. § 1301. Accordingly, an EDC must establish that its revenue decoupling proposal, if any, will produce just and reasonable rates for it to be approved. Such a determination depends on the specific details of the EDC’s revenue decoupling proposal. Therefore, it is premature to assert that every form of revenue decoupling would produce unjust and unreasonable rates.

Based on the foregoing, the Commission should reject the arguments that certain alternative ratemaking methodologies are legally impermissible.

B. THE COMMISSION SHOULD REJECT THE POLICY ARGUMENTS MADE BY PARTIES OPPOSING ALTERNATIVE RATEMAKING METHODOLOGIES

PPL Electric explains in its Comments that EDCs are facing real, substantial challenges due to distributed energy resources (“DERs”), fuel switching, and EE&C measures, which could affect EDCs’ provision of safe and reliable service. *See* PPL Electric Comments, pp. 5-7. For example, the use of DERs, such as distributed generation, combined heat and power (“CHP”), and energy storage, is rapidly expanding, thereby creating substantial uncertainty in EDCs’ load, demand, revenue, and rate forecasts. Moreover, because the EDCs’ transmission and distribution systems were designed around the central generating station model, the systems did not contemplate any two-way power flows or use of DERs. Therefore, as DERs become

¹² In fact, the Industrials even argued that revenue decoupling would “endanger[] customers” and create a “serious risk” to the reliability of an EDC’s service. Industrials Comments, pp. 7-8. The Industrials fail to provide any evidence or data in support of their claims. Moreover, in PPL Electric’s service territory, most of the Large C&I customers’ charges are non-volumetric rates. Therefore, it is unclear how fully decoupling the Company’s sales from its revenues would so negatively affect Large C&I customers in PPL Electric’s service territory.

increasingly deployed in EDCs' service territories, the EDCs must adapt and innovate to accommodate the unique operational challenges presented by DERs, such as two-way power flows, generation intermittency, and power quality issues.

The Commission and other parties have acknowledged many of the same challenges.¹³ Indeed, the electric industry is rapidly changing and if left unaddressed, these issues could have severe impacts on the safety and reliability of EDCs' electric service.

Despite these issues, the OCA, OSBA, and Industrials devote substantial time arguing against specific or even any additional alternative ratemaking methodologies. In essence, these parties contend that EDCs should continue to rely on traditional cost of service ratemaking and existing rate mechanisms. These parties do not recognize that traditional cost of service ratemaking is insufficient to respond to the issues caused by DERs, fuel switching, and EE&C measures. States across the country have addressed these issues by implementing alternative ratemaking methodologies, such as revenue decoupling, for electric utilities. In fact, as of November 2016, electric utilities in 18 states and the District of Columbia had implemented revenue decoupling.¹⁴

Throughout its history, Pennsylvania has been a leader in fostering innovation in the utility industry.¹⁵ However, Pennsylvania already is behind many other jurisdictions with respect

¹³ See, Tentative Order, p. 14; Duquesne Light Comments, pp. 3-4, 6-7; KEEA Comments, p. 5; NRDC, Sierra Club, and Clean Air Council Comments, p. 2.

¹⁴ See *Decoupling Policies*, CENTER FOR CLIMATE AND ENERGY SOLUTIONS, <https://www.c2es.org/us-states-regions/policy-maps/decoupling> (last updated November 2016).

¹⁵ See Electricity Generation Customer Choice and Competition Act, 66 Pa. C.S. §§ 2801, *et seq.*; *Re Electric Utility Restructuring Filings*, Docket No. M-00960890, F.0003, 1997 Pa. PUC LEXIS 11 (Order Entered Feb. 13, 1997); Act 156 of 1996, 1996 Pa. Laws 156 (amending 66 Pa. C.S. § 1307 to add subsection (g), enabling water utilities to implement distribution system improvement charges); Act 11 of 2012, 2012 Pa. Laws 11 (repealing 66 Pa. C.S. § 1307(g) but adding 66 Pa. C.S. § 1353, which enables electric, natural gas, water, and wastewater utilities to implement DSICs).

to alternative ratemaking and responding to the challenges presented by DERs, fuel switching, and EE&C measures. Indeed, it has been well over a year and a half since this proceeding on alternative ratemaking methodologies was initiated. Therefore, to maintain its leading role among other jurisdictions, the Commission should encourage further alternative ratemaking methodologies and should reject other parties' policy arguments against implementing specific or even any additional alternative ratemaking methodologies. As explained below, these arguments lack merit.

At a fundamental level, the OCA argues that no need exists for any further alternative ratemaking and that the existing regulatory framework and methods are sufficient. *See* OCA Comments, pp. 3, 9, 10, 12-13, 17. Essentially, the OCA rejects the general consensus among commenters that although DERs, fuel switching, and EE&C measures may provide substantial societal and grid benefits, such technologies are increasingly affecting EDCs' operations and transmission and distribution systems.¹⁶ Indeed, EDCs are facing frequent, incremental adjustments to ratemaking, rate design, or both in the future due to significant load volatility caused by these technologies. *See* PPL Electric Comments, p. 19. Moreover, EDCs provide fundamental services to their customers and are required to maintain the integrity, safety, and reliability of their distribution and transmission systems. As explained previously, the widespread deployment of these technologies could adversely affect an EDC's ability to provide safe and reliable service. *See id.* Alternative ratemaking methodologies are well-suited to counteract the impacts of DERs, fuel switching, and EE&C measures while simultaneously encouraging the deployment of those technologies. Thus, as explained by the majority of commenters, a pressing need exists for further alternative ratemaking methodologies.

¹⁶ *See* footnote 12, *supra*.

In addition, the Industrials and OCA claim that revenue decoupling would reduce EDCs' incentive to provide reliable electric service. *See* Industrials Comments, p. 8; OCA Comments, p. 15. The OCA also alleges that further alternative ratemaking methodologies could harm ratepayers and disrupt the balance between utility revenue recovery and customer protections. *See* OCA Comments, pp. 3, 12. In reality, alternative ratemaking methodologies, such as revenue decoupling, would enable an EDC to address the reliability impacts of uncoordinated and widespread deployment of DERs, fuel switching, and EE&C measures. *See* PPL Electric Comments, p. 19. Indeed, revenue decoupling could be combined with performance incentives that reward utilities for exceeding specific goals tied to, for example, service reliability or customer service. Furthermore, EDCs always have an obligation under the Public Utility Code to provide reasonable, safe, adequate, and reliable service. 66 Pa. C.S. § 1501. No alternative ratemaking methodology would alter that duty.

Relatedly, the OCA asserts that revenue decoupling should only be implemented if accompanied by at least 17 specific customer protections.¹⁷ The OCA's proposal is unreasonable and should be rejected. If revenue decoupling is to be implemented, the OCA avers that it is necessary to implement "a comprehensive policy for all utilities." OCA Comments, p. 20. Indeed, the many "protections" the OCA proposes are, in fact, specific recommendations for the design of every revenue decoupling mechanism implemented in Pennsylvania. As a result, the

¹⁷ The OCA proposed the following customer protections: (1) specific authorization from the General Assembly; (2) capped adjustments; (3) prohibition against revenue requirement increase from the test period allowed; (4) specific, targeted programs; (5) clear, specific measures of success; (6) clear, automatically enforceable reliability metrics; (7) period evaluations; (8) reduced return on equity ("ROE"); (9) implementation of mechanisms only after base rate cases; (10) periodic base rate case filings; (11) correct alignment of rate structures and implementation of rate design; (12) determination of the components impacted by decoupling; (13) storm adjustment that is limited to 24 hours following a storm event; (14) exclusion of automatic adjustment revenues; (15) implementation of a comprehensive policy for all utilities; (16) implementation in a way that does not discourage the most efficient and environmentally sound resources for a particular application (e.g., heating); and (17) adequate consumer education. *See* OCA Comments, pp. 19-21.

OCA's proposal conflicts with the general consensus in the Comments that the Commission should not adopt a uniform approach for all EDCs and, instead, should enable each EDC to design and implement the methodology that is best suited for the utility and its customers.¹⁸

Some parties also raise concerns about how alternative ratemaking methodologies would further encourage the implementation of EE&C measures. *See* OCA Comments, p. 18; OSBA Comments, p. 8; Industrials Comments, pp. 7-8. For example, the OCA contends that additional alternative ratemaking methodologies would not encourage EDCs to implement EE&C programs that are above and beyond those currently offered under Act 129. *See* OCA Comments, p. 18. Likewise, the Industrials and OSBA doubt that revenue decoupling would effectively promote the conservation of electricity. *See* Industrials Comments, p. 7; OSBA Comments, pp. 5-6. However, if an EDC's sales are decoupled from its revenues, the financial harm from conservation is removed and additional conservation should be incented.¹⁹ Moreover, alternative ratemaking methodologies can supplement EDCs' successful EE&C Plans. Although EDCs have been successful in achieving their required reductions in energy consumption and peak demand through their EE&C Plans, additional energy savings should be possible when the EDCs' throughput incentive is removed. Alternative ratemaking methodologies, such as revenue decoupling, could help markets to go beyond the achievements of Act 129 EE&C Plans and further increase customers' energy savings. In fact, revenue decoupling encourages electric

¹⁸ *See* footnote 3, *supra*.

¹⁹ *See* National Action Plan for Energy Efficiency, ALIGNING UTILITY INCENTIVES WITH INVESTMENT IN ENERGY EFFICIENCY, ES-3, 2-7 (2007), available at <https://www.epa.gov/sites/production/files/2015-08/documents/incentives.pdf>; Dylan Sullivan & Donna DeCostanzo, *Gas and Electric Decoupling*, NATIONAL RESOURCES DEFENSE COUNCIL, <https://www.nrdc.org/resources/gas-and-electric-decoupling>.

utilities to implement and facilitate the use of EE&C measures by removing the throughput incentive.²⁰

Finally, the OCA and OSBA propose that if an EDC implements revenue decoupling, the EDC's allowed return on common equity ("ROE") should be reduced. *See* OCA Comments, p. 20; OSBA Comments, p. 5. An EDC's ROE is properly determined in a base rate case, and the complex analysis required should consider all relevant risk factors. *See, e.g., Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 692 (1923); *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603-05 (1944). Indeed, as explained previously, EDCs are facing many challenges due to DERs, fuel switching, and EE&C measures that likely will increase their risk and required ROE. Revenue decoupling could temper the increased risk, but it would not merit a net reduction to an EDC's ROE. Notably, most jurisdictions have not reduced a utility's ROE due to revenue decoupling.²¹

Based on the foregoing, the Commission should reject the arguments made by the OCA, OSBA, and Industrials that certain alternative ratemaking methodologies would be poor public policy.

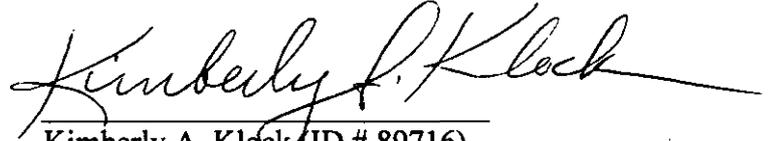
²⁰ *See* footnote 15, *supra*.

²¹ *See* Pamela Morgan, A DECADE OF DECOUPLING FOR US ENERGY UTILITIES: RATE IMPACTS, DESIGNS, AND OBSERVATIONS, 16 (Nov. 2012), *available at* <http://aceee.org/files/pdf/collaborative-reports/decade-of-decoupling.pdf>. The Brattle Group also conducted an empirical study for the Energy Foundation and found that decoupling an electric utility's revenues from its sales does not support a reduction in ROE. *See* Michael J. Vilbert, Joseph B. Wharton, *et al.*, THE IMPACT OF REVENUE DECOUPLING ON THE COST OF CAPITAL FOR ELECTRIC UTILITIES: AN EMPIRICAL INVESTIGATION, 3 (Mar. 20, 2014), *available at* http://www.brattle.com/system/publications/pdfs/000/004/995/original/Effect_of_Electric_Decoupling_on_the_Cost_of_Capital.pdf?1395776507.

II. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Commission take these Reply Comments into consideration in preparing its Final Order.

Respectfully submitted,



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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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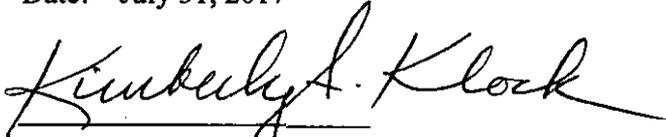
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Date: July 31, 2017



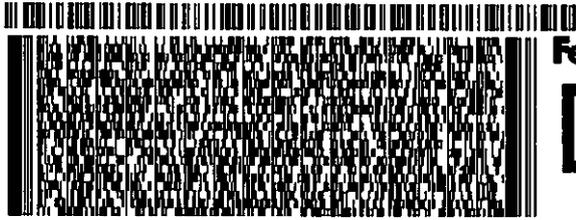
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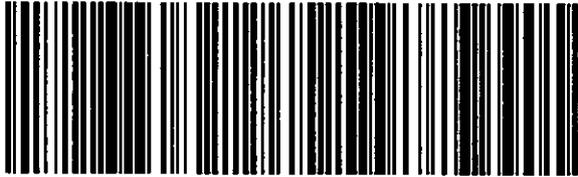
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