

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
**Harrisburg, Pennsylvania 17105-3265**

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

**Public Meeting: December 2, 2010  
2161694-OSA  
Docket Nos. R-2010-2161694**

**PARTIAL DISSENT OF CHAIRMAN CAWLEY**

I respectfully dissent from the majority's disposition of the two issues that the parties could not agree upon and therefore did not include in their settlement of this rate proceeding.

**Cost of Service Study (COSS)**

First, PPL switched gears on how it allocates costs to rate classes relative to its 2004 and 2007 base rate proceedings. Previously, PPL allocated primary distribution plant costs on a non-coincidental peak day (demand) basis, similar to other EDCs in Pennsylvania. In this proceeding, however, PPL departed from this methodology and allocated 69% of primary distribution plant costs on a customer count basis.<sup>1</sup> The result of this will be the allocation of more costs to those in the residential rate class than those customers in other rate classes. A goal of the Commission in rate cases is to have all customer classes, including residential customers, pay their equitable share of the cost of the system. Based on this new methodology, it is likely that PPL's residential customers will need to bear, once again, the bulk of costs in the next following base rate case. As noted by the OCA, PPL failed to demonstrate that costs associated with primary distribution facilities are directly related to the customer count. Variables like customer mix and density throughout the utility service territory have profound effects on cost incurrence, which render customer account allocators poor determinants of cost.<sup>2</sup>

As the OCA noted, by adopting PPL's methodology, the residential customer's return dropped from 5.23% to 3.12%, relative to a system average return of 6.33%, thus erasing the progress residential customers had made towards the goal of system average rate of return. In essence, this change of methodology has wound back the clock and set up the residential rate class for future above average assignments of cost increases.

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<sup>1</sup> OCA Exceptions at p. 9.

<sup>2</sup> OCA Exceptions at pp. 11-13.

For these reasons, I dissent on adoption of the methodology referenced as “JMK-2A”, and instead support the methodology referenced as “JMK-2B,” which is consistent with PPL’s historic cost allocation methods.

### **Revenue Allocation Among Rate Classes**

In addition, the decision to allocate the entire rate increase to residential customers is inequitable. While residential customers are being asked to absorb the entire rate increase based on their below average return, other rate classes have even lower, sometimes negative, returns. Specifically, rate classes LP-5 and LP-6 have lower returns than residential customers under all COSS methods. Additionally, rate class LP-4/ISP exhibit lower returns based on the traditional COSS methods. In the interest of fairness, based on the goal of moving all rate classes to the system average rate of return, these other rate classes should have been allocated sufficient costs to bring them to parity with the same return as that for residential customers.<sup>3</sup> While this modification would not provide a significant amount of rate relief to residential customers in this base rate case, it would provide some relief, and it would establish a proper precedent going forward. For this reason, I respectfully dissent on this issue and recommend that revenues be allocated to all rate classes that demonstrate below system average returns, in an effort to bring these same rates classes at least to parity with the residential class in this proceeding.

December 2, 2010

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James H. Cawley  
Chairman

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<sup>3</sup> This recommendation does not propose to modify the mitigation provisions of the cost allocation provision of rate class RTS.