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June 7, 2013

VIA ELECTRONIC FILING


Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: PPL Electric Utilities Corporation Transmission Service Charge Effective June 1,
2011
Docket No. M-2011-2239805**

Dear Secretary Chiavetta:

Attached please find the Petition of PPL Electric Utilities Corporation for Approval to Refund Certain Transmission Service Charges in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,


David B. MacGregor

DBM/skr
Attachment

cc: 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).

VIA FIRST CLASS MAIL

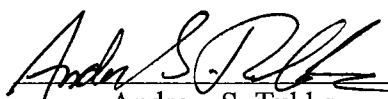
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Date: June 7, 2013


Andrew S. Tubbs

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PPL Electric Utilities Corporation :
Transmission Service Charge Effective : Docket No. M-2011-2239805
June 1, 2011 :

**PETITION OF
PPL ELECTRIC UTILITIES CORPORATION FOR APPROVAL TO
REFUND CERTAIN TRANSMISSION SERVICE CHARGES**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

In accordance with the Pennsylvania Public Utility Commission's ("Commission") May 19, 2011 Order in the above-captioned proceeding, PPL Electric Utilities Corporation ("PPL Electric" or the "Company") hereby requests that the Commission approve a proposed plan to refund certain historic overcollections of transmission service charges to certain large commercial and industrial ("Large C&I") customers.

I. INTRODUCTION

1. PPL Electric is a "public utility" and an "electric distribution company" as those terms are defined under the Public Utility Code, 66 Pa.C.S. §§ 102 and 2803, subject to the regulatory jurisdiction of the Commission.

2. PPL Electric's address is Two North Ninth Street, Allentown, Pennsylvania 18101.

3. PPL Electric's attorneys are:

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PPL Electric's attorneys are authorized to receive all notices and communications regarding this Petition.

4. PPL Electric furnishes electric distribution, transmission, and default electric supply services to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania.

5. As part of fulfilling its default service obligations, PPL Electric incurs certain transmission service costs associated with the delivery of default service supply within the PPL Zone of PJM Interconnection, LLC ("PJM"). The Company recovers these transmission costs through a Transmission Service Charge ("TSC"), which is applied to the monthly bill of each customer receiving default service from PPL Electric. The TSC is a Section 1307 automatic adjustment mechanism which is reconciled annually with any undercollections or overcollections charged or credited to default service customers during the next TSC application period.

6. On August 28, 2008, PPL Electric filed revised tariff sheets at the Federal Energy Regulatory Commission (“FERC”) to implement a cost-of-service formula transmission rate. The rates proposed therein went into effect on November 1, 2008, subject to investigation and refund. PPL Electric’s 2009 TSC included, *inter alia*, the effect of this proposed rate increase. During 2009, this FERC proceeding was settled for an amount less than the original filing, resulting in refunds and a substantial TSC overcollection.

7. For residential and small commercial and industrial customers, this overcollection was refunded to customers during the 2010 TSC application period. For Large C&I customers, however, a problem arose as a result of the expiration of PPL Electric’s generation rate caps on December 31, 2009. Prior to 2010, PPL Electric’s generation rates were capped pursuant to the settlement of its electric restructuring proceeding, and as a result, there was very little retail shopping on the PPL Electric system. PPL Electric’s Commission-approved 2010 TSC was designed to refund 2009 TSC overcollections based upon sales levels that existed prior to the expiration of the Company’s generation rate cap. However, when the rate caps expired on December 31, 2009, a significant number of Large C&I customers began to take supply from electric generation suppliers (“EGSs”). As a result, only a small amount of the 2009 TSC overcollection was refunded to the Company’s Large C&I customers in 2010.

8. The high level of Large C&I shopping following the expiration of the Company’s generation rate cap created several issues relative to refunding the 2009 TSC overcollection. First, most of the Large C&I default service customers, who paid the 2009 TSC overcollection, shopped in 2010, no longer paid the TSC, and therefore did not receive any refund of the 2009 overcollection. Second, refunding the 2009 overcollection to the few remaining Large C&I default service customers would have significantly distorted the Company’s Price to Compare,

producing negative TSC rates for most Large C&I customers. This, in turn, would have distorted shopping decisions for these customers and likely would have resulted in a temporary return of shopping customers to default service for reasons unrelated to actual competitive market conditions.

9. To address these issues, the Commission, on May 19, 2011, directed PPL Electric to defer any further refunding of TSC overcollections to Large C&I customers. The Commission also directed that PPL Electric continue these deferrals, pending resolution of an unrelated issue regarding the method used by PPL Electric to allocate TSC demand costs.

10. The TSC demand allocation issue was resolved in PPL Electric's most recent default service proceeding, and in accordance with the Commission's May 2011 Order, PPL Electric has developed a plan, which is the subject of this Petition, to refund the previously deferred TSC overcollections ("TSC Refund Plan").

11. As of March 31, 2013, the TSC overcollection balance for Large C&I customers was \$6,007,000, comprised of \$5,374,000 for Large C&I – Transmission customers and \$633,000 for Large C&I – Primary customers. PPL Electric proposes to implement a TSC Bill Credit to refund these amounts, updated to reflect actual overcollections at the time of the Commission order approving the Petition, to those Large C&I customers who contributed to the 2009 TSC overcollection and who currently receive distribution service from the Company. This TSC Bill Credit will be calculated separately for each qualifying customer, based upon its individual peak load contribution or demand contribution to the 2009 overcollection. PPL Electric proposes to implement the TSC Refund Plan beginning with the billing period following Commission action on the Company's proposed TSC Refund Plan. For the reasons that follow,

the proposed plan to refund these historic TSC overcollections is just and reasonable, in the public interest, and should be approved.

II. DISCUSSION

A. **Background**

12. As the statutory default service provider, PPL Electric must provide generation supply for retail customers who do not shop for those services. 66 Pa.C.S. § 2807(e). As part of this service, the Company purchases transmission services from PJM to move electricity to PPL Electric's distribution system for delivery to default service customers. PPL Electric purchases transmission services under PJM's Open Access Transmission Tariff ("OATT"), which is subject to review and approval by FERC. PJM bills PPL Electric for these services at rates set forth in the OATT.

13. The settlement of PPL Electric's electric restructuring proceeding authorized the Company to charge default service customers for transmission services purchased from PJM on their behalf. *Application of Pennsylvania Power & Light Company for approval of its Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket No. R-00973954 (August 27, 1998). In the Company's 2004 base rate case proceeding, the Commission authorized the Company to recover the above-described transmission service charges through a Section 1307 reconcilable automatic adjustment clause, *i.e.*, the TSC. *Pa. P.U.C. v. PPL Electric Utilities Corp.*, Docket No. R-00049255 (December 22, 2004), p. 75.

14. The TSC is designed to recover the transmission costs incurred by PPL Electric for the delivery of default service supply within the PPL Zone of PJM. Any over or

undercollections during a particular application year are reconciled annually on a PJM Planning Year basis (June 1 through May 31) during the next TSC application period.¹

15. The TSC is separately calculated for four rate classes: Residential, Small Commercial and Industrial, Large C&I – Primary,² and Large C&I – Transmission.³ Demand-related transmission costs are allocated to the four customer classes based upon each class's contribution to the five coincident peaks used to establish such demand related charges.⁴ Energy-related transmission costs are allocated to the four customer classes based upon kWh usage.

16. **2009 TSC**. On December 12, 2008, PPL Electric filed the final calculation of its 2009 TSC rates for the application period January 1, 2009 through December 31, 2009. *PPL Electric Utilities Corporation Final Calculation of 2009 Transmission Service Charge*, Docket No. M-2008-2074309. This calculation included a “C” or cost factor for projected costs of transmission service for 2009 and an “E” factor reconciling prior period over/undercollections for the period December 1, 2007 through November 30, 2008.⁵ By Secretarial Letter dated December 18, 2008, the Commission approved PPL Electric's TSC for the twelve-month application period beginning January 1, 2009.

17. **2010 TSC**. On December 11, 2009, PPL Electric filed the final calculation of its 2010 TSC rates for the 2009 application period January 1, 2010 through December 31, 2010. *PPL Electric Utilities Corporation Final Calculation of 2009 Transmission Service Charge*,

¹ Prior to 2011, the TSC was reconciled on a calendar year basis. On November 1, 2010, PPL Electric sought Commission approval to change the calculation and the application period of the TSC from a calendar year basis to a PJM Planning Year basis (June 1 through May 31). On December 16, 2010, the Commission entered an order approving this request, effective January 1, 2011.

² Large C&I – Primary customers include customers served under Rate Schedules LP-4.

³ Large C&I – Transmission customers include customers served under Rate Schedules LP-5, LPEP and L5S.

⁴ As explained in Paragraph 26, *infra*, the Company's TSC demand allocation method will be revised in the Company's annual TSC application/reconciliation period for the twelve months ending May 31, 2013.

⁵ The Company's TSC reconciliation mechanism includes a one-month lag period, in order to avoid projecting over/under collections.

Docket No. M-2009-2145838. This calculation included a “C” or cost factor for projected costs of transmission service for 2010 and an “E” factor reconciling prior period over/undercollections for the period December 1, 2008 through November 30, 2009. By Secretarial Letter dated December 17, 2009, the Commission approved PPL Electric’s TSC for the twelve-month application period beginning January 1, 2010.

18. The E-factor for the 2010 TSC filing reflected an unusually large overcollection for Large C&I customers of \$5,057,774 for Large C&I – transmission customers and \$2,994,937 for Large C&I – Primary customers.⁶ These overcollections resulted from the settlement of a FERC rate proceeding in August 2009. Specifically, the Company filed for an increase of its FERC transmission rates on August 28, 2008. On October 29, 2008, the FERC allowed the Company’s proposed rate increase to become effective on November 1, 2008, subject to investigation and refund. This proceeding was subsequently settled by the parties, and the settlement was approved by FERC on August 21, 2009. The rate increase agreed to in the settlement was less than the as filed rate increase and resulted in a substantial overcollection of transmission service rates during 2009.

19. The Company’s 2010 TSC was designed to refund this overcollection. However, the 2010 TSC rates (both the C-factor and E-factor) were based on sales projections that did not accurately forecast the level of shopping by Large C&I customers. Specifically, according to the Office of Consumer Advocate’s (“OCA”) shopping statistics, as of January 1, 2009, 4 or 0.1% of the Company’s industrial customers were buying generation supply in the competitive market.⁷ With the expiration of PPL Electric’s generation rate caps on December 31, 2009, a significant

⁶ PPL Electric’s TSC over/undercollection balance for the Large C&I customer groups has varied between January 1, 2010 and March 31, 2013, and will continue to change monthly. The changes to the Company’s over/undercollection balances reflect updated experienced over/undercollections, refunds provided through the Company’s TSC and interest on overcollections held by the Company.

⁷ *Pennsylvania Electric Shopping Statistics*, Pennsylvania Office of Consumer Advocate (January 8, 2009.)

number of customers in PPL Electric's service territory began taking competitive supply from EGSs. For example, as of January 16, 2010, following the expiration of the Company's generation rate cap on December 31, 2009, 847 or 68.8% of the Company's industrial customers had switched or had initiated a switch from default service to the competitive retail market.⁸ As of April 1, 2013, 1,117 or 86.9% of the Company's industrial customers had switched from default service to the competitive retail market.⁹ As a result of this extensive shopping in 2010, only a limited amount of the 2009 TSC overcollections were refunded to Large C&I customers through the 2010 TSC.¹⁰

20. **2011 "Stub" Period TSC.** On December 10, 2010, PPL Electric submitted the final calculation of its 2011 TSC rates. This filing reflected a "stub" application period of January 1, 2011 through May 31, 2011.¹¹ *PPL Electric Utilities Corporation Final Calculation of 2011 Transmission Service Charge*, Docket No. M-2010-2207826. The 2011 "Stub" Period TSC was necessary to change the TSC application year from a calendar year basis to a PJM planning year basis (June 1 through May 31). The 2011 "Stub" Period TSC bridged the five-month period (January 1, 2011 through May 31, 2011) until the start of PJM's 2011 planning year on June 1, 2011. This calculation included a "C" Factor for the projected costs of transmission service for January 1, 2011 through May 31, 2011, and an "E" Factor reconciling prior period over/undercollections for the period December 1, 2009 through November 30, 2010,

⁸ *Pennsylvania Electric Shopping Statistics*, Pennsylvania Office of Consumer Advocate (January 1, 2010.)

⁹ *Pennsylvania Electric Shopping Statistics*, Pennsylvania Office of Consumer Advocate (April 1, 2013.)

¹⁰ For example, the E-factor rate is calculated by dividing the dollar amount of any over/under collection by the expected usage (kWh or kw as applicable) for the upcoming application period. The larger the sales/demand unit in the denominator, the lower the rate. When the actual sales/demand figure turns out to be substantially less than anticipated, only a portion of any overcollection/undercollection is actually refunded to customers or recouped by the Company.

¹¹ The "E" factor for the 2011 TSC reflected, *inter alia*, a roll forward of the 2009 overcollections, which were not fully refunded in the 2010 TSC.

including carrying forward the 2009 over/undercollections not refunded in 2010 due to higher than expected levels of shopping.

21. Pursuant to Section 1307(e) of the Public Utility Code, 66 Pa.C.S. § 1307(e), the Commission undertakes an annual review of over/under collection reports for each Section 1307 automatic adjustment clause. In March 2011, during the course of the Commission's review of 2010 TSC undercollections, PPL Electric informed the Commission that there was an error with the Company's 2010 TSC reconciliation related to the allocation of demand costs. By Order dated May 19, 2011, the Commission directed the Company to develop and file a revised method for allocating demand costs based on actual monthly demand allocation factors rather than historic demand allocation factors. *PPL Electric Utilities Corp. Proposed Transmission Service Charge (TSC) Reconciliation for the Twelve Months Ending November 30, 2010*, Docket No. M-2010-2213754 (May 19, 2011). (“*2010 TSC Reconciliation Proceeding*”).

22. **2011 PJM Planning Year TSC**. On May 13, 2011, the Company filed its final calculation of its TSC rates for the June 1, 2011 through May 31, 2012 application period. *PPL Electric Utilities Corporation Final Calculation of 2011/2012 Transmission Service Charge*, Docket No. M-2011-2239805. In this filing, the Company initially proposed to refund the ongoing Large C&I overcollections over the 12-month 2011 TSC application period. However, due to very limited number of remaining Large C&I default service customers, this proposal would have substantially distorted the Company's Price to Compare, producing negative rates for most Large C&I customers.

23. The Company informed the Commission of these issues and in response, the Commission entered an Order on May 19, 2011, which directed that the Company refile its proposed TSC rates to defer any further refunding of TSC overcollection for Large C&I

customers. *PPL Electric Utilities Corporation Transmission Service Charge Effective June 1, 2011*, Docket No. M-2011-2239805 (May 19, 2011) (“*2011 TSC Order*”). Specifically, the Commission stated that:

PPL [Electric]’s filings reveal[] that PPL [Electric]’s [TSC] rates for customers in the LC&I customer groups caused a potentially sizeable overcollection that would result in a significant reduction in their TSC rates beginning June 1, 2011. The Commission is concerned that this reduction in the LC&I TSC rates will likely cause LC&I customers that are purchasing their electricity requirements from alternative suppliers to return to the default service offered by PPL. This occurrence would have the unintended consequence of refunding the entire overcollection balance in a short period of time, thereby causing an ensuing undercollection for this customer group. This potential undercollection would be borne by non-shopping customers once the currently shopping customers left default service again. Not only would the LC&I customers who contributed to the overcollection not receive the full refund to which they are entitled; non-shopping customers in this customer group would be forced to pay for a potentially massive undercollection going forward. Moreover, the Commission is concerned this distortion in prices would be disruptive to retail markets.

2011 TSC Order, p. 4.

24. The Commission further directed PPL Electric to, “file a plan detailing how best to refund any overcollection to Large C&I customers who contributed to this overcollection during the period January 1, 2010 through May 31, 2011.” *2011 TSC Order*, pp. 4-5. However, the Commission directed that PPL Electric not file its refund plan until the demand allocation issues in the Company’s *2010 TSC Reconciliation Proceeding* were resolved. (See ¶ 21, *supra*.) Specifically, the Commission directed that PPL Electric file its proposed refund within thirty days following the issuance of a final Commission Order in the Company’s *2010 TSC Reconciliation Proceeding*.¹²

25. The demand allocation issue referenced in the Commission’s *2011 TSC Order* was raised and resolved in PPL Electric’s most recent default service proceeding. *Petition of*

¹² In addition, on May 19, 2011, the Commission also initiated an industry-wide investigation into issues related to TSC reconciliations. *Investigation re Transmission Reconciliation Service Charge (TSC) Reconciliation Methods*, Docket No. M-2011-2239714 (May 19, 2011.) A final order has not yet been entered in this matter.

PPL Electric Utilities Corporation For Approval of a Default Service Program and Procurement Plan, p. 89, Docket No. P-2012-2302074 (January 24, 2013) (“*DSP II Order*”). Specifically, in response to a proposal from the Office of Small Business Advocate, PPL Electric proposed that customer class allocation factors for demand-related transmission costs be adjusted monthly. Under this approach, the percentage of demand-related costs assigned to each customer class would change monthly to account for increases and decreases in the customer classes’ assigned peak load responsibility, based on a customer class’s share of default service load in a given month. The use of a monthly adjustment to the customer class allocation factors would then be reflected in the Company’s annual reconciliation of TSC demand-related costs. The Company’s proposed modification was unopposed by any party and was adopted by the Commission in its January 24, 2013 Order. *DSP II Order*, p. 89. Consistent with the Company’s *DSP II Order*, PPL Electric will use this revised allocation method in the current annual TSC application/reconciliation period for the twelve months ending May 31, 2013.

26. Now that the demand allocation issue is resolved, PPL Electric has developed a plan, set forth below, to refund historic TSC overcollections to Large C&I customers.

B. Proposed TSC Refund Plan

27. In developing a plan to refund these overcollections, the Company first considered using its existing Commission-approved TSC reconciliation mechanism. However, there are several problems with this approach. Only a small number of Large C&I customers continue to receive default service from the Company. Refunding the substantial overcollection balance to these few remaining customers would significantly reduce the applicable Price to Compare. For example, PPL Electric has deferred refunding a TSC overcollection of approximately \$5 million to the Company’s Large C&I – Transmission customers. PPL Electric

estimates that refunding this amount through its existing TSC reconciliation mechanism would result in a negative TSC rate for Large C&I Transmission customers.

28. This negative rate would have several adverse consequences. First, these customers almost certainly would not shop because, under the Company's TSC mechanism, only those customers on default service are eligible to receive the TSC refunds. Second, the large negative TSC rate would likely cause a substantial number of shopping customers to return to default service during the application period. This would not only distort the competitive marketplace, but would likely result in a substantial undercollection of transmission service charges for the next reconciliation period. The Commission noted these same concerns in its *2011 TSC Order*, p. 4, as the basis for directing the Company to defer further refunding of these TSC overcollections. In addition, if the TSC overcollections were to be refunded through the Company's existing TSC mechanism, a significant number of the Large C&I customers that contributed to the TSC overcollections in 2009 would not receive a refund as they are no longer default service customers of PPL Electric. While a certain amount of this type of "mismatching" is inevitable in a Section 1307 mechanism, the problem is exacerbated here due to the substantial number of Large C&I customers who have shopped and continue to shop since 2010.

29. For these reasons, use of the existing reconciliation mechanism is not an appropriate option. Instead, as explained below, PPL Electric proposes to implement a one-time TSC Bill Credit to refund these overcollections to Large C&I customers who were default service customers in 2009 (when the initial overcollection was created) and continue to take delivery service from the Company today.

30. The amount of the TSC Bill Credit will be calculated based upon each customer's contribution to the 2009 TSC overcollection.¹³ The credit will be a specific dollar amount for each eligible customer. This dollar amount will be refunded in a single month, unless this would result in a negative total bill, in which case the TSC Bill Credit will continue until such time that each Large C&I customer receives a full refund.

31. PPL Electric proposes that the TSC Bill Credit be applied beginning with each eligible customer's monthly bill following Commission action on the Company's proposed TSC Refund Plan. As the Company's TSC balance changes monthly, the Company will update the overcollection balances to be refunded as of the end of the first month after Commission approval of the TSC Refund Plan.

C. The Proposed TSC Refund Plan Is in the Public Interest.

32. PPL Electric's TSC Refund Plan is in the public interest and should be approved. The Company's proposed plan addresses the concerns and issues raised by the Commission in its *2011 TSC Order*, where it directed that the Company defer the refund of the TSC overcollections. Specifically, the proposed TSC Bill Credit avoids disruptions to the retail market and will not distort shopping decisions. It also will avoid providing a windfall to the limited number of Large C&I customers remaining on default service and establishes a reasonable mechanism to return the overcollection to those customers who contributed to the 2009 TSC overcollection. As the credit is for a specific dollar amount, no further reconciliation will be required.

33. PPL Electric recognizes that the proposed TSC Refund Plan substantially departs from traditional principles of class ratemaking, and from the normal operation of Section 1307

¹³ Large C&I – Primary customers will receive a bill credit based on the customer's average billing kW as of 2009, while Large C&I – Transmission customers' contribution will be based upon their peak load contribution for December 2009.

automatic adjustment clauses. In PPL Electric's view, this departure is justified in order to: (1) deal with a unique set of facts; (2) avoid disruptions to the retail competitive market; and (3) avoid a windfall to the few remaining default service customers. The TSC Refund Plan is a one-time solution to deal with a unique set of facts and is not intended to establish a precedent for future proceedings.

34. In addition, it should be noted that under the TSC Refund Plan, refunds will not be provided to those customers who were default service customers in 2009, but who are no longer on PPL Electric's system. PPL Electric believes this approach is justified for several reasons. First, it would likely be difficult, time consuming and expensive to track down these former customers, if they still are in business, and to determine who should receive the refund. Second, under PPL Electric's standard TSC mechanism these customers would not be eligible to receive a TSC refund. The Company should not be required to incur the expense to attempt to locate customers that would not have been eligible to receive a refund in the first instance.

35. PPL Electric will send a letter to the affected customers informing them of the proposed TSC Bill Credit and that the Petition is available for review on the Company's website. If the TSC Refund Plan is approved, PPL Electric will contact the affected customers at the time the Commission acts on this petition and before the implementing the TSC Refund Plan. In addition, PPL Electric's key accounts representatives will be trained on the details of the TSC Refund Plan so that they can respond to any calls received from Large C&I customers.

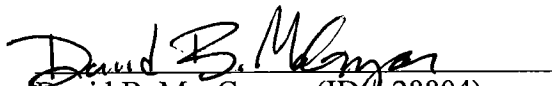
36. For these reasons, PPL Electric believes that the proposed TSC Refund Plan is reasonable and in the public interest and therefore should be approved.

III. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests approval to implement a Transmission Service Cost Refund Plan as explained in this Petition.

Respectfully submitted,

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Dated: June 7, 2013

Attorneys for PPL Electric Utilities Corporation

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA)
): SS
COUNTY OF LEHIGH)

I, Bethany L. Johnson, hereby state that the facts above set forth are true and correct (or are true and correct to the best of my knowledge, information and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Bethany Johnson

Date: June 4, 2013