POST & SCHELL PC
ATTORNEYS AT LAW

17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Main Fax
www.postschell.com

Christopher T. Wright

cwright@postschell.com
717-612-6013 Direct
717-731-1985 Direct Fax
File #: 161074

March 31, 2015

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: Petition of PPL Electric Utilities Corporation for a Waiver of the Distribution System Improvement Charge Cap of 5% of Billed Revenues - Docket No. P-2015-

Dear Secretary Chiavetta:

Enclosed for filing is the Petition of PPL Electric Utilities Corporation requesting (i) a waiver of the Distribution System Improvement Charge ("DSIC") cap of 5% of billed revenues and (ii) approval to increase the maximum allowable DSIC from 5% to 7.5% for service rendered on or after January 1, 2016.

This Petition is being filed concurrently with PPL Electric's 2015 base rate case, which is being filed at Docket No. R-2015-2469275. Because issues related to the waiver and increase in the DSIC cap from 5% to 7.5% of billed revenues requested herein are interrelated to the 2015 base rate case, PPL Electric respectfully requests that this DSIC Petition be consolidated with and considered in conjunction with the base rate case at Docket No. R-2015-2469275.

PPL Electric also requests that the Commission publish notice of this filing in the Pennsylvania Bulletin, and that a reasonable deadline for intervention be set as part of that notice. Copies of this Petition will be provided as indicated on the Certificate of Service.

Respectfully submitted,

CTWright

Christopher T. Wright

CTW/jl

Enclosures

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

Bureau of Investigation & Enforcement
PO Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 202
Harrisburg, PA 17101

Date: March 31, 2015

Christopher T. Wright

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation for a Waiver of the Distribution System Improvement Charge Cap of 5% of Billed Revenues	: : : :	 Docket No. P-2015-____________

PETITION OF PPL ELECTRIC UTILITIES

Pursuant to Section 1358(a) of the Public Utility Code, 66 Pa.C.S. § 1358(a), PPL Electric Utilities Corporation ("PPL Electric" or the "Company") hereby files this Petition requesting (i) waiver of the Distribution System Improvement Charge ("DSIC") cap of 5% of billed revenues and (ii) approval to increase the maximum allowable DSIC from 5% to 7.5% for service rendered on or after January 1, 2016. As explained herein, PPL Electric is seeking the requested waiver and proposed increase in the DSIC cap from 5% to 7.5% of billed revenues in order to ensure that customers will continue to receive safe and reliable service in the future as required by Section 1501 of the Public Utility Code, 66 Pa.C.S. § 1501, without the need to increase the frequency of base rate filings.

This Petition is being filed concurrently with PPL Electric's 2015 base rate case, which is being filed at Docket No. R-2015-2469275. Because issues related to the waiver and increase in the DSIC cap from 5% to 7.5% of billed revenues requested herein are interrelated to the 2015 base rate case, PPL Electric respectfully requests that this DSIC Petition be consolidated with and considered in conjunction with the base rate case at Docket No. R-2015-2469275. For the reasons that follow, approval of the requested waiver and proposed increase in the DSIC cap from 5% to 7.5% of billed revenues is proper and in the public interest.

I. INTRODUCTION

1. This Petition is filed by PPL Electric, a public utility that provides electric distribution, transmission, and provider of last resort services in Pennsylvania subject to the regulatory jurisdiction of the Commission.

2. PPL Electric's address is as follows:

> PPL Electric Utilities Corporation
> Two North Ninth Street
> Allentown, Pennsylvania 18101

3. PPL Electric's attorneys are:

> Paul E. Russell (I.D. #21643)
> Kimberly A. Klock (I.D. # 89716)
> PPL Services Corporation
> Two North Ninth Street
> Allentown, PA 18101
> Voice: 610.774.4254
> Fax: 610.774.6726
> E-mail: perussell@pplweb.com
> E-mail: kklock@pplweb.com

> David B. MacGregor (I.D. #28804)
> Christopher T. Wright (I.D. # 203412)
> Post & Schell, P.C.
> 17 North Second Street
> 12th Floor
> Harrisburg, PA 17101-1601
> Voice: 717.731.1970
> Fax: 717.731.1985
> E-mail: dmacgregor@postschell.com
> E-mail: cwright@postschell.com

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

4. PPL Electric provides electric distribution, transmission and provider of last resort services to approximately 1.4 million customers in a certificated service territory that spans approximately 10,000 square miles in all or portions of 29 counties in

eastern and central Pennsylvania. PPL Electric is a "public utility" and an "electric distribution company" ("EDC") as those terms are defined under the Public Utility Code, 66 Pa.C.S. §§ 102 and 2803.

5. PPL Electric's distribution system serves both urban and rural areas. Currently, PPL Electric owns and operates approximately 352 distribution substation facilities and approximately 43,000 miles of distribution lines operating at less than 69 kV.

6. On February 14, 2012, Governor Corbett signed into law Act 11 of 2012 ("Act 11"), which, among other things, amends Chapter 13 of Title 66 of the Public Utility Code to allow the Commission to approve a DSIC for EDCs. The DSIC is designed to facilitate the recovery of reasonable and prudent capital costs incurred to repair, improve or replace certain eligible distribution property that is part of the EDC's distribution system. Eligible property for electric distribution companies is defined in Section 1351 of the statute. *See* 66 Pa.C.S. § 1351(1).

7. Certain limitations are included in Act 11. Specifically, the DSIC initially may not exceed 5% of distribution rates, and is to be reset to zero upon the effective date of new base rates and if overearning occurs in any quarter. 66 Pa.C.S. §§ 1358(a)(1) and (b). In addition, Act 11 sets out specific audit and reconciliation procedures, including refunds with interest to customers of any over-collections.

8. On September 14, 2012, pursuant to the requirements of 66 Pa.C.S. § 1352(a), PPL Electric filed a Long-Term Infrastructure Improvement Plan ("LTIIP") with the Commission at Docket No. P-2012-2325034. In a final order entered on January 10, 2013, the Commission approved the Company's LTIIP. *Petition of PPL Electric Utilities*

Corporation pursuant to Act 11 of 2012, the Final Implementation Order of Act 11 and 66 Pa. C.S. §1352, for approval of its Long-Term Infrastructure Improvement Plan, Docket No. P-2012-2325034 (Opinion and Order entered January 10, 2013). PPL Electric's Commission-approved LTIIP describes the process of evaluating, improving, repairing, and replacing its distribution related facilities and equipment; the plans to continue accelerated investments under this process; and the categories and estimated costs of DSIC-eligible property that the Company expects to install over a five-year period.

9. Pursuant to 66 Pa.C.S. § 1353 and the Commission's Final Implementation Order entered at Docket No. M-2012-2293611 on August 2, 2012,[1] on January 15, 2013, PPL Electric filed a proposed tariff supplement to implement the DSIC Rider with an effective date of May 1, 2013. PPL Electric designated the same property as DSIC-eligible as it included in its Commission-approved LTIIP, including poles and towers, overhead and underground conductors, transformers and distribution substation equipment, fixtures and devices related to the eligible property such as insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers, unreimbursed costs related to highway relocation projects, and other related capitalized costs.

10. By Order entered May 23, 2013, the Commission approved PPL Electric's DSIC, subject to refund, pending final resolution of four issues reserved for further

[1] *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Final Implementation Order entered on August 2, 2012). The Final Implementation Order establishes procedures and guidelines necessary to implement Act 11 and specifically adopts the requirements established in 66 Pa.C.S. § 1353 for the DSIC filing. In addition, the Commission provided a model tariff which the utilities were instructed to use in preparing their DSIC tariff.

litigation.[2] *See Petition of PPL Electric Utilities Corporation for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2325034 (Opinion and Order entered may 23, 2013). PPL Electric's current Commission-approved DSIC tariff is attached hereto as Appendix A.

11. Pertinent to the pending Petition, PPL Electric's Commission-approved DSIC tariff includes, among other things, a 5% cap on the total amount of revenue that can be collected through PPL Electric's DSIC as determined on an annualized basis.[3]

12. PPL Electric is undertaking a very aggressive plan to repair and replace its aging distribution infrastructure, consistent with its Asset Optimization Plan and LTIIP. PPL Electric's investments in its DSIC eligible distribution infrastructure are reflected in the DSIC. However, PPL Electric's DSIC recovery is limited to the 5% cap between rate cases.

13. Section 1358(a)(1) of the Public Utility Code provides that the "[C]omission may upon petition grant a waiver of the 5% limit under this paragraph for a

[2] The four issues reserved for further litigation are: (1) Whether customers taking service under Rate Schedule LP-5 at transmission voltage rates should be included under the DSIC charge; (2) If revenues associated with the Act 129 Compliance Rider (ACR), Smart Meter Rider, Universal Service Rider, Net Metering Rider, and Competitive Enhancement Rider set forth in PPL Electric's tariffs are properly included as distribution revenues; (3) Impact of accumulated deferred income taxes associated with DSIC investments; and (4) Calculation of state income tax component of the DSIC revenue requirement. On July 25, 2014, Administrative Law Judge Kandace F. Melillo issued a Recommended Decision regarding these four issues. These issues currently are pending before the Commission for final disposition.

[3] Consistent with 66 Pa.C.S. § 1358 and the Commission's Model Tariff, PPL Electric's Commission-approved DSIC also includes: annual reconciliations performed by PPL Electric; audits conducted by the Commission; customer notice of any changes in the DSIC; a reset of the DSIC to zero as of the effective date of new base rates that include the DSIC-eligible plant; and provisions for the charge to be set at zero if, in any quarter, PPL Electric's most recent earnings report shows that PPL Electric is earning a rate of return that exceeds the allowable rate of return used to calculate its DSIC revenue requirement. *See* Appendix A.

utility in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service." *Id.*

14. PPL Electric herein requests a waiver of the 5% cap on costs recovered through the DSIC, and approval to increase the DSIC cap from 5% to 7.5% of distribution revenues. *Pro forma tariff* pages for the proposed increase in the DSIC cap from 5% to 7.5% of billed revenues are attached hereto as Appendix B.

15. As explained below, the revenue provided by the DSIC with a 5% cap is not sufficient for PPL Electric to maintain its level of investment in its DSIC eligible distribution infrastructure for the long-term. PPL Electric is seeking to increase the DSIC surcharge cap to 7.5% to ensure that customers continue to receive safe and reliable service in the future as required by Section 1501, 66 Pa.C.S. § 1501, without the need to increase the frequency of base rate filings.

II. <u>AN INCREASE IN THE DSIC IS PROPER AND IN THE PUBLIC INTEREST</u>

16. Recognizing the need to continue to improve the infrastructure and provide reliable service to customers, PPL Electric has undertaken a very aggressive infrastructure repair and replacement plan, consistent with its Asset Optimization Strategy and LTIIP. The DSIC has been an integral tool in enabling PPL Electric to repair and replace aging distribution infrastructure to ensure that customers continue to receive safe and reliable service.

17. As explained above, PPL Electric's distribution system currently includes approximately 352 distribution substation facilities and approximately 43,000 miles of distribution lines operating at less than 69 kV. However, nearly half of PPL Electric's distribution system was constructed 40 or more years ago, as a result of the economic

expansion and building boom of the 1960's and 1970's. This equipment is nearing or has surpassed its design lifetime.

18. Starting in 2007, PPL Electric undertook a study to develop a cost-effective strategy to combat the anticipated effects of aging infrastructure and bolster PPL Electric's ability to effectively maintain reliable electric service. The Asset Optimization Strategy was developed to address the predicted wave of equipment failures that would result due to the aging distribution asset base. The plan includes accelerated replacements in kind, as well as upgrades of equipment and facilities to current standards.[4]

19. PPL Electric has refined its processes and work planning efforts in support of the sustained investment levels identified in the Asset Optimization Strategy. The Company's business plan reflects additional strategies focused on reducing the average impact of each outage through prudent investments in new protection infrastructure and technology.

20. PPL Electric's Commission-approved LTIIP is a continuation of the accelerated infrastructure replacements and repairs that were identified in the Asset Optimization Strategy, in addition to various other prudent capital investments to ensure the safety and reliability of the distribution system. The investments are expected to substantially reduce equipment failure projections in the short-term and eventually

[4] A utility with an approved DSIC and LTIIP is required to file an asset optimization plan. *See* 66 Pa.C.S. § 1356. PPL Electric's most current Annual Asset Optimization Plan was filed with the Commission on February 27, 2015.

reverse the trend in the long-term. The Company has and will continue the accelerated level of investment for the five year period covered in PPL Electric's LTIIP.[5]

21. The DSIC is an important tool in combating the aging distribution infrastructure on PPL Electric's system, which has led to an increased number of outages in recent years. The DSIC is in the best interest of customers because it ensures that they will continue to receive safe and reliable service in the future as required by 66 Pa.C.S. § 1501.

22. Since March 2013 when the DSIC was implemented, approximately 41% of PPL Electric's DSIC eligible investment was in automation and reliability improvement programs, helping to reduce the outage risk exposure to our customers. Approximately 33% of PPL Electric's DSIC eligible investment was in improving the underground and overhead infrastructures, and approximately 24% was invested in upgrading the substation infrastructure and restoring and improving pole plant system wide. As a result of these DSIC eligible investments, PPL Electric's customers have experienced system-wide reliability improvements, including: a 16% reduction in System Average Interruption Frequency Index (SAIFI); a 20.4% reduction in System Average Interruption Duration. Index (SAIDI); a 44.6% reduction in the number of customers experiencing 3 or more multiple interruptions (CEMI >3).

---

[5] As a precondition to the implementation of a DSIC, each utility must file an LTIIP with the Commission that is consistent with the provisions of Section 1352 of the statute. 66 Pa.C.S. §§ 1352(a), 1353(b)(3). PPL Electric's LTIIP is in full compliance with the Commission's Implementation Order and 66 Pa.C.S. § 1352. *Petition of PPL Electric Utilities Corporation pursuant to Act 11 of 2012, the Final Implementation Order of Act 11 and 66 Pa. C.S. §1352, for approval of its Long-Term Infrastructure Improvement Plan*, Docket No. P-2012-2325034, pp. 15-16 (Opinion and Order entered January 10, 2013).

23. Consistent with the Commission's Implementation Order, PPL Electric has projected in its LTIIP additional accelerated investment as a result of the implementation of a DSIC.

24. Although the repair and replacement of the aging distribution infrastructure on PPL Electric's system is recoverable under the DSIC surcharge, PPL Electric's DSIC recovery is limited to the 5% cap between rate cases. Over the period of March 2013 through February 2015 PPL Electric has placed approximately $275 million of gross DSIC eligible plant in service. PPL Electric currently projects to place another $75 million of DSIC eligible plant in service by August of 2015, which is when the Company projects to reach the 5% DSIC cap.

25. Increasing the maximum DSIC rate by 2.5% will facilitate an additional $280 million in DSIC-eligible capital expenditures. This will provide PPL Electric with additional resources to expand the repair and replacement of its aging infrastructure and support the policy of Act 11 to address needed infrastructure investment.

26. Increasing the maximum DSIC rate to 7.5% also will help to reduce the potential need for more frequent base rate proceedings, with their attendant increased rate case expense. Without the increase in the DSIC cap from 5% to 7.5%, the Company would need to consider a plan to either slow its level of investment or file more frequent base rate cases in order to secure the necessary increase in revenue to cover the significant costs associated with needed repair and replacement of the aging distribution infrastructure.

27. The incremental cost to customers is small when compared to the noticeable benefits. The current monthly cost of the DSIC at the maximum surcharge

rate of 5% for an average residential customer is approximately $2.47 per month. Increasing the maximum DISC rate to 7.5% is expected to result in an estimated increased customer cost of approximately $3.70 per month at the cap. However, because the DSIC rate increases gradually each quarter, the average increase per quarter likely would be less than this amount.

28. Act 11 and the Commission have established adequate safeguards in the DSIC process to ensure that the DSIC is appropriately monitored and that ratepayers are adequately protected. *See* Appendix A (setting forth the safeguards in the current DSIC); *see also* Appendix B (setting forth the safeguards in the proposed DSIC).

29. The value of accelerated distribution infrastructure improvement is substantial, benefiting customers today and well into the future with safe, reliable, and reasonably continuous electric service.

III. CUSTOMER NOTICE

30. PPL Electric has served copies of the filing on the Pennsylvania Office of Consumer Advocate, Pennsylvania Office of Small Business Advocate, and the Commission's Bureau of Investigation and Enforcement.

31. This filing will be posted on PPL Electric's web site at www.pplelectric.com.

32. The Company also requests that the Commission publish notice of this filing in the Pennsylvania Bulletin, and that a reasonable deadline for intervention be set as part of that notice.

33. PPL Electric believes that these various communications initiatives will provide all interested parties with full notice of the Company's proposal to increase its maximum DSIC surcharge to 7.5% and an opportunity to participate in any Commission

proceeding addressing the proposal. However, if the Commission concludes that additional notice would be appropriate, the Company will provide such additional notice as the Commission may direct.

IV. CONSOLIDATION OF RELATED PROCEEDINGS

34. The Commission's regulations permit the consolidation of proceedings involving common questions of law or fact. *See* 52 Pa. Code § 5.81.

35. This Petition is being filed concurrently with PPL Electric's 2015 base rate case, which is being filed at Docket No. R-2015-2469275.

36. Issues related to the DSIC and the 2015 base rate case are interrelated, including rolling-in the current DSIC revenues into base rates and resetting the DSIC to zero.

37. Because issues related to the waiver and increase in the DSIC cap from 5% to 7.5% of billed revenues requested herein are interrelated to the 2015 base rate case, PPL Electric respectfully requests that this DSIC Petition be consolidated with and considered in conjunction with the base rate case at Docket No. R-2015-2469275.

V. CONCLUSION

38. PPL Electric respectfully requests approval to implement the *pro forma* tariff supplement as set forth in Appendix B. PPL Electric is seeking to increase its maximum DSIC surcharge to 7.5% in order to continue its infrastructure repair and replacement plan, consistent with its Asset Optimization Strategy and LTIIP.

39. The requested increase in the maximum DSIC surcharge will help the Company, Commission, and other parties avoid an increase in rate case expenses that would result if PPL Electric were forced to file more frequent base rate cases to recover costs associated with the need to repair and replace its aging distribution infrastructure.

40. The requested increase in the maximum DSIC surcharge will afford PPL Electric the opportunity to undertake additional and accelerated distribution infrastructure construction projects that might otherwise need to be deferred due to their cost.

41. The requested increase in DSIC will provide funds sufficient for PPL Electric to improve the infrastructure of its distribution system by, *inter alia*, reducing the average impact of each outage through prudent investments in new protection infrastructure and technology.

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission (i) grant a waiver of the current Distribution System Improvement Charge cap of 5% of billed revenues, (ii) approve an increase the maximum allowable Distribution System Improvement Charge from 5% to 7.5% of billed revenue for service rendered on or after January 1, 2016, as set forth in the *pro forma* a tariff supplement provided in Appendix B, and (iii) consolidate this Petition with the base rate case filed at Docket No. R-2015-2469275.

Respectfully submitted,

David B. MacGregor (ID # 28804)
Christopher T. Wright (ID # 203412)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: dmacgregor@postschell.com
E-mail : cwright@postschell.com

Paul E. Russell (ID #21643)
Kimberly A. Klock (ID # 89716)
PPL Services Corporation
Office of General Counsel
Two North Ninth Street
Allentown, PA 18106
Phone: 610-774-4254
Fax: 610-774-6726
E-mail: perussell@pplweb.com
E-mail : kklock@pplweb.com

Of Counsel:

Post & Schell, P.C.

Date: March 31, 2015

Attorneys for PPL Electric Utilities Corporation

APPENDIX “A”

PPL Electric Utilities Corporation

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) **(C)**

In addition to the net charges provided for in this Tariff, a charge of 3.15% will apply **(C)** consistent with the Commission Order dated May 23, 2013, at Docket No. P-2012-2325034, approving the DSIC. This charge will be effective during the period January 1, 2015 through March 31, 2015.

GENERAL DESCRIPTION

A. Purpose: To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide PPL Electric with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements and to develop and implement solutions to regional supply problems.

The costs of extending facilities to serve new customers are not recoverable through the DSIC.

B. Eligible Property: The DSIC-eligible property will consist of the following:

- Poles and towers (Account 364);
- Overhead conductors (Account 365) and underground conduit and conductors (Accounts 366 and 367);
- Line transformers (account 368) and substation equipment (Account 362);
- Any fixture or device related to eligible property listed above, including insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers;
- Unreimbursed costs related to highway relocation projects where an electric distribution company must relocate its facilities; and
- Other related capitalized costs.

C. Effective Date: The DSIC will become effective for bills rendered on and after July 1, 2013.

(Continued)

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) (Continued) **(C)**

COMPUTATION OF THE DSIC

A. Calculation: The initial DSIC, effective July 1, 2013, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in PPL Electric's rates or rate base and will have been placed in service between March 1 through May 31, 2013. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows: **(C)**

Effective Date of Change	Date to which DSIC-Eligible Plant Additions Reflected
April 1, 2014	December 1 – February 28, 2014
July 1, 2014	March 1 – May 31, 2014
October 1, 2014	June 1 – August 31, 2014
January 1, 2015	September 1 – November 30, 2014

B. Determination of Fixed Costs: The fixed costs of eligible distribution system improvements projects will consist of depreciation and pre-tax return, calculated as follows:

1. Depreciation: The depreciation expense shall be calculated by applying the annual accrual rates employed in PPL Electric's most recent base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded to the original cost of DSIC-eligible property.

2. Pre-tax return: The pre-tax return shall be calculated using the statutory state and federal income tax rates, PPL Electric's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in PPL Electric's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.

C. Application of DSIC: The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer for distribution service under PPL Electric's otherwise applicable rates and charges, excluding amounts billed for the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by PPL Electric's projected revenue for distribution service (including all applicable clauses and riders) for the quarterly period during which the charge will be collected, exclusive of the STAS.

(Continued)

PPL Electric Utilities Corporation

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) (Continued)

COMPUTATION OF THE DSIC (Continued)

D. Formula: The formula for calculation of the DSIC is as follows:

$$\text{DSIC} = \frac{((\text{DSI} \times \text{PTRR})+\text{Dep}+\text{e}) \times \frac{1}{(1-\text{T})}}{\text{PQR}}$$

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.

PTRR = Pre-tax return rate applicable to DSIC-eligible property.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated under the annual reconciliation feature or Commission audit, as described below.

PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period.

T = Pennsylvania gross receipts tax rate in effect during the billing month, expressed in decimal form.

Minimum bills shall not be reduced by reason of the DSIC, nor shall charges hereunder be a part of the monthly rate schedule minimum. The DSIC shall not be subject to any credits or discounts. The State Tax Adjustment Surcharge (STAS) included in this Tariff is applied to charges under the DSIC.

QUARTERLY UPDATES

Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

(Continued)

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) (Continued)

CUSTOMER SAFEGUARDS

A. Cap: The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

B. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to PPL Electric's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection.

C. New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in PPL Electric's rates or rate base will be reflected in the quarterly updates of the DSIC.

D. Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert also shall be included with the first billing.

E. All customer classes: The DSIC shall be applied equally to all customer classes.

F. Earning Reports: The DSIC also will be reset at zero if, in any quarter, data filed with the Commission in PPL Electric's then most recent Annual or Quarterly Earnings reports (Schedule D-2) show that PPL Electric would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section.

APPENDIX "B"

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) (Continued)

CUSTOMER SAFEGUARDS

A. Cap: The DSIC is capped at 7.5~~.0~~% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

B. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to PPL Electric's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection.

C. New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in PPL Electric's rates or rate base will be reflected in the quarterly updates of the DSIC.

D. Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert also shall be included with the first billing.

E. All customer classes: The DSIC shall be applied equally to all customer classes.

F. Earning Reports: The DSIC also will be reset at zero if, in any quarter, data filed with the Commission in PPL Electric's then most recent Annual or Quarterly Earnings reports (Schedule D-2) show that PPL Electric would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section.

VERIFICATION

I, Bethany L. Johnson, being the Manager-Regulatory Compliance at PPL Electric Utilities Corporation, hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief and that I expect PPL Electric Utilities Corporation 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.

Date: 03/13/2015

Bethany Johnson