BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation for Approval of an Energy Efficiency and Conservation Plan

Docket No. M-2012-2334388

PPL Electric Utilities Corporation

Statement No. 3

Direct Testimony of Joseph M. Kleha

Date: December 4, 2012

Direct Testimony of Joseph M. Kleha

Q. Please state your full name and business address.

A. Joseph M. Kleha, Two North Ninth Street, Allentown, Pennsylvania, 18101.

Q. By whom are you employed and in what capacity?

A. I am employed by PPL Electric Utilities Corporation ("PPL Electric"), a subsidiary of PPL Corporation, as its Manager - Regulatory Compliance and Rates. I assumed this position on January 12, 2009.

Q. What are your duties as Manager - Regulatory Compliance and Rates?

A. I am responsible for PPL Electric's compliance with the regulatory requirements of the Pennsylvania Public Utility Commission ("PUC" or the "Commission"), the Federal Energy Regulatory Commission ("FERC") and other regulatory agencies, as necessary. As part of this function, I am responsible for the preparation and review, and technical oversight and guidance, of the development, content and structure of cost allocation and revenue requirement studies. In addition, I am responsible for all aspects of PPL Electric's rates and tariffs. I also prepare and present expert testimony regarding these and other cost-of-service and ratemaking-related issues.

Q. What is your educational background?

A. I graduated from The Pennsylvania State University in May 1974 with a Bachelor of Science Degree in Accounting. Since that time, I have taken specialized courses dealing with public utility accounting, depreciation and rate design. In addition, I attended the National Association of Regulatory Utility Commissioners' Regulatory Studies Program.

Q. Please describe your professional experience.

A. I was employed by the Pennsylvania Department of Public Welfare as Field Auditor and Institutional Collections Officer from 1974 to 1977. In 1977, I joined the technical staff of the Commission as a Utility Rate Analyst in its Bureau of Rates and Research. In this position, my responsibilities included the review of proposed retail electric rate filings, and the preparation and presentation of testimony in formal rate proceedings. This testimony primarily dealt with the allowable levels and jurisdictional allocations of claimed operating revenues, operating expenses, and rate base. In 1981, I joined PPL Electric, formerly Pennsylvania Power & Light Company, as a Senior Accountant with responsibility for assembling financial data and preparing revenue requirement studies to support its retail and wholesale rate filings. I was named Manager - Regulatory Projects in PPL Electric's Office of General Counsel in 1990. In 2000, as part of a corporate realignment, I became an employee of PPL Services Corporation, along with the other employees in the Office of General Counsel. In 2009, I assumed my current position with PPL Electric.

Q. Have you previously testified as a witness on cost-of-service and ratemaking-related issues?

A. Yes, I have testified before this Commission and the FERC in numerous proceedings regarding cost-of-service and ratemaking-related issues. *See* Appendix A for a list of those proceedings. In addition, I have testified regarding cost-of-service and ratemaking-related issues before the United States Tax Court at Docket No. 25393-07.

Q. Mr. Kleha, briefly describe the subject matter of your testimony in this proceeding.

A. I will describe the calculation of PPL Electric's spending cap for the programs in its Phase II Energy Efficiency and Conservation Plan ("Phase II EE&C Plan"). I also will describe and support PPL Electric's proposed methodology for assigning or allocating the costs of these programs to each customer class. Finally, I will explain the ratemaking mechanism that PPL Electric proposes for recovery of its EE&C Plan compliance costs.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am primarily responsible for and am sponsoring Sections 1.8 and 7 of PPL Electric Exhibit No. 1, the Company's Phase II EE&C Plan. In addition, I am sponsoring PPL Electric Exhibit JMK-1, which is a *pro forma* tariff supplement implementing the Company's proposed cost recovery mechanism – the Act 129 Compliance Rider ("ACR").

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Q. What is PPL Electric's spending limit for its Phase II EE&C Plan under the 2 percent cap in Act 129?

A. The spending limit for the entire three years of the Phase II EE&C Plan is $184.5 million. This limit excludes the $3 million estimated cost of the Statewide Evaluator ("SWE").

Q. How was that limit calculated?

A. Section 2806.1(g) of Act 129 requires that the total cost of any EE&C plan cannot exceed 2% of the Electric Distribution Company's ("EDC") total annual revenues as of December 31, 2006. PPL Electric's total annual revenues for calendar year 2006 were approximately $3 billion ($3,075,068,824). Accordingly, the 2% cost cap established by Act 129 is approximately $61.5 million ($61,501,376). In the Implementation Order entered on August 3, 2012, at Docket Nos. M-2012-2289411, M-2008-2069887, the Commission concluded that this limitation on the "total cost of any plan" should be interpreted as an annual amount, rather than an amount for the full term of the plan. *Energy Efficiency and Conservation Program*, Docket Nos. M-2012-2289411, M-2008-2069887, 2012 Pa. PUC LEXIS 1259 (Implementation Order entered on August 3, 2012) ("*2012 Implementation Order*") at 103. Therefore, the maximum allowable budget identified in the *2012 Implementation Order* for PPL Electric is $184.5 million, *i.e.*, $61.5 million x 3 = $184.5 million. Therefore, the total spending cap for three years is $184.5 million plus an additional $3 million of estimated costs for the SWE that are not subject to the $184.5 million cost cap.[1] PPL Electric projects spending most of the $184.5 million to implement its Phase II EE&C Plan, including administrative costs with some funds directed at the costs incurred to design and develop its Phase II EE&C Plan.

Q. How are the costs to design and develop the Company's Phase II EE&C Plan reflected in its budget for the plan?

A. PPL Electric will spend most of the $184.5 million to implement its Phase II EE&C Plan, including administrative costs. This total cost also includes the costs that PPL Electric incurs to design, develop and modify its Phase II EE&C Plan. In the *2012 Implementation Order*, the Commission found that EDCs should be permitted to recover the incremental cost incurred to design, create, and obtain Commission approval of a plan. Specifically, the Commission directed that recovery of Phase II costs allowed to be incurred in Phase I to be deferred until Phase II recover rates become effective. *2012 Implementation Order* at 114. Accordingly, the Company proposes to amortize and recover those deferred costs ratably over the 36-month life of its Phase II EE&C Plan, *i.e.*, June 1, 2013 through May 31, 2016. The amortization of those costs is included within the $184.5 million spending cap.

[1] $184.5 million is PPL Electric's Act 129 cost cap. In addition, PPL Electric expects to incur approximately $3 million for activities that the Commission determined is not subject to the cost cap. These activities include PPL Electric's share of the SWE's costs and PPL Electric's cost to conduct a net-to gross evaluations each year.

Q. What is the Company's overall approach for determining which customer class is responsible to pay for the programs in its Phase II EE&C Plan?

A. Section 2806.1(a)(11) of Act 129 requires that EE&C measures must be paid for by the same customer class that receives the energy and conservation benefits of those measures. In its *Implementation Order* (at 110), the Commission directed EDCs to first assign the costs relating to each measure to those classes that will receive the benefits. PPL Electric will follow this direct assignment approach wherever possible. However, some costs ("common costs" or "portfolio-level costs") will relate to EE&C measures that are applicable to more than one customer class or that provide system-wide benefits. The Commission directed EDCs to allocate those costs, and general administrative costs, using reasonable and generally acceptable cost of service principles as are commonly utilized in base rate proceedings. 2012 *Implementation Order* at 110. Consistent with this provision of the *2012 Implementation Order*, PPL Electric proposes to allocate such costs using an allocation factor equal to the percentage of the EE&C costs directly assigned to each customer class to the total EE&C costs directly assigned to all customer classes.

Q. Please describe the rate mechanism PPL Electric is proposing for recovery of the costs of its EE&C Plan.

A. Section 2806.1(k)(1) of Act 129 authorizes EDCs to recover the costs of their EE&C plan through a reconcilable adjustment clause under Section 1307 of the Public Utility Code. The Commission reiterated this requirement in the *2012 Implementation Order*. *2012 Implementation Order* at 118. In its EE&C Plan filing, PPL Electric included *pro forma* tariff pages to implement such a cost recovery mechanism. The *2012 Implementation Order* also directs that such cost recovery mechanisms must be non-bypassable, and not affect the EDC's price-to-compare, if the Phase II EE&C Plan benefits both shopping and non-shopping customers. Because all of the programs included in PPL Electric's proposed Phase II EE&C Plan will benefit both shopping and non-shopping customers, the Company has designed its cost recovery mechanism to be non-bypassable. For residential customers, the cost recovery mechanism will be applied as a levelized cents/kWh component included in the distribution charge. For small commercial and industrial ("Small C&I") customers, the cost recovery mechanism will be applied as a levelized cents/kWh charge that will be a separate line item on the customer's bill. For large commercial and industrial ("Large C&I"), the cost recovery mechanism will be applied as a $/kW charge, as a separate line item on the customer's bill, where the demand (kW) is the customer's PJM Interconnection, LLC Peak Load Contribution which may change yearly.

Q. How many different rates will be reflected in the ACR?

A. The Company proposes to calculate separately the applicable plan costs for each of the three major customer classes on its system: (1) residential, (2) Small C&I, and (3) Large C&I. These costs will vary in each program year of the Phase II EE&C Plan. However, over the three program years, the total costs of the Phase II EE&C Plan for all customer classes will not exceed $184.5 million.

Q. Please describe how PPL Electric proposes to set the annual rates under the ACR.

A. Although costs will vary year-to-year, PPL Electric proposes to recover those costs on a levelized basis as the preference of stakeholders. Annual budget amounts for each customer class will be developed on a levelized basis for the three years of the Company's proposed EE&C Plan. The budget amounts will be adjusted by $1 million to include the annual costs that PPL Electric will incur to pay for the SWE. Section 2806.1(h) of Act 129 provides that the Commission can recover such program implementation costs from EDCs, and logically it follows that EDCs can recover those costs from customers. The costs for the SWE and for the Company's net-to-gross evaluations are not included under the Company's 2% cost cap. In establishing that cost cap, Section 2806.1(g) specifically characterizes the cap as a limitation on the "total costs of any plan required under this section." Because the costs of the SWE are not the costs of PPL Electric's EE&C Plan, they are not subject to the limitation set forth in Section 2806.1(g). The Commission has determined that costs for annual net-to-gross evaluations are not subject to the cost cap.

Q. Please describe the Company's proposed ACR reconciliation mechanism.

A. For each customer class, PPL Electric proposes to separately reconcile the revenues collected under the cost recovery mechanism with the adjusted budget amounts for that year. This reconciliation, which will be performed on an annual basis, primarily will reflect variations in actual sales from forecasted sales. The Company does not propose to reconcile the revenues collected under the cost recovery mechanism to its actual spending levels in each year. As discussed above, those spending levels can vary from year-to-year. Although allowed in the *2012 Implementation Order*, PPL Electric does not propose to collect or pay interest on under- or over-collections of Act 129 costs.

Q. Is the Phase II recovery mechanism a separate cost recovery mechanism from that used in Phase I?

A. Yes. The Phase II recovery mechanism is to be a separate cost recovery mechanism from that used in Phase I and will be accounted for and reconciled separately from Phase I funds. PPL Electric's Phase II cost recovery mechanism is set forth in its *pro-forma* supplement to Tariff-Electric Pa. PUC No. 201 and included as Appendix G to the Phase II EE&C Plan and appended hereto as Exhibit JMK-1. The current ARC provides the final reconciliation procedure for the Company's Phase I Plan. Specifically, at the conclusion of the Phase I EE&C Plan, and all subsequent EE&C plans, collections under the ACR for each customer class will be reconciled to the total cost of that EE&C Plan allowed by the Commission for that customer class. Over collections or under collections will be reflected in the E factor, and will be refunded or recovered through the ACR calculated for the first compliance year of the subsequent EE&C Plan. If the Company does not implement a subsequent EE&C Plan, the current ACR will be continued for an additional year to refund any over collections or recover any under collections. PPL Electric has not proposed to modify its reconciliation procedure in this proceeding. However, the ACR for Phase I and

Phase II of the Company's EE&C Plans will be shown as a single line item on customers' bills.

Q. Is PPL Electric proposing any other mechanisms for adjusting the ACR?

A. Yes. In addition to the annual reconciliation, PPL Electric proposes to make "mid-course" corrections in the cost recovery mechanism to reflect major changes to any of its EE&C programs. Midcourse corrections will be submitted to the Commission for approval. Finally, at the end of the three-year EE&C Plan, the Company will reconcile total revenue collected to its total actual expenditures budget for the three-year EE&C Plan. The annual reconciliation, any "mid-course" corrections, and the end of plan reconciliation will be subject to Commission review and approval before PPL Electric adjusts customers' rates.

Q. Is the Company proposing any expiration date for the ACR?

A. No. PPL Electric is not proposing an expiration date for the cost recovery mechanism. The mechanism will be needed to refund any over collection or recover any under collection existing at the end of the three-year Phase II EE&C Plan and for the purpose of any ongoing program cost recovery.

Q. Is the Company proposing including any capital costs as part of the Act 129 Phase II cost recovery rider?

A. No. PPL Electric is not including any capital costs as part of the Act 129 Phase II cost recovery rider nor will any capital costs be placed into rate base outside of a base rate proceeding.

Q. Does this conclude your direct testimony?

A. Yes, it does

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Exhibit JMK-1

Act 129 Compliance Rider

ACT 129 COMPLIANCE RIDER

An Act 129 Compliance Rider (ACR) shall be applied, on a non-bypassable basis, to charges for electricity supplied to customers who receive distribution service from the Company under this Tariff. The Rider will be implemented by applying a charge to bills of customers beginning January 1, 2010.

The ACR shall be computed separately for each of the following three customer classes:

(1) Residential: Consisting of Rate Schedules RS, RTS (R), and RTD (R),
(2) Small Commercial and Industrial (Small C&I): Consisting of Rate Schedules GS-1, GS-3, IS-1 (R), BL, SA, SM, SHS, SE, TS (R), SI-1 (R), GH-1 (R), and GH-2 (R), and
(3) Large Commercial and Industrial (Large C&I): Consisting of Rate Schedules LP-4, IS-P (R), LP-5, LP-6, LPEP, IS-T (R), and L5S.

The ACR will be computed for each customer receiving distribution service from the Company using the formulae described below. For residential customers, the ACR charge shall be included in the distribution charges of the monthly bill. For all other customers, the ACR charge shall be listed as a separate charge on the monthly bill. All charges shall be reconciled on an annual basis for undercollections and overcollections experienced during the previous year. Charges set forth in the residential rate schedules in this tariff have been adjusted to reflect application of the currently effective ACR.

The ACR for the Residential class and the Small C&I class shall be computed using the following formula:

ACR = [ACc/S - E/S] X 1 / (1-T)

The ACR for the Large C&I class shall be computed using the following formula:

ACR = [ACc/D - E/D] X 1 / (1-T)

Where:

ACc = A levelized annual budget of all costs required for the Company to implement its Commission-approved energy efficiency and conservation (EE&C) Plan during a compliance year. A compliance year is the 12-month period beginning June 1 of each calendar year and ending May 31 of the following calendar year. The levelized annual budget amount is the sum of all direct and indirect costs (including all deferred design and development costs, general administrative costs, and applicable statewide evaluator costs) required to implement the Company's EE&C Plan divided by the number of months during which the Company's EE&C Plan will be in effect multiplied by the number of months in the compliance year.

The costs of each EE&C program available to only one customer class will be directly assigned to that customer class. Costs of EE&C programs which cannot be directly assigned to one customer class will be allocated to the customer classes benefiting from those programs using an allocation factor determined by dividing the EE&C costs directly assigned to each customer class by the total of the Company's EE&C Plan costs directly assigned to all customer classes.

(Continued)

ACT 129 COMPLIANCE RIDER (CONTINUED)

D = For the Large C&I customer class, the total of the monthly billing demands for all customers in the class, projected for the computation year. The peak demand will be based on the customer's peak load contribution to the PJM peak load during the prior year of the PJM Planning Year.

E = Net over or undercollection of the ACR charges as of the end of the 12-month period ending April 30 immediately preceding the next compliance year. Phase I ACR revenues and expenses shall be accounted for and reconciled separately from Phase II revenues and expenses. Reconciliation of the ACR will be conducted separately for each of the three customer classes based upon the annual EE&C budget for each customer class. No interest shall be computed monthly on over or undercollections. The reconciliation of Phase I revenues and expenses shall be adjusted during the 2013–2014 ACR application year to reflect actual data for the month of May 2013 and any expenses incurred during Phase I but not paid until after the end of Phase I.

S = The Company's total retail KWH sales to customers in each customer class who receive distribution service under this tariff (including distribution losses), projected for the computation year.

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

The ACR shall be filed with the Pennsylvania Public Utility Commission (Commission) by May 1 of each year. The ACR charge shall become effective for distribution service provided to all customers on or after the following June 1, unless otherwise ordered by the Commission, and shall remain in effect for a period of one year, unless revised on an interim basis subject to the approval of the Commission. Upon determination that a customer class's ACR, if left unchanged, would result in a material over or undercollection of Act 129 Compliance costs incurred or expected to be incurred during the current 12-month period ending May 31, the Company may file with the Commission for an interim revision of the ACR to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.

At the conclusion of each EE&C Plan, collections under the ACR for each customer class will be reconciled to the total cost of the EE&C Plan allowed by the Commission for that customer class. Overcollections or undercollections will be reflected in the E factor, defined above, and will be refunded or recovered through the ACR calculated for the first compliance year of the subsequent EE&C Plan. If the Company does not implement a subsequent EE&C Plan, the current ACR will be continued for an additional year to refund any overcollections or recover any undercollections.

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

The Company shall file a report of collections under the ACR within thirty (30) days following the conclusion of each computation-year quarter. These reports will be in a form prescribed by the Commission. The third-quarter report shall be accompanied by a preliminary forecast of the ACR for the next computation year.

Application of the ACR shall be subject to review and audit by the Commission at intervals it shall determine. The Commission shall review the level of charges produced by the ACR and the costs included therein.

(Continued)

Proceedings in Which Mr. Kleha Provided Expert Testimony

As an analyst in the Pennsylvania Public Utility Commission's ("PUC") former Bureau of Rates and Research, Mr. Kleha offered testimony in the following electric utility rate proceedings:

Company	Docket No.
Duquesne Light Company	R-79010740
UGI Corp. - Luzerne Division	R-79050863
Philadelphia Electric Company	R-79060865
West Penn Power Company	R-80021082
Pennsylvania Power & Light Co.	R-80031114
Metropolitan Edison Company	R-80051196
Pennsylvania Electric Company	R-80051197

As an employee of PPL Electric and PPL Services, Mr. Kleha has offered expert testimony in the following electric and gas utility proceedings before the PUC and the Federal Energy Regulatory Commission ("FERC").

PA PUC	FERC
Docket No. I-900005	Docket No. ER88-545-000
Docket No. P-910521	Docket No. ER91-322-000
Docket No. M-00930406	Docket No. ER95-1267-000
Docket No. C-00935175	Docket No. ER96-930-000
Docket No. C-00935403	Docket No. ER96-931-000
Docket No. R-00943271	Docket No. ER96-932-000
Docket No. C-00957559	Docket No. ER96-933-000
Docket No. P-00961023	Docket No. ER96-1428-000
Docket No. C-00967591	Docket No. SC97-1-000
Docket No. C-00967955	Docket No. OA96-142-000
Docket No. C-00968035	Docket No. ER97-4829-000
Docket No. P-00961114	Docket No. ER97-3189-007
Docket No. R-00973954	Docket No. EL98-25-000
Docket No. P-00001789	Docket No. ER02-597-000
Docket No. M-FACE9908	Docket No. ER03-421-002
Docket No. R-00005277	Docket No. ER04-056-000
Docket No. M-FACE0008	Docket No. ER08-1457-000
Docket No. M-FACE0111	Docket No. ER09-1148-000
Docket No. R-00016850	Docket No. ER10-152-000
Docket No. M-FACE0212	Docket No. ER10-1209-000
Docket No. M-FACE0311	Docket No. ER12-1397-000
Docket No. R-00049255*	
Docket No. M-FACE0411	
Docket No. M-FACE0510	
Docket No. M-FACE0511	

PA PUC	**FERC**
Docket No. R-00061398	
Docket No. P-00062227	
Docket No. M-FACE0611	
Docket No. M-FACE0612	
Docket No. M-2008-2012856	
Docket No. R-00061906	
Docket No. R-2008-2013780	
Docket No. R-00072155	
Docket No. A-2008-2034047 etc.	
Docket No. P-2008-2060309	
Docket No. A-2008-2022941	
Docket No. M-2008-2078645	
Docket No. M-2008-2078647	
Docket No. M-2008-2078709	
Docket No. M-2008-2078713	
Docket No. A-2009-2082652	
Docket No. M-2009-2093216	
Docket No. M-2009-2123945	
Docket No. P-2009-2129502	
Docket No. R-2009-2122718	
Docket No. M-2009-2145186	
Docket No. M-2009-2145189	
Docket No. M-2009-2145838	
Docket No. M-2009-2145273	
Docket No. R-2010-2161694*	
Docket Nos. C-2010-2160921/ C-2010-2164071	
Docket No. M-2010-2213701	
Docket No. M-2010-2213731	
Docket No. M-2010-2213754	
Docket No. M-2010-2208246	
Docket No. M-2011-2239839	
Docket No. M-2011-2240268	
Docket No. M-2011-2240269	
Docket No. M-2011-2240273	
Docket Nos. C-2011-2245906/ M-2011-2243137	
Docket No. P-2011-2256365	
Docket No. M-2011-2258256	
Docket No. R-2011-2264771	
Docket No. M-2011-2276341	
Docket No. R-2012-2290597	