June 27, 2019

VIA ELECTRONIC FILING

Hon. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re:  PPL Electric Utilities Corporation
Revisions to Attachment H-8A of the PJM Interconnection, L.L.C.
Open Access Transmission Tariff, Docket No. ER19-2274-000

Dear Secretary Bose:


As explained below, the MDTAC is a monthly charge through which PPL Electric recovers a fixed amount of deferred income tax liability resulting from PPL Electric’s shift from the flow-through to full normalization method for recovery of federal and state income taxes in 2008.4 PPL Electric recovers the MDTAC only from customers that serve PPL

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2 PJM Tariff at Attachment H-8A (“Attachment H-8A”).

3 Pursuant to Order No. 714, this filing is submitted by PJM on behalf of PPL Electric as part of an XML filing package that conforms with the Commission’s regulations and the December 1, 2016 Notice of Additional eTariff Type of Filing Codes in Docket No. RM01-5-000. PJM has agreed to make all filings on behalf of the PJM Transmission Owners in order to retain administrative control over the PJM Tariff. Thus, PPL Electric requested PJM submit this filing in the eTariff system as part of PJM’s electronic Intra PJM Tariff.

Electric’s former bundled rate retail customers and who currently take retail distribution service from PPL Electric (“Distribution Customers”) under PPL Electric’s retail tariff on file with the Pennsylvania Public Utility Commission (“PA PUC”).

The tax gross-up portion of the stated MDTAC was calculated using the 35% federal corporate income tax rate in effect when the Commission approved the MDTAC in 2012. However, due to the reduction in the federal corporate income tax rate implemented by the Tax Cuts and Jobs Act (“TCJA”), the MDTAC no longer accurately represents PPL Electric’s deferred tax liability. Accordingly, PPL Electric proposes limited revisions to the MDTAC formula to reflect the reduction in the federal corporate income tax rate. Once effective, the Proposed Revisions will result in a reduction of the MDTAC and immediate savings to Distribution Customers through a reduction in their transmission costs. The Proposed Revisions will not affect transmission customers or the cost of transmission service under PPL Electric’s cost of service transmission formula rate (“Formula Rate”). PPL Electric requests that the Commission approve the Proposed Revisions effective September 1, 2019.

I. BACKGROUND

1. PPL Electric’s Formula Rate and Deferred Tax Adjustment Charge

PPL Electric is a public utility organized under the laws of the Commonwealth of Pennsylvania, and a wholly owned subsidiary of PPL Corporation. PPL Electric’s transmission system consists of approximately 5,000 miles of electric transmission lines and covers a service territory of approximately 10,000 square miles. All of PPL Electric’s transmission facilities are located in the PJM Region and are under the operational control of PJM.

Prior to 2008, PPL Electric recovered its annual transmission service revenue requirement through a stated rate filed with and accepted by the Commission. Consistent with the PA PUC’s decision requiring the use of the flow-through method for PPL Electric’s original bundled retail rates, PPL Electric calculated its recoverable income tax component of

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5 See Attachment H-8A.


7 PPL Electric’s Formula Rate is Attachment H-8G to the PJM Tariff. On February 28, 2019, PPL Electric filed proposed revisions to its Formula Rate to allow for the return or recovery of excess or deficient ADIT associated with the reduction in the federal income tax rate. Those revisions are pending before the Commission in Docket No. ER19-1145-000.

its stated rate in accordance with the flow-through method.\(^9\) In 2008, the Commission approved PPL Electric’s request to use a cost-of-service formula rate to calculate its annual transmission revenue requirement for each rate year, subject to settlement proceedings.\(^10\) When PPL Electric implemented its Formula Rate, it changed its transmission ratemaking methodology for recovery of income taxes from flow-through to full normalization in accordance with Commission precedent.\(^11\)

In 2011, PPL Electric determined that due to PPL Electric’s conversion to full normalization from the flow-through method, PPL Electric would not fully recover its deferred tax liability for its transmission assets in service at the time it implemented the Formula Rate in 2008. In the March 2012 Filing, PPL Electric proposed revisions to Attachment H-A to implement a mechanism to address the deficiency and recover deficient amounts solely for the period prior to implementing its Formula Rate.\(^12\) Using the South Georgia method, PPL Electric calculated its total deferred taxes using 2008 cost of service data taken from its 2008 FERC Form No. 1, and then determined the difference in deferred taxes under the flow-through and normalization methods to calculate its unfunded future tax liability (“Taxes Recoverable Through Future Rates” or “Recoverable Taxes”).\(^13\) PPL Electric then calculated the tax gross-up on the Recoverable Taxes by multiplying this amount by the then-effective federal corporate income tax rate of 35%.\(^14\) This calculation resulted in a fixed sum of deficient taxes to be recovered through future rates, or “Transmission Regulatory Asset To Be Recovered” of $53,338,260 (referred to herein as “TRAR”).\(^15\) When spread over a thirty-four year amortization period, this resulted in a monthly TRAR of $130,731.\(^16\)

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\(^12\) Id. at Exhibit No. PPL-100 at 16.

\(^13\) Id. at 13–14, Exhibit No. PPL-200 at 16–17. As explained in the March 2012 Filing, PPL used 2008 data because the implementation of PPL Electric’s formula rate and the subsequent conversion to normalization occurred in 2008.

\(^14\) Id. at Exhibit No. PPL-100 at 20:12-13.

\(^15\) The total $53,338,260 is made up of a transmission-component of $51,439,409 and a G&I component of $1,898,851. The G&I component is the portion of PPL Electric’s G&I plant that was allocated to transmission pursuant to PPL Electric’s wages and salary allocator (10.0969%) in the 2008 Formula Rate. Id. at Exhibit PPL-100 at 20-23.

\(^16\) PPL Electric calculated the thirty-four year period by dividing PPL Electric’s net transmission plant in service in 2008 by PPL Electric’s 2008 depreciation expense. Id. at 14.
The MDTAC is charged to each applicable customer by multiplying the monthly TRAR of $130,731 by each Distribution Customer’s percentage of the sum of the daily loads of all PPL Electric distribution customers, pursuant to the following formula included in Attachment 8H-A:

$$\text{MDTAC} = \$130,731 \times \frac{\text{DCPL}}{\text{SDCPL}}$$

The Commission accepted the March 2012 Filing and the MDTAC effective June 1, 2012. To date, PPL Electric continues to recover the MDTAC from Distribution Customers using the methodology set forth in Attachment 8H-A.

2. **TCJA and the Commission’s Notice of Proposed Rulemaking**

On December 22, 2017, the President signed into law the TCJA, which reduced the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Thus, beginning January 1, 2018, PPL Electric calculated income taxes owed to the Internal Revenue Service based on a 21% tax rate.18

On November 15, 2018, the Commission issued a Notice of Proposed Rulemaking proposing transmission rate changes to address Accumulated Deferred Income Taxes (“ADIT”) as a result of the TCJA.19 In the ADIT NOPR the Commission proposes to require all utilities with stated rates to refund excess amounts of ADIT resulting from the decrease in the federal corporate income tax rate. Relevant to this Filing, the Commission proposes in the ADIT NOPR that any adjustments should be based on the data used in the utility’s last stated rate filing, and that such filings may be submitted on a single-issue basis.20

II. **PROPOSED TARIFF REVISIONS**

PPL Electric proposes limited revisions to the MDTAC to reflect the reduction in the federal corporate income tax rate under the TCJA. Specifically, PPL Electric proposes to revise Attachment H-8A to delete the current monthly TRAR of $130,731 and replace it with a monthly charge of $106,121, which represents PPL Electric’s updated monthly unfunded

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17 At set forth in Attachment H-8A, “DCPL” equals the daily load of the PPL Electric Distribution Customers served by the Network Customer coincident with the annual peak of the PPL Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff). “SDCPL” equals the sum of the daily loads of all PPL Electric Distribution Customers coincident with the annual peak of the PPL Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff).

18 PPL Electric separately revised its Formula Rate to implement the 21% federal income tax rate and to allow for the flow-back of excess Accumulated Deferred Income Taxes resulting from the reduction in the federal income tax rate. See *PPL Electric Utilities Corp.*, 163 ¶ FERC 61,046 (2018); *PJM Interconnection, L.L.C. and PPL Electric Utilities Corp.*, 167 FERC ¶ 61,083 (2019).


20 *Id.* at PP 19, 40.
tax liability recalculated using the 21% federal income tax rate. Consistent with Commission precedent regarding the impact of the tax rate changes on stated rates, PPL Electric is only proposing to change the MDTAC to use the 21% federal corporate income tax rate to calculate the tax gross up portion used to derive the Monthly TRAR ($130,731).  

As explained in greater detail in the attached prepared testimony of Alexander J. Torok (“Torok Testimony”), PPL Electric first calculated the original sum of Recoverable Taxes using the same 2008 cost of service data used in the March 2012 Filing to calculate the original TRAR, which totaled $53,338,261. PPL Electric then subtracted from this balance amounts that had already been collected through the MDTAC as of January 1, 2018, the date the TCJA went into effect. This resulted in a total outstanding TRAR as of January 1, 2018 of $44,579,281. PPL Electric then recalculated the tax gross-up on the outstanding TRAR using the 21% tax rate. As set forth in the Torok Testimony, this further reduced the total outstanding TRAR to be recovered effective January 1, 2018 from $44,579,281 to $36,679,156 (“Adjusted TRAR”). PPL Electric then divided the Adjusted TRAR by 341, which was the number of months remaining in the original 34-year amortization period as of January 1, 2018. This resulted in a monthly Adjusted TRAR to be recovered through the MDTAC of $107,564.

However, because PPL Electric will continue to recover the MDTAC using the original TRAR until the proposed September 1, 2019 effective date, PPL Electric has further adjusted the Adjusted TRAR to account for excess tax gross-up amounts that PPL Electric will have collected during the period from January 1, 2018 through August 31, 2019. As set forth in the Torok Testimony, this calculation yields a total difference of $463,340, which represents the excess tax gross-up amounts PPL Electric will have collected from January 1, 2018 through August 31, 2019 that it would not have collected had the TRAR been calculated using the 21 percent federal income tax rate effective January 1, 2018. To ensure that Distribution Customers receive the benefit of this excess amount, PPL Electric further reduced the Adjusted TRAR by this amount on a going-forward basis, which will in turn further reduce the MDTAC. Specifically, PPL Electric divided the $463,340 amount by the remaining 321 months left in the 34-year amortization period, which results in a monthly amount of $1,443. PPL Electric then applied this monthly amount to the Adjusted TRAR. Thus, beginning on September 1, 2019, the monthly Adjusted TRAR will be $106,121 (“Final Adjusted TRAR”).

22 The Torok Testimony is included as Exhibit 3 to this Filing.
23 Torok Testimony at 5.
24 Id.
25 Id. at 6–7.
26 Id.
The Final Adjusted TRAR amount will then be recovered on a monthly basis until June 1, 2046, which is the remainder of the 34-year amortization period approved by the Commission pursuant to the formula set forth in Attachment H-8A.27 As demonstrated in Exhibit 1, once the Proposed Revisions are accepted, PPL Electric will calculate the MDTAC as follows:

\[
\text{MDTAC} = \$106,121 \times \frac{\text{DCPL}}{\text{SDCPL}}
\]

PPL Electric is not proposing revisions to the DCPL or the SDCPL. Thus, the methodology for allocating the MDTAC among Distribution Customers remains the same.

PPL Electric’s use of 2008 cost of service data to calculate the Adjusted Recoverable Taxes and Final Adjusted TRAR is consistent with the Commission’s finding in Order No. 475 and proposal in the ADIT NOPR that adjustments to stated rates reflecting changes in federal income tax law should be made using the data used in the utility’s last stated rate case.28 This approach is also consistent with the Commission’s proposed treatment of stated rates in the NOPR.29

III. SINGLE ISSUE RATE TREATMENT

PPL Electric respectfully requests that the Commission treat the Proposed Revisions as a single-issue rate filing. As discussed above, the Proposed Revisions bring the tax gross up portion of the total TRAR recovered through the MDTAC in line with the actual tax laws currently in effect. The Proposed Revisions will result in immediate savings to PPL Electric’s Distribution Customers as a result of the reduction in the MDTAC. Addressing these Proposed Revisions on a single-issue basis is consistent with Commission precedent and its proposed treatment of similar filings in the ADIT NOPR.30

IV. ADDITIONAL INFORMATION

A. Estimated Rate Impact

As described above and as set forth in the Torok Affidavit, the monthly TRAR will decrease by $24,610, or approximately 19%. This will result in corresponding reductions to the MDTAC paid by each Distribution Customer.

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27 This assumes the revised MDTAC is approved by the Commission effective September 1, 2019, as requested.
28 Order No. 475 at 16.
29 See ADIT NOPR at 40.
30 Order No. 475; ADIT NOPR at P 19.
B. Correspondence and Service

Correspondence and communications with respect to this filing should be sent to:

Steven M. Nadel  
PPL Services Corporation  
Two North Ninth Street  
Allentown, PA 18101  
Phone: (610) 774-4254  
Fax: (610) 774-6726  
SMNadel@pplweb.com

William M. Keyser  
Benjamin L. Tejbblum  
K&L Gates LLP  
1601 K Street, N.W.  
Washington, D.C. 20006  
Telephone: 202-661-3863  
william.keyser@klgates.com  
ben.tejbblum@klgates.com

C. Information Required Under 18 C.F.R. § 35.13

1. Contents of Filing

Along with this transmission letter, this filing includes the following exhibits:

- **Exhibit 1:** Redline version of Attachment H-8A reflecting the Proposed Revisions
- **Exhibit 2:** Clean version of H-8A reflecting the Proposed Revisions
- **Exhibit 3:** Prepared Testimony of Alexander J. Torok

2. Requested Effective Date (35.13(b)(2))

PPL Electric respectfully requests that the Proposed Revisions be made effective September 1, 2019.

3. The Names and Addresses of Persons to Whom a Copy of the Rate has Been Posted

PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. In accordance with the Commission’s regulations. 31  PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region alerting them that this filing has been made by PJM and is available by following such link. If the document is

31 18 C.F.R. §§35.2(e) and 385.2010(f)(3).
not immediately available by using the referenced link, the document will be available through the referenced link within 24 hours of the filing. Also, a copy of this filing will be available on the Commission’s eLibrary website located at the following link: http://www.ferc.gov/docs-filing/elibrary.asp in accordance with the Commission’s regulations and Order No. 714.

4. Brief Description of the Rate Change (35.13(b)(4))

See Section II, above.

5. Statement of Reasons for the Rate Change (35.13(b)(5))

See Section II, above.

6. Requisite Agreement for Rate Change(35.13(b)(6))

No agreement is necessary for this rate change.

7. Statement Showing Expenses or Costs Included in Cost-of-Service-Statements – Section 35.13(b)(7)

None of the costs related to this filing have been alleged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory practices.

V. REQUEST FOR WAIVER

To the extent necessary, PPL Electric respectfully requests waiver of the requirement to include any additional information required under 18 C.F.R. §§ 35.13(b) and (c) of the Commission’s regulations. As discussed in the body of this filing, PPL Electric is not making any changes to the rate on-file and approved by the Commission other than to reflect the reduction of the federal corporate income tax rate from 35% to 21%. The Proposed Revisions will result in a rate decrease to Distribution Customers.
VI. CONCLUSION

For the reasons set forth herein, PPL Electric requests that the Commission accept the Proposed Revisions to Attachment H-8A and allow them to become effective September 1, 2019, as requested.

Sincerely,

/s/ Steven M. Nadel    /s/ William M. Keyser

Steven M. Nadel        William M. Keyser
PPL Services Corporation Benjamin L. Tejblum
Two North Ninth Street  K&L Gates LLP
Allentown, PA 18101      1601 K Street, N.W.
                         Washington, D.C. 20006

Counsel for PPL Electric Utilities Corporation
Exhibit 1

OATT, Attachment H-8A
(Marked version)
ATTACHMENT H-8A

Other Supporting Facilities and Deferred Tax Adjustment Charges –
PPL Electric Utilities Corporation

Monthly Rates for Service to
Certain Pennsylvania Municipal Utilities and Cooperatives
Utilizing Facilities at Voltage Levels Below 69 kV

<table>
<thead>
<tr>
<th>Customer</th>
<th>Rate</th>
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<tbody>
<tr>
<td>Allegheny Electric Cooperative, Inc.</td>
<td>$2,583.33</td>
</tr>
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<tr>
<td>Watsontown</td>
<td>$1,588.48</td>
</tr>
</tbody>
</table>

Monthly Deferred Tax Adjustment Charge

Each Network Customer that serves one or more end-use customers taking distribution service from PPL Electric Utilities Corporation under its applicable retail tariff on file with the Pennsylvania Public Utility Commission (“PPL Electric Distribution Customers”) shall pay a Monthly Deferred Tax Adjustment Charge. The Monthly Deferred Tax Adjustment Charge shall be determined as follows:

\[ MDTAC = \frac{\text{106,121,230,731}}{\text{DCPL}} \times \text{SDCPL} \]

Where:

MDTAC = the Monthly Deferred Tax Adjustment Charge

DCPL = the daily load of the PPL Electric Distribution Customers served by the Network Customer coincident with the annual peak of the PPL Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff)

SDCPL = the sum of the daily loads of all PPL Electric Distribution Customers coincident with the annual peak of the PPL Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff)
Exhibit 2

OATT, Attachment H-8A
(Clean version)
ATTACHMENT H-8A

Other Supporting Facilities and Deferred Tax Adjustment Charges – PPL Electric Utilities Corporation

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\[ \text{MDTAC} = 106,121 \times \frac{\text{DCPL}}{\text{SDCPL}} \]

Where:

\( \text{MDTAC} = \) the Monthly Deferred Tax Adjustment Charge

\( \text{DCPL} = \) the daily load of the PPL Electric Distribution Customers served by the Network Customer coincident with the annual peak of the PPL Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff)

\( \text{SDCPL} = \) the sum of the daily loads of all PPL Electric Distribution Customers coincident with the annual peak of the PPL Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff)
EXHIBIT 3

PREPARED TESTIMONY OF ALEXANDER J. TOROK
Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is Alexander J. Torok. My business address is Two North Ninth Street, Allentown, Pennsylvania 18101.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by PPL Services Corporation ("PPL Services"), a subsidiary of PPL Corporation, as Vice President-Tax. I was first employed by PPL Services on May 8, 2006.

Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT-TAX?

A. I am responsible for the tax compliance, tax accounting, tax research and planning, and tax controversy management for PPL Corporation and its subsidiaries, including PPL Electric Utilities Corporation ("PPL Electric").

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I have a Bachelor of Science degree in Biology, an MBA in Accounting and an MS in Taxation, all from the University of Cincinnati.
Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I am a Certified Public Accountant licensed in the State of Ohio. I practiced public accounting for 18 years, 17 with Arthur Andersen and 1 year with Deloitte before joining Cinergy Corp. (“Cinergy”) as the VP of Tax. I worked for Cinergy from May, 2003 until May, 2006 when I assumed my current role with PPL Services.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION (“COMMISSION”) OR IN OTHER REGULATORY PROCEEDINGS?

A. Yes. I offered written and oral testimony in proceedings before the Kentucky Public Utilities Commission on behalf of Union Light, Heat and Power Company, a subsidiary of Cinergy. I also offered written testimony before the Commission on behalf of PPL Electric on January 25, 2013, in Docket No. ER09-1148-000.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain how PPL Electric proposes to recalculate its Monthly Deferred Tax Adjustment Charge (“MDTAC”) to account for the recent change in the federal corporate income tax rate implemented by the Tax Cuts and Jobs Act.

Q. CAN YOU PLEASE DESCRIBE THE MDTAC?

A. The MDTAC is monthly charge through which PPL Electric recovers a fixed amount of deferred income tax liability resulting from PPL Electric’s shift from the flow-through to full normalization method for recovery of federal and state income taxes in 2008. The MDTAC is included in Attachment H-8A to the PJM Interconnection, L.L.C. (“PJM”) Open Access Transmission Tariff and was accepted by the Commission on May 23, 2013.

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As explained in the March 2012 Filing implementing the MDTAC, PPL Electric recovers through the MDTAC only those deficient tax amounts from the period prior to when PPL Electric implemented its cost of service transmission formula rate in 2008. The MDTAC is charged to customers that serve PPL Electric’s former bundled rate retail customers and who currently take retail distribution service from PPL Electric under PPL Electric’s retail tariff on file with the Pennsylvania Public Utility Commission.

Q. **HOW WAS THE MDTAC CALCULATED?**

The March 2012 Filing provides a detail description of how the MDTAC was calculated.

Using the *South Georgia* method, PPL Electric calculated its total deferred taxes using 2008 cost of service data taken from its 2008 FERC Form No. 1. PPL Electric then determined the difference in deferred taxes under the flow-through and normalization methods to calculate its unfunded future tax liability (“Taxes Recoverable Through Future Rates”). PPL Electric then calculated the tax gross-up on the Taxes Recoverable Through Future Rates by using the then-effective federal corporate income tax rate of 35% and the Pennsylvania state income tax rate of 9.99% (making proper adjustment for the Federal benefit for the deduction of state taxes). This calculation resulted in a fixed sum of deficient taxes to be recovered through future rates of $53,338,260. I refer to this amount as the “Transmission Regulatory Asset To Be Recovered,” or “TRAR.” When spread over the 34-year amortization period approved by the Commission, this results in a monthly TRAR of $130,731. The MDTAC is then calculated for each applicable

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customer by multiplying the monthly TRAR of $130,731 by each customer’s percentage of the sum of the daily loads of all PPL Electric distribution customers (represented as “DCPL/SDCPL”), pursuant to the following formula: $\text{MDTAC} = 130,731 \times \frac{\text{DCPL/SDCPL}}{\text{DCPL/SDCPL}}$.

Q. WHY IS PPL ELECTRIC PROPOSING REVISIONS TO THE MDTAC?

A. As a result of the Tax Cuts and Jobs Act, PPL Electric began calculating its federal income tax liability based on a 21 percent federal income tax rate effective January 1, 2018. However, as noted above, the MDTAC was derived using a monthly TRAR that was established in 2012 based on a tax gross-up at the then-effective 35 % federal income tax rate. The state tax rate has not changed. Accordingly, as of January 1, 2018, the tax gross-up portion of the TRAR does not accurately reflect PPL Electric’s future tax liability on the remaining Taxes Recoverable Through Future Rates to be recovered after January 1, 2018. Thus, PPL Electric is adjusting the TRAR to reflect the 21 percent federal income tax rate. The reduction in the federal income tax rate will result in a reduction of the MDTAC.

Q. PLEASE EXPLAIN HOW PPL ELECTRIC RECALCULATED THE TRAR COMPONENT OF THE MDTAC.

A. The steps and calculations PPL Electric undertook to recalculate the TRAR component of the MDTAC are set forth in Exhibit 1 to my Testimony. I also describe each of these steps below.
Q. HOW DID PPL ELECTRIC RECALCULATE THE TRAR TO REFLECT THE 21 PERCENT FEDERAL INCOME TAX RATE?

A. PPL Electric calculated the TRAR less amounts that PPL Electric already recovered at the time the Tax Cuts and Jobs Acts went into effect. This calculation is included on Line 6 of Exhibit 1. To do this, PPL Electric calculated the original TRAR balance using the same 2008 cost of service data used to calculate the original balance included in the March 2012 Filing, which totaled $53,338,261 (Exhibit 1, Line 5). PPL Electric then subtracted from this balance the TRAR amounts that PPL Electric collected through the MDTAC from June 1, 2012 through December 31, 2017, which totaled $8,758,979 (Exhibit 1, Line 6). Thus, as of December 31, 2017, the total outstanding TRAR to be recovered through the MDTAC was $44,579,281 (“Adjusted TRAR”) (Exhibit 1, Line 7 – Column D).

Q. HOW DID PPL ELECTRIC RECALCULATE THE TAX-GROSS UP COMPONENT OF THE ADJUSTED TRAR?

A. PPL Electric recalculated the tax-gross up component of the Adjusted TRAR using the 21 percent federal income tax rate (Exhibit 1, Line 8 – Column C). This reduced the total Adjusted TRAR to be recovered effective January 1, 2018 from $44,579,281 to $36,679,156 (Exhibit 1, Line 8 – Column D). PPL Electric then divided the Adjusted TRAR by 341, which was the number of months remaining in the original 34-year amortization period as of January 1, 2018. This results in a monthly Adjusted TRAR to be recovered through the MDTAC of $107,564 (Exhibit 1, Line 8 – Column F).
Q. DID PPL ELECTRIC MAKE ANY FURTHER ADJUSTMENTS TO THE TRAR?

A. Yes. Because PPL Electric has continued to recover the MDTAC calculated using the original TRAR and will continue to do so until the September 1, 2019 effective date for these Proposed Revisions, PPL Electric further adjusted the Adjusted TRAR to account for the excess tax gross-up amounts that PPL Electric will have collected at the 35 percent federal income tax rate for the period between January 1, 2018, and August 31, 2019. These calculations are included on Lines 9–12 of Exhibit 1. Specifically, PPL Electric calculated (i) the total MDTAC received over the 20-month period from January 1, 2018 through September 1, 2019 using the original TRAR ($2,614,620) (Exhibit 1, Line 9 – Column F), minus (ii) the total MDTAC PPL Electric would have collected over this 20-month period had the Adjusted TRAR been in effect on January 1, 2018 ($2,151,280) (Exhibit 1, Line 10 – Column F). This calculation yields a total difference of $463,340 (Exhibit 1, Line 11 – Column F), which represents the excess tax gross-up amounts PPL Electric collected during the January 1, 2018 – August 31, 2019 20-month period that it would not have collected had the TRAR been calculated using the 21 percent federal income tax rate effective January 1, 2018.

To ensure that MDTAC ratepayers receive the benefit of this excess amount, PPL Electric further reduced the Adjusted TRAR by this amount on a going-forward basis, which will in turn further reduce the MDTAC. Specifically, PPL Electric divided the $463,340 amount by the remaining 321 months left in the 34-year amortization period (as of September 1, 2019), which results in a monthly amount of $1,443 (Exhibit 1, Line 12 – Column F). PPL Electric then applied this monthly amount to the Adjusted TRAR.
Thus, beginning on September 1, 2019, the monthly Adjusted TRAR will be $106,121 (Exhibit 1, Line 13 – Column F).

This will be reflected in the MDTAC as follows: \( \text{MDTAC} = 106,121 \times \frac{\text{DCPL/SDCPL}}{} \).  

Q. IS PPL ELECTRIC PROPOSING ANY OTHER CHANGES TO THE MDTAC?

A. No. As discussed above, PPL Electric is recalculating the TRAR component of the MDTAC to reflect the 21 percent federal income tax rate. PPL Electric is not proposing any other changes to the MDTAC formula.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.
Exhibit A to Torok Testimony
PPL Electric Utilities Corporation

TCJA Federal Income Tax Rate Change Impact on the Tax Gross-Up Portion of the MDTAC

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stranded ADIT approved for Recovery</td>
<td>Gross-up Factor (1-tax rate)</td>
<td>Tax Gross-up Balance</td>
<td>No. of Months in 24 Year Amortization Period</td>
<td>Monthly Recovery</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Approved Transmission Taxes Recoverable</td>
<td>($30,095,398)</td>
<td>58.5065%</td>
<td>($21,344,011)</td>
<td>408</td>
<td>$126,077</td>
</tr>
<tr>
<td>2</td>
<td>G&amp;I Taxes Recoverable</td>
<td>($11,002,896)</td>
<td>58.5065%</td>
<td>($7,803,384)</td>
<td>408</td>
<td>$4,654</td>
</tr>
<tr>
<td>3</td>
<td>Wages and Salaries Allocator</td>
<td>10.0969%</td>
<td>10.0969%</td>
<td>10.0969%</td>
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</tr>
<tr>
<td>4</td>
<td>Approved Allocated G&amp;I Taxes Recoverable</td>
<td>($1,110,951)</td>
<td>58.5065%</td>
<td>($787,900)</td>
<td>408</td>
<td>$130,731</td>
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<tr>
<td>5</td>
<td>Approved ADIT Balance to be Recovered</td>
<td>($31,206,349)</td>
<td>58.5065%</td>
<td>($22,131,911)</td>
<td>408</td>
<td>$107,564</td>
</tr>
<tr>
<td>6</td>
<td>Less: Collections 6/1/2012 - 12/31/2017</td>
<td>Line 5, Col F x 20 months</td>
<td>20</td>
<td>2,614,620</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Balances at 12/31/2017 adjusted for TCJA</td>
<td>Line 7 Recalculated</td>
<td>($26,081,777)</td>
<td>71.1079%</td>
<td>($10,597,378)</td>
<td>341</td>
</tr>
<tr>
<td>8</td>
<td>Balances at 12/31/2017 adjusted for TCJA</td>
<td>Line 7 Recalculated</td>
<td>($26,081,777)</td>
<td>71.1079%</td>
<td>($10,597,378)</td>
<td>341</td>
</tr>
</tbody>
</table>

Collections from 1/1/2018 - 8/31/2019:

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<tbody>
<tr>
<td>9</td>
<td>Collections received at pre-TCJA tax rates</td>
<td>Line 5, Col F x 20 months</td>
<td>20</td>
<td>2,614,620</td>
<td></td>
<td></td>
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<tr>
<td>10</td>
<td>Collections adjusted for TCJA tax rates</td>
<td>Line 8, Col F x 20 months</td>
<td>20</td>
<td>2,151,280</td>
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<tr>
<td>11</td>
<td>Excess amounts collected from 1/1/2018 - 8/31/2019</td>
<td>Line 9 - Line 10</td>
<td>463,340</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Credit for excess amounts collected over remaining months beginning 9/1/2019</td>
<td>Line 11 / 321 months</td>
<td>321</td>
<td>1,443</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Customer charges beginning 9/1/2019</td>
<td>Line 8 - Line 12</td>
<td>106,121</td>
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Proof:

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<tbody>
<tr>
<td>14</td>
<td>Reduction in recoverable balance due to reduction in federal tax rate related to TCJA</td>
<td>Line 8 - Line 7</td>
<td>($7,900,126)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>15</td>
<td>Credit for excess amounts collected</td>
<td>Line 11, Column F</td>
<td>($463,340)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Total reduction in customer charges</td>
<td>Line 14 + Line 15</td>
<td>($8,363,466)</td>
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<td></td>
<td></td>
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<tr>
<td>17</td>
<td>Reduction in monthly customer charge</td>
<td>Line 8 - Line 7</td>
<td>($23,167)</td>
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<tr>
<td>18</td>
<td>Number of months remaining at 12/31/2017</td>
<td>Line 8, Column E</td>
<td>341</td>
<td></td>
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<tr>
<td>19</td>
<td>Reduction in customer collections due to TCJA</td>
<td>Line 17 x Line 18</td>
<td>($7,899,947)</td>
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<tr>
<td>20</td>
<td>Monthly refund for excess amounts collected at 8/31/2019</td>
<td>Line 12, Column F</td>
<td>(1,443)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Number of months remaining at 8/31/2019</td>
<td>Line 12, Column E</td>
<td>321</td>
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<tr>
<td>22</td>
<td>Total refund for excess amounts collected</td>
<td>Line 20 x Line 21</td>
<td>($463,203)</td>
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<td></td>
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<tr>
<td>23</td>
<td>Total reduction in customer charges</td>
<td>Line 19 + Line 22</td>
<td>($8,363,150)</td>
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<tr>
<td>24</td>
<td>Adjustment in final month</td>
<td>Line 24</td>
<td>($336)</td>
<td></td>
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<tr>
<td>25</td>
<td>Total reduction in customer charges</td>
<td>Line 23 + Line 24 = Line 16, Col D</td>
<td>($8,363,466)</td>
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</tr>
</tbody>
</table>