TESTIMONY OF KENNETH C. SPRINGIRTH STATEMENT #1
BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
ERIE, PA HEARING July 26, 2016 Docket No. R-2016-2537352

On April 28, 2016 Pennsylvania Electric Company (which in my testimony will be referred to as Respondent), which has about 585,000 residential, commercial, and industrial customers in all or portions of 33 counties in northern and central Pennsylvania, filed for a $158.8 million rate increase which is an overall increase of 11.42 percent; however, the total bill for a residential customer using 1,000 kWH would increase 17.1 percent from $137.89 to $161.50. The purpose of my testimony is to oppose this increase for the following reasons:

1. On August 4, 2014 Pennsylvania Electric Company (Penelec) filed a request with the Pennsylvania Public Utility Commission for a $119.8 million rate increase. The Respondent received a $91.3 million rate increase which increased rates 6.57 percent effective May 19, 2015.
2. The Respondent has requested an 11.3 percent cost rate for common equity capital, which I believe, is excessive. Cost of common equity is the expected return on a firm's common stock that an investor would deem sufficient to compensate for risk and the time value of money. No one knows exactly what rate of return the Respondent needs to offer to investors that is just sufficient to make the Respondent an attractive investment. In the calculation of a recommended common equity cost rate, Pauline M. Ahern in Penelec Statement No. 8 noted, "No individual method provides the necessary level of precision for determining a fair return, but each method provides useful evidence to facilitate the exercise of an informed judgment." In the article titled The Capital Asset Pricing Model: Theory and Evidence by Eugene F. Fama (Professor of Finance, Graduate School of Business, University of Chicago, Chicago, Illinois) and Kenneth R. French (Professor of Finance, Tuck School of Business, Dartmouth College, Hanover, New Hampshire) in the Journal of Economic Perspectives Vol. 18, No. 3 Summer 2004 Pg. 44 noting that they teach CAPM as an introduction to the concepts of portfolio theory noting: " but, we also warn students that despite its seductive simplicity, the CAPM's empirical problems probably invalidate its use in applications." Since regulation is a substitute for marketplace competition, determination of an appropriate common equity cost must take into account that the utility has less business risk then an unregulated business company. No economic purpose is served if a utility is allowed to earn more than the necessary return. Regulation should ensure that consumers receive quality service at the lowest possible cost. The main issue is not what the Respondent wants, but what does the Respondent really need. It is essential that the PUC examine the appropriateness of the increase, were the expenses claimed by the utility prudently incurred, determine a fair rate of return, whether the utility's claimed costs are used and useful for customers, plus make sure the allocation of the rates for every customer class are just, reasonable, and in the public interest. According to bankrate.com for July 21, 2016, a one year CD has an interest rate of 1.25 percent APY (annual percentage yield) and a 5 year CD has an interest rate of 2.05 percent APY. USA Today for July 21, 2016 shows interest rates of 3.50 percent prime lending, 5 year T-note 1.14 percent, and 10 year T- note 1.58 percent.
3. The utility is financially healthy contributing a positive flow of cash into the parent company, First Energy, whose net income increased over 93 percent from $299 million in 2014 to $578 million in 2015. On April 26, 2016, First Energy announced its first quarter 2016 (GAAP generally accepted accounting principles) net income of $328 million compared with $222 million for the first quarter of 2015 which is a 47.7 percent increase. In a January 31, 2016 report titled "Escape the Stock Market Rout with these Utility Stocks" by Philip Van Doorn, First Energy was in the list of the top ten utilities (with market values of at least $5 billion) with the highest dividend yields.
4. One of the basic statistical measures of risk is beta also known as the beta coefficient which is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is the tendency of a security's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it's theoretically 20% more volatile than the market.

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Beta, a measure of risk in relation to the market for the parent company First Energy Corp. was 0.44 as noted by investopedia.com on June 14, 2016 meaning there is less volatility and less risk.

5. Disallow the proposed 71 percent increase in the residential customer charge from $9.99 per month to $17.10 per month even if no electricity is used. This customer charge increase shifts the impact of the increase to the small volume customer, and assures the utility that it will recover a large portion of its increase regardless of how much the customer actually uses. Minimizing the customer charge is more fair to low usage and low income customers. The customer charge should only be based on meter reading, meter service, and customer accounting excluding uncollectables. Since the installation of smart meters is expected to reduce meter reading, those savings should be passed onto customers. There are many families that are having hard times making ends meet. Unemployment and under employment has strained finances for many. Businesses will face a significant increase in their electric bill, and that increase will be passed onto customers who will even face higher costs. Higher electric rates for industrial customers will make it more difficult to compete in the global market place.
6. Disallow the $570,000 claim for rate case expenses (Penelec Exhibit RAD-23 Pg. 1 by R.A. D'Angelo). It does not make sense to use our money to argue that we have to pay even more.
7. Disallow the $132,000 in corporate trade dues, disallow the $55,000 in corporate civic dues and disallow the $8,000 in association fees and dues (all shown in Penelec Exhibit RAD-24 Pg. 2 by R.A. D'Angelo). Organizations receiving money from the Respondent are not likely to oppose the Respondent's request for a rate increase.
8. According to the June 14, 2016 Morningstar Analysis page 5 on First Energy, the report noted in part, "we have been disappointed by the inability of management to control costs at its Regulated Distribution segment. In addition, management has had several critical operational missteps including causing the 2003 northeast U.S. blackout, nuclear plant problems and most recently a nuclear plant outage during the 2014 polar vortex that required First Energy to purchase high priced replacement power to satisfy its retail power sales commitments."
9. The Respondent has not provided proper customer service. I sent a number of e-mail messages to fecustomerservice@firstenergycorp.com regarding the monthly costs on my electric bill for the smart meter charge. On May 10, 2016, Katherine (Customer Service) stated, "The smart meter charge does not have a cost at this time." On May 21, 2016, Jamal (Customer Service) stated, "Since the smart meter charge is now part of the customer charge, you will be billed the customer charge of $9.99 for your future bills." On May 13, 2016, Kristi (Customer Service) in regard to the smart meter total charge I have paid stated, "The total amount for the past 22 months was about $36.74." On May 19, 2016, Kelly R. (Customer Service) stated, "You have paid a total of $82.63 in smart meter charges since July 2010." As a result of getting different answers on the same question, I am submitting this as an interrogatory requesting the Respondent to inform me of the total amount I have paid for the smart meter, what was the average amount residential customers paid for having a smart meter, and are there any more charges coming for this program.
10. The salary of the President and Chief Executive Officer of First Energy Corp. increased from $4,791,069 in 2014 to $10,024,119 in 2015 according to the June 14, 2016 Morningstar Analysis Pg. 8. That position is currently held by Charles E. Jones. In the light of the above mentioned June 14, 2016 Morningstar Analysis, that 109 percent salary increase should be rescinded.

There are many families that are having hard times making ends meet. Unemployment and under employment has strained finances for many. Businesses will face a significant increase in their electric bill, and that increase will be passed onto customers who will even face higher costs. Higher electric rates for industrial customers will make it more difficult to compete in the global market place. Penelec Exhibit LWG-2 Pg. 1 by L. W. Gifford shows the savings from the use of smart meters at December 31, 2017 will be $12,770,424. Customers paid for those smart meters. The actual savings such as reduction in meter reading should be passed to customers. I believe the evidence supports the conclusion that instead of a rate increase, there should be a $12.7 million rate reduction.

COMMONWEALTH OF PENNSYLVANIA

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