I&E Statement No. 3 Witness: Jeremy B. Hubert

#### PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

#### METROPOLITAN EDISON COMPANY Docket No. R-2016-2537349

#### PENNSYLVANIA ELECTRIC COMPANY Docket No. R-2016-2537352

PENNSYLVANIA POWER COMPANY Docket No. R-2016-2537355

#### WEST PENN POWER COMPANY Docket No. R-2016-2537359

#### **Direct Testimony**

of

#### Jeremy B. Hubert

**Bureau of Investigation and Enforcement** 

**Concerning:** 

Revenue Allocation Scale Back Residential Customer Cost Analysis Residential Customer Charges

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<b>RESIDENTIAL CUSTOMER CHARGE RECOMMENDATION</b>	

#### 1 **INTRODUCTION**

2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	А.	My name is Jeremy Hubert. My business address is Pennsylvania Public Utility
4		Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.
5		
6	Q.	BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
7	А.	I am employed by the Pennsylvania Public Utility Commission ("Commission") in
8		the Bureau of Investigation and Enforcement ("I&E") as a Fixed Utility Valuation
9		Engineer.
10		
11	Q.	WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?
12	А.	An outline of my education and employment experience is attached as
13		Appendix A.
14		
15	Q.	PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.
16	А.	I&E is responsible for representing the public interest in rate and other
17		proceedings before the Commission. I&E's analysis in this proceeding is based on
18		its responsibility to represent the public interest. This responsibility requires the
19		balancing of the interests of ratepayers and the Company.
20		
21	Q.	WHAT ISSUES DO YOU ADDRESS IN YOUR DIRECT TESTIMONY?

1	A.	My direct testimony addresses the distribution base rate increase requests
2		proposed by the four Pennsylvania electric distribution companies ("EDCs") that
3		are wholly-owned utility subsidiaries of FirstEnergy Corporation ("FirstEnergy").
4		These include Metropolitan Edison Company's ("Met-Ed") requested
5		\$140,249,000 base rate revenue increase, Pennsylvania Electric Company's
6		("Penelec") requested \$158,770,000 base rate revenue increase, Pennsylvania
7		Power Company's ("Penn Power") requested \$42,033,000 base rate revenue
8		increase, and West Penn Power Company's ("West Penn") requested \$98,228,000
9		base rate revenue increase (collectively referred to as the "Companies"). The
10		Companies' requests are summarized as follows:

	Revenue In (\$	crease Requ 1,000)	est	
	Met-Ed	Penelec	Penn Power	West Penn
Distribution Base Rates	\$124,377	\$138,066	\$40,448	\$98,188
DSS & HPS Riders	\$5,475	\$5,835	\$1,676	\$4,958
Smart Meters	<u>\$10,397</u>	<u>\$14,869</u>	<u>(\$91)</u>	<u>(\$4,918)</u>
Total	\$140,249	\$158,770	\$42,033	\$98,228
Percent Increase	9.53%	11.4%	9.57%	5.74%

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My direct testimony specifically addresses the following issues:

• Revenue allocation based on the cost of service study prepared by the

Company;

- Manner of scale back if less than the full revenue amount is granted;
- Residential Customer Cost Analysis; and
- Residential Customer Charges.

#### **CLASS COST OF SERVICE**

2 0. WHAT IS A COST OF SERVICE STUDY?

3 A. A cost of service study is a formalized analysis of costs that attempts to assign to 4 each customer or rate class its proportionate share of the Company's total cost of 5 service (i.e., the Company's total revenue requirement). The results of such a 6 study can be utilized to determine the relative cost of service for each class and 7 help determine the individual class revenue requirements and, to the extent a 8 particular class is above or below the system average rate of return, show the 9 additional revenues each class receives or conversely the additional revenues that 10 each class contributes to the Company's overall revenues. In addition to the 11 relative provision of revenues, a relative rate of return is also provided which 12 shows how the rate of return for each class compares to the system average rate of 13 return.

14

#### 15

#### **Q**. DID THE COMPANIES PROVIDE A COST OF SERVICE STUDY IN 16 **THEIR FILINGS?**

17 A. Yes. The cost of service studies, as well as the supporting studies used to develop 18 the cost of service studies for each of the Companies, were prepared by Thomas J. 19 Dolezal and are provided as Exhibits TJD-1 and TJD-2 respectively. The cost of

- 20 service study contained in each Company's Exhibit TJD-1 uses the Non-
- 21 coincident Peak Demand allocation method and a basic three step process of cost
- 22 analysis: (1) functionalization; (2) classification of functionalized costs into

1	demand, commodity, and customer cost categories; and (3) class allocation of
2	functionalized, classified costs among the rate classes.
3	
4	COST OF SERVICE – MET-ED

# Q. WHAT PERCENT INCREASE IS MET-ED PROPOSING FOR THE VARIOUS CUSTOMER CLASSES AS PRESENTED IN ITS COST OF SERVICE STUDY?

8 A. Met-Ed's proposed revenue distribution is presented in the following table (Met-

9 Ed Ex. TJD-1, Section 1, p. 1 and Section 2, p. 1).

Met-Ed Proposed Revenue Distribution (\$1,000)				
Class	Present Rates	Proposed Rates	Increase	Increase Percent
RS	\$252,353	\$340,904	\$88,551	35.1%
GSV	\$495	\$620	\$125	25.3%
GSS	\$13,625	\$19,475	\$5,850	42.9%
GSM	\$50,932	\$61,861	\$10,929	21.5%
GSL	\$7,888	\$15,113	\$7,225	91.6%
GP	\$18,575	\$36,629	\$18,054	97.2%
ТР	\$3,450	\$4,927	\$1,477	42.8%
BRD	\$33	\$51	\$18	54.5%
MS	\$114	\$138	\$24	21.1%
POL	\$779	\$1,073	\$294	37.7%
STLT	\$5,312	\$7,538	\$2,226	41.9%
Total	\$353,557	\$488,330	\$134,773	38.1%

1		It should be noted that Met-Ed's proposed amounts in the table above reflect its
2		requested increase in base rate revenue requirements of \$134,773,000 of which
3		\$10,397,000 is associated with smart meter costs. These amounts, however,
4		exclude the proposed changes which update the uncollectible accounts expense to
5		be collected in the Company's Default Service Support ("DSS") Rider for
6		residential and commercial customers and the Hourly Pricing Default Service
7		("HPS") Rider for industrial customers.
8		
9	Q.	WHAT CLAIMED OVERALL RATE OF RETURN WOULD THE
10		REQUESTED INCREASE PROVIDE MET-ED AN OPPORTUNITY TO
11		EARN?
12	A.	As shown on Met-Ed Exhibit CVF-3, the requested increase proposed by Met-Ed
13		would provide it an opportunity to earn a claimed overall rate of return of 8.14%.
14		
15	Q.	WHAT IS MET-ED'S CLAIMED OVERALL RATE OF RETURN SHOWN
16		IN THE RESULTS OF ITS COST OF SERVICE STUDY BASED ON
17		REVENUES AT PROPOSED RATES (MET-ED EXHIBIT TJD-1,
18		SECTION 2, PAGE 1)?
19	A.	Met-Ed's claimed overall rate of return shown on Exhibit TJD-1, Section 2, page 1
20		is 8.55% due to a calculation error within its confidential electronic spreadsheets.
21		Met-Ed inadvertently excluded tax deductions related to the amortization of legacy
22		meters.

1	Q.	HAVE YOU PROVIDED A CORRECTED VERSION OF MET-ED
2		EXHIBIT TJD-1, SECTION 2, PAGE 1, WHICH INCLUDES THE SAID
3		TAX DEDUCTIONS AND PRODUCES THE COMPANY'S CLAIMED
4		OVERALL RATE OF RETURN OF 8.14%?
5	A.	Yes. The corrected version of Met-Ed Exhibit TJD-1, Section 2, page 1, matching
6		the correct overall rate of return of 8.14 indicated above, is shown as Schedule 1
7		of I&E Exhibit No. 3.
8		
9	Q.	DESCRIBE HOW MET-ED IS PROPOSING TO DISTRIBUTE ITS
10		REQUESTED REVENUE INCREASE AMONG ITS CUSTOMER
11		CLASSES IN THIS PROCEEDING.
12	A.	The Company is attempting to move the rate classes towards their respective costs
13		of service. The residential class (RS) received an increase intended to move the
14		class toward parity with the overall total Met-Ed return. The GSS, GSL, GP, TP
15		and BRD rate classes also received an increase intended to raise their relative rates
16		of return. The limit on the increases proposed for the GSV, GSM, MS, POL, and
17		STLT rate classes is an effort to lower the relative rates of return for these classes.
18		
19	Q.	WHAT IS ONE OF THE ASPECTS OF RATE STRUCTURE THAT THE
20		COMMISSION CONSIDERS WHEN EVALUATING PROPOSED RATES?
21	A.	One of the considerations in evaluating proposed rates is the resulting rate of return
22		by customer class and the corresponding relative rate of return by class (how the rate

of return for each class compares to the system average rate of return). The 1 optimum goal should be to set rates so that the revenue received from a particular 2 3 class is equal to the corresponding costs of providing service to that class. A relative rate of return above 1.00 for a class indicates that the cost of 4 providing service is less than the revenue received from that class. A relative rate of 5 return below 1.00 for a class indicates that the cost of providing service is more than 6 the revenue received from that class. The relative rate of return for each class, as 7 indicated by the Company's cost of service study, are as follows: 8

<b>Met-Ed Relative Rates of Return</b>			
Class	At Present Rates	At Proposed Rates	
RS	0.85	0.90	
GSV	5.06	2.57	
GSS	0.12	0.61	
GSM	3.19	1.62	
GSL	-0.16	1.08	
GP	0.06	1.21	
ТР	0.85	0.93	
BRD	-1.20	-0.06	
MS	2.64	1.38	
POL	1.14	1.00	
STLT	2.80	1.81	
Total	1.00	1.00	

#### AS PREVIOUSLY INDICATED, MET-ED'S PROPOSED CLASS REVENUE 1 **Q**. 2 **INCREASE ALLOCATION IS BASED UPON ITS PREPARED COST OF** 3 SERVICE STUDY. HAVE YOU EVALUATED THE REASONABLENESS 4 **OF MET-ED'S PROPOSED CLASS INCREASES?** Yes. Based on the results of the cost of service study, all rate classes move closer 5 A. 6 to the system average rate of return. The following table compares Met-Ed's cost 7 of service and its revenues under proposed rates as filed.

8

Met-Ed COS and Revenues Under Proposed Rates (\$1,000)					
Customer Class	Cost of Service	Proposed Revenues	Difference		
RS	\$356,406	\$340,904	(\$15,502)		
GSV	\$371	\$620	\$249		
GSS	\$23,494	\$19,475	(\$4,019)		
GSM	\$48,266	\$61,861	\$13,595		
GSL	\$14,592	\$15,113	\$521		
GP	\$33,468	\$36,629	\$3,171		
TP	\$5,088	\$4,927	(\$161)		
BRD	\$104	\$51	(\$53)		
MS	\$118	\$138	\$20		
POL	\$1,071	\$1,073	\$2		
STLT	\$5,354	\$7,538	\$2,184		
Total	Total \$488,330 \$488,330 \$0				

9

It appears that the GSL and GP classes received an increase in proportion to their
 cost-based revenue requirement at proposed revenues levels, but were also
 allocated additional increases of \$521,000 and \$3,171,000 respectively as a result

1		of the limited increases proposed for the GSM, MS, POL, and STLT classes.
2		However, the GSM class is still recovering over 68% of the RS, GSS, TP, and
3		BRD revenue shortfall.
4		
5		<b>I&amp;E RECOMMENDED REVENUE RE-ALLOCATION</b>
6	Q.	DO YOU RECOMMEND AN ALTERNATE CLASS REVENUE
7		INCREASE ALLOCATION THAT IS CONSISTENT WITH
8		COMMISSION PRACTICE IN WHICH COST OF SERVICE RESULTS
9		ARE CONSIDERED?
10	A.	Yes.
11		
12	Q.	DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE MET-ED'S
13		REQUESTED ANNUAL REVENUE INCREASE AMONG ITS
14		CUSTOMER CLASSES IN THIS PROCEEDING.
15	A.	My recommended allocation of Met-Ed's requested annual revenue increase is
16		designed to (1) move each rate class closer to the desired goal of full cost of
17		service on a relative basis to the proposed system average rate of return, and (2)
18		limit the distribution revenue increase to any particular rate class, to which I
19		allocated additional revenue, to no more than 1.5 times the overall system average
20		increase.
21		My recommended revenue allocation adjusts Met Ed's proposed revenue
		wry recommended revenue anocation adjusts wiet-Ed s proposed revenue

1		MS, and STLT classes to the RS, GSV, and GSS classes (I&E Ex. No. 3, Sch. 2,
2		lns. 9 and 30). The result, as shown on line 28 of I&E Exhibit No. 3, Schedule 2,
3		is that the rates of return of the various customer classes move closer to the system
4		average, with the exception of the GSV class due to shared rates with the RS class.
5		
6	Q.	WHAT WAS THE FIRST STEP OF YOUR RE-ALLOCATION?
7	A.	First, I reduced the proposed increases for the GSL and GP classes, which were
8		previously being subsidized by other classes, so that the revenue received from
9		each is equal to the corresponding costs of providing service to the class, relative
10		rate of return of 1.00. The result is that the increases for the GSL and GP classes
11		are still over 150% of the system average increase; however, they have been
12		scaled back from the Company proposed 91.6% and 97.2% increases to increases
13		of 85.0% and 80.1% respectively (I&E Ex. No. 3, Sch. 2, cols. G and H, In. 34).
14		
15	Q.	WHAT WAS YOUR SECOND STEP?
16	A.	Second, by eliminating the proposed increases for the GSM, MS, and STLT
17		classes, the revenue received from the MS and STLT classes are now
18		approximately equal to their cost of service, and the revenue received from the
19		GSM class still recovers more than its cost to serve.

#### 1 (

### Q. WHAT WAS YOUR THIRD STEP?

2	A.	Finally, I redistributed the \$16,870,000 by allocating \$1,700,000 to the GSS class,
3		keeping the percentage increase below 150% of the system average and
4		\$15,069,000 to the RS class, so that the revenue received from the RS class is now
5		equal to the corresponding costs of providing service to the class. The rates for the
6		GSV class are the same as RS rates; therefore, this results in \$101,000 of the
7		\$16,870,000 being allocated to the GSV class.
8		
9	Q.	DID YOU ADJUST THE REVENUE FROM THE TP, BRD, OR POL
10		CLASSES?
10 11	A.	CLASSES? My recommendation does not include any adjustments to Met-Ed's proposed
10 11 12	A.	CLASSES? My recommendation does not include any adjustments to Met-Ed's proposed annual revenues from the TP, BRD, or POL classes. This is because Met-Ed's
10 11 12 13	A.	CLASSES? My recommendation does not include any adjustments to Met-Ed's proposed annual revenues from the TP, BRD, or POL classes. This is because Met-Ed's proposed revenue increase for the BRD class is 141.7% of the system average
10 11 12 13 14	A.	CLASSES? My recommendation does not include any adjustments to Met-Ed's proposed annual revenues from the TP, BRD, or POL classes. This is because Met-Ed's proposed revenue increase for the BRD class is 141.7% of the system average increase and any further allocation of revenue to that class would exceed 150% of
10 11 12 13 14 15	A.	CLASSES? My recommendation does not include any adjustments to Met-Ed's proposed annual revenues from the TP, BRD, or POL classes. This is because Met-Ed's proposed revenue increase for the BRD class is 141.7% of the system average increase and any further allocation of revenue to that class would exceed 150% of the system average increase. Additionally, the portion of Met-Ed's requested
10 11 12 13 14 15 16	A.	CLASSES? My recommendation does not include any adjustments to Met-Ed's proposed annual revenues from the TP, BRD, or POL classes. This is because Met-Ed's proposed revenue increase for the BRD class is 141.7% of the system average increase and any further allocation of revenue to that class would exceed 150% of the system average increase. Additionally, the portion of Met-Ed's requested annual revenue increase which is allocated to the TP and POL classes results in the

#### 1 SCALE BACK

2	Q.	WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS
3		THAN MET-ED'S FULL REQUESTED INCREASE OF \$140,249,000?
4	A.	If the Commission grants Met-Ed less than the full increase it has requested, I
5		recommend that the revenues for GSM, MS, and STLT remain at present rate
6		levels and that all remaining classes proposed rates be reduced so that the increase
7		for each class is proportional to the percentage increase shown on I&E Exhibit
8		No. 3, Schedule 2, line 34. I recommend that the GSM, MS, and STLT rates not
9		be scaled back, since my recommended revenue allocation of Met-Ed's requested
10		annual revenue increase does not include an increase in base rates for these
11		classes.
12		
13	Q.	WHY DO YOU RECOMMEND SUCH A SCALE BACK?
14	A.	This modified proportional scale back begins with a more reasonable allocation of
15		the increase, thus scaling back the revenue will result in a reasonable revenue
16		allocation at the level of revenue ultimately allowed by the Commission.
17		
18	Q.	WHAT IS YOUR SCALE BACK RECOMMENDATION BASED ON I&E'S
19		<b>RECOMMENDED OVERALL REVENUE INCREASE OF \$94,884,000?</b>
20	A.	An overall revenue increase of \$94,884,000 results in the need to scale back
21		revenue by \$39,889,000 (\$134,773,000 - \$94,884,000). The I&E recommended

1	revenue increase of approximately \$94,884,000 by class is shown on I&E Exhibit
2	No. 3, Schedule 14, line 7.

#### 4 COST OF SERVICE - PENELEC

## Q. WHAT PERCENT INCREASE IS PENELEC PROPOSING FOR THE VARIOUS CUSTOMER CLASSES AS PRESENTED IN ITS COST OF SERVICE STUDY?

8 A. Penelec's proposed revenue distribution is presented in the following table

(1  effected  LA, 13D, 1, 5  better  1, p. 1  and 5 better  2, p. 1)
--

Penelec Proposed Revenue Distribution (\$1,000)					
Class	Present Rates	Proposed Rates	Increase	Increase Percent	
RS	\$243,385	\$343,576	\$100,191	41.2%	
GSV	\$806	\$1,093	\$287	35.6%	
GSS	\$15,284	\$21,263	\$5,979	39.1%	
GSM	\$68,642	\$93,979	\$25,337	36.9%	
GSL	\$14,928	\$20,896	\$5,968	40.0%	
GP	\$16,260	\$25,495	\$9,235	56.8%	
LP	\$11,438	\$13,203	\$1,765	15.4%	
BRD	\$26	\$26	\$0	0%	
Н	\$847	\$965	\$118	13.9%	
POL	\$3,513	\$4,955	\$1,442	41.0%	
STLT	\$5,839	\$8,446	\$2,607	44.6%	
Total	\$380,967	\$533,899	\$152,932	40.1%	

1	It should be noted that Penelec's proposed amounts in the table above reflect its
2	requested increase in base rate revenue requirements of \$152,932,000 of which
3	\$14,869,000 is associated with smart meter costs. These amounts, however,
4	exclude the proposed changes which update the uncollectible accounts expense to
5	be collected in the Company's DSS Rider for residential and commercial
6	customers and the HPS Rider for industrial customers.

#### 8 Q. DESCRIBE HOW PENELEC IS PROPOSING TO DISTRIBUTE ITS

#### 9 **REQUESTED REVENUE INCREASE AMONG ITS CUSTOMER**

#### 10 CLASSES IN THIS PROCEEDING.

- 11 A. Penelec is attempting to move the rate classes towards their respective costs of
- 12 service. The residential class (RS) received an increase intended to move the class
- 13 toward parity with the overall total Penelec return. The GSS, GP, and STLT rate
- 14 classes also received an increase intended to raise their relative rates of return.
- 15 The limit on the increases proposed for the GSV, GSM, GSL, LP, BRD, H, and
- 16 POL rate classes is an effort to lower the relative rates of return for these classes.
- 17

#### 18 Q. AS STATED PREVIOUSLY, ONE OF THE CONSIDERATIONS IN

- 19 ESTABLISHING PROPOSED RATES IS THE RESULTING RATE OF
- 20 **RETURN BY CUSTOMER CLASS AND THE CORRESPONDING**
- 21 **RELATIVE RATE OF RETURN BY CLASS. PLEASE SUMMARIZE THE**
- 22 **RELATIVE RATES OF RETURN FOR EACH CLASS.**

- A. The relative rate of return for each class, as indicated by Penelec's cost of service
   study, are as follows:
- 3

Penelec's Relative Rates of Return				
Class	At Present Rates	At Proposed Rates		
RS	0.69	0.86		
GSV	3.54	2.28		
GSS	-0.17	0.30		
GSM	3.53	2.28		
GSL	2.47	1.78		
GP	0.47	0.81		
LP	3.16	1.62		
BRD	6.13	2.45		
Н	3.17	1.56		
POL	2.65	1.96		
STLT	-1.82	-0.36		
Total	1.00	1.00		

- 4
- 5

#### 6 Q. AS PREVIOUSLY INDICATED, PENELEC'S PROPOSED CLASS

#### 7 **REVENUE INCREASE ALLOCATION IS BASED UPON ITS PREPARED**

#### 8 COST OF SERVICE STUDY. HAVE YOU EVALUATED THE

#### 9 REASONABLENESS OF PENELEC'S PROPOSED CLASS INCREASES?

#### 10 A. Yes. Based on the results of the cost of service study, all rate classes move closer

#### 11 to the system average rate of return. The following table compares Penelec's cost

#### 12 of service and its revenues under proposed rates as filed.

Penelec COS and Revenues Under Proposed Rates (\$1,000)					
Customer Class	Cost of Service	Proposed Revenues Differe			
RS	\$367,865	\$343,576	(\$24,289)		
GSV	\$668	\$1,093	\$425		
GSS	\$32,729	\$21,263	(\$11,466)		
GSM	\$56,823	\$93,979	\$37,156		
GSL	\$15,036	\$20,896	\$5,860		
GP	\$28,251	\$25,495	(\$2,756)		
LP	\$10,168	\$13,203	\$3,035		
BRD	\$15	\$26	\$11		
Н	\$742	\$965	\$223		
POL	\$3,419	\$4,955	\$1,536		
STLT	\$18,183	\$8,446	(\$9,737)		
Total	\$533.899	\$533.899	\$0		

1

It appears that all rate classes are moving closer to the system average rate of
return; however, the GSM class is still recovering over 77% of the revenue
shortfall from the RS, GSS, GP, and STLT classes.

6

#### 7 <u>I&E RECOMMENDED REVENUE RE-ALLOCATION</u>

#### 8 Q. DO YOU RECOMMEND AN ALTERNATE CLASS REVENUE

#### 9 **INCREASE ALLOCATION THAT IS CONSISTENT WITH**

- 10 COMMISSION PRACTICE IN WHICH COST OF SERVICE RESULTS
- 11 **ARE CONSIDERED?**
- 12 A. Yes.

1 **O**. **DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE PENELEC'S** 2 **REQUESTED ANNUAL REVENUE INCREASE AMONG ITS** 3 CUSTOMER CLASSES IN THIS PROCEEDING. 4 A. My recommended allocation of Penelec's requested annual revenue increase is 5 designed to (1) move each rate class closer to the desired goal of full cost of 6 service on a relative basis to the proposed system average rate of return, and 7 (2) limit the distribution revenue increase to any particular rate class, to which I 8 allocated additional revenue, to no more than 1.5 times the overall system average 9 increase. 10 My recommended revenue allocation adjusts Penelec's proposed revenue 11 allocation by re-allocating approximately \$28,631,000 from the GSM, GSL, LP, 12 H, and POL classes to the RS, GSV, GSS, GP, and STLT classes (I&E Ex. No. 3, 13 Sch. 3, Ins. 9 and 30). The result, as shown on line 28 of I&E Exhibit No. 3, 14 Schedule 3, is that the rates of return of the various customer classes move closer 15 to the system average, with the exception of the GSV class due to shared rates 16 with the RS class. 17 18 **O**. WHAT WAS THE FIRST STEP OF YOUR RE-ALLOCATION? 19 A. First, I eliminated Penelec's proposed allocation of the annual revenue increase to 20 the GSM, GSL, LP, H, and POL classes, all of which will continue to provide

21 revenues in excess of the cost of serving each class without an increase over

1		present rates. Even though its relative rate of return is 2.45, I did not adjust the
2		BRD class because the Company proposed no increase to it.
3		
4	Q.	WHAT WAS YOUR SECOND STEP?
5	A.	Second, I reallocated both GSM and GSL classes a \$3,000,000 revenue increase,
6		as opposed to Penelec's requested allocation that I had previously removed, in
7		order to keep the revenue increases for the remaining classes under 150% of the
8		system average increase.
9		
10	Q.	WHAT WAS YOUR THIRD STEP?
11	A.	Finally, I redistributed the \$28,631,000 by allocating \$3,000,000 to the GSS class,
12		\$500,000 to the GP class, and \$800,000 to the STLT class, keeping the percentage
13		increases below 150% of the system average. I then allocated \$24,141,000 to the
14		RS class, so that the revenue received from the RS class is now equal to the
15		corresponding costs of providing service to the class. The rates for the GSV class
16		are the same as RS rates; therefore, this results in \$190,000 of the \$28,631,000
17		being allocated to the GSV class.
18		
19	Q.	DID YOU ADJUST THE REVENUE FROM THE BRD CLASS?
20	A.	My recommendation does not include any adjustment to Penelec's proposed
21		annual revenues from the BRD class because the Company proposed no revenue

1		increase for this class, which is generating revenues well in excess of the
2		corresponding cost of providing service to the class.
3		
4		SCALE BACK
5	Q.	WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS
6		THAN PENELEC'S FULL REQUESTED INCREASE OF \$158,770,000?
7	А.	If the Commission grants Penelec less than the full increase it has requested, I
8		recommend that the revenues for LP, BRD, H, and POL remain at present rate
9		levels and that all remaining classes proposed rates be reduced so that the increase
10		for each class is proportional to the percentage increase shown on I&E Exhibit
11		No. 3, Schedule 3, line 34. I recommend that the LP, BRD, H, and POL rates not
12		be scaled back, since my recommended revenue allocation of Penelec's requested
13		annual revenue increase does not include an increase in base rates for these
14		classes.
15		
16	Q.	WHY DO YOU RECOMMEND SUCH A SCALE BACK?
17	А.	This modified proportional scale back begins with a more reasonable allocation of
18		the increase, thus scaling back the revenue will result in a reasonable revenue
19		allocation at the level of revenue ultimately allowed by the Commission.
20		
21	Q.	WHAT IS YOUR SCALE BACK RECOMMENDATION BASED ON I&E'S
22		<b>RECOMMENDED OVERALL REVENUE INCREASE OF \$95,523,000?</b>

1	A.	An overall revenue increase of \$95,523,000 results in the need to scale back the
2		proposed revenue increase by \$57,412,000 (\$152,935,000 - \$95,523,000). The
3		I&E recommended revenue increase of approximately \$95,523,000 by class is
4		shown on I&E Exhibit No. 3, Schedule 15, line 7.
5		
6		<u>COST OF SERVICE – PENN POWER</u>
7	Q.	WHAT PERCENT INCREASE IS PENN POWER PROPOSING FOR THE
8		VARIOUS CUSTOMER CLASSES AS PRESENTED IN ITS COST OF
9		SERVICE STUDY?
10	A.	Penn Power's proposed revenue distribution is presented in the following table
11		(Penn Power Ex. TJD-1, Section 1, p. 1 and Section 2, p. 1).

Penn Power Proposed Revenue Distribution (\$1,000)					
Class	Present Rates	Proposed Rates	Increase	Increase Percent	
RS	\$70,412	\$97,623	\$27,211	38.6%	
GSR	\$62	\$87	\$25	40.3%	
GSS	\$4,025	\$6,328	\$2,303	57.2%	
GSM	\$10,713	\$15,639	\$4,926	46.0%	
GSL	\$3,646	\$5,126	\$1,480	40.6%	
GP	\$2,749	\$6,021	\$3,272	119.0%	
OH	\$0	\$0	\$0	0%	
PNP	\$78	\$96	\$18	23.1%	
POL	\$401	\$565	\$164	40.9%	
STLT	\$754	\$1,094	\$340	45.1%	
GT	\$1,349	\$1,966	\$617	45.7%	
Total	\$94,190	\$134,544	\$40,357	42.8%	

1		It should be noted that Penn Power's proposed amounts in the table above reflect
2		Penn Power's requested increase in base rate revenue requirements of \$40,357,000
3		of which (\$91,000) is associated with smart meter costs. These amounts, however,
4		exclude the proposed changes which update the uncollectible accounts expense to
5		be collected in the Company's DSS Rider for residential and commercial
6		customers and the HPS Rider for industrial customers.
7		
8	Q.	BEFORE ADDRESSING REVENUE ALLOCATION AMONG THE
9		VARIOUS RATE CLASSES, DOES PENN POWER DIFFER FROM MET-
10		ED AND PENELEC IN THE MANNER BY WHICH THE RATE
11		SCHEDULES ARE GROUPED IN ALLOCATING THE COST OF
12		SERVICE?
13	А.	Yes. Penn Power's rate schedule PLS (Private Outdoor Lighting Service) has
14		been presented in its cost of service study as POL, and its rate schedules SV
15		(Street Lighting Service: High Pressure Sodium Vapor), SVD (Street Lighting
16		Service: High Pressure Sodium Vapor; Divided Ownership), SM (Street Lighting
17		Service: Mercury Vapor), and LED (Street Lighting Service: LED) have been
18		combined and presented in Penn Power's cost of service study as rate group
19		STLT.

1	Q.	DESCRIBE HOW PENN POWER IS PROPOSING TO DISTRIBUTE ITS
2		REQUESTED REVENUE INCREASE AMONG ITS CUSTOMER
3		CLASSES IN THIS PROCEEDING.
4	А.	Penn Power is attempting to move the rate groups towards their respective costs of
5		service. The GSS, GP, POL, and STLT classes received an increase intended to
6		raise their relative rates of return. The limit on the increases proposed for the RS,
7		GSR, GSM, GSL, PNP, and GT classes is an effort to lower the relative rates of
8		return for these classes.
9		
10	Q.	AS STATED PREVIOUSLY, ONE OF THE CONSIDERATIONS IN
11		ESTABLISHING PROPOSED RATES IS THE RESULTING RATE OF
12		RETURN BY CUSTOMER CLASS AND THE CORRESPONDING
13		RELATIVE RATE OF RETURN BY CLASS. PLEASE SUMMARIZE THE
14		RELATIVE RATES OF RETURN FOR EACH CLASS.
15	A.	The relative rate of return for each class, as indicated by Penn Power's cost of
16		service study, are as follows:

Penn Power's Relative Rates of Return			
Class	At Present Rates	At Proposed Rates	
RS	1.06	0.99	
GSR	3.24	2.13	
GSS	0.29	0.74	
GSM	1.67	1.32	
GSL	3.30	2.06	
GP	-1.31	0.24	
ОН	-	-	
PNP	2.48	1.38	
POL	0.48	0.68	
STLT	-0.19	0.14	
GT	28.3	16.6	
Total	1.00	1.00	

1

3

AS PREVIOUSLY INDICATED, PENN POWER'S PROPOSED CLASS 4 Q. **REVENUE INCREASE ALLOCATION IS BASED UPON ITS PREPARED** 5 6 COST OF SERVICE STUDY. HAVE YOU EVALUATED THE **REASONABLENESS OF PENN POWER'S PROPOSED CLASS** 7 8 **INCREASES?** 9 Yes. Based on the results of the cost of service study, all rate classes move closer A. to the system average rate of return. The following table compares Penn Power's 10

11 cost of service and its revenues under proposed rates as filed.

Penn Power COS and Revenues Under Proposed Rates (\$1,000)					
Customer Class Cost of Service Proposed Revenues Difference					
RS	\$97,880	\$97,623	(\$257)		
GSR	\$56	\$87	\$31		
GSS	\$7,252	\$6,328	(\$924)		
GSM	\$13,315	\$15,639	\$2,324		
GSL	\$3,167	\$5,126	\$1,959		
GP	\$9,368	\$6,021	(\$3,347)		
ОН	-	-	-		
PNP	\$80	\$96	\$16		
POL	\$673	\$565	(\$108)		
STLT	\$2,448	\$1,094	(\$1,354)		
GT	\$308	\$1,966	\$1,658		
Total	\$134,544	\$134,544	\$0		

It appears that all rate classes are moving closer to the system average rate of return. However, in its attempt at lowering the relative rate of return for the RS class, the Company limited the allocation of its requested annual revenue increase in such a strict manner that the cost of providing service is now more than the revenue received from the RS class. Additionally, the GSM, GSL, and GT classes are still recovering the majority of revenue shortfall from the RS, GSS, GP, POL, and STLT classes.

1		<b>I&amp;E RECOMMENDED REVENUE RE-ALLOCATION</b>
2	Q.	DO YOU RECOMMEND AN ALTERNATE CLASS REVENUE
3		INCREASE ALLOCATION THAT IS CONSISTENT WITH
4		COMMISSION PRACTICE IN WHICH COST OF SERVICE RESULTS
5		ARE CONSIDERED?
6	A.	Yes.
7		
8	Q.	DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE PENN POWER'S
9		<b>REQUESTED ANNUAL REVENUE INCREASE AMONG ITS</b>
10		CUSTOMER CLASSES IN THIS PROCEEDING.
11	A.	My recommended allocation of Penn Power's requested annual revenue increase is
12		designed to (1) move each rate class closer to the desired goal of full cost of
13		service on a relative basis to the proposed system average rate of return, and
14		(2) limit the distribution revenue increase to any particular rate class, to which I
15		allocated additional revenue, to no more than 1.5 times the overall system average
16		increase.
17		My recommended revenue allocation adjusts Penn Power's proposed
18		revenue allocation by re-allocating approximately \$4,437,000 from the GSM,
19		GSL, PNP, and GT classes to the RS, GSR, GSS, POL, and STLT classes (I&E
20		Ex. No. 3, Sch. 4, Ins. 9 and 30). The result, as shown on line 28 of I&E Exhibit
21		No. 3, Schedule 4, is that the rates of return of the various customer classes either

1		remain relatively close to or move closer to the system average, with the exception
2		of the GSR class due to shared rates with the RS class.
3		
4	Q.	WHAT WAS THE FIRST STEP OF YOUR RE-ALLOCATION?
5	А.	First, I eliminated the Company's proposed allocation of the annual revenue
6		increase to the GSL and GT classes, both of which will continue to provide
7		revenues in excess of the cost of serving each class without an increase beyond
8		present rates.
9		
10	Q.	WHAT WAS YOUR SECOND STEP?
11	А.	In addition to eliminating the proposed increases for the GSL and GT classes, I
12		reduced the proposed increases for the GSM and PNP classes, so that the revenue
13		received from the GSM and PNP classes are now equal to the corresponding costs
14		of providing service to each class.
15		
16	Q.	WHAT WAS YOUR THIRD STEP?
17	А.	Next, I redistributed the \$4,437,000 by allocating \$250,000 to the GSS class,
18		\$90,000 to the POL class, and \$140,000 to the STLT class, keeping the percentage
19		increases below 150% of the system average. I then allocated \$3,951,000 to the
20		RS class, in order to keep the revenue increases for the remaining classes under
21		150% of the system average increase. The revenue received from the RS class is
22		still relatively close to the corresponding costs of providing service to the class

1		and results in an increase for the RS class that is 103.3% of the system average.
2		The rates for the GSR class are the same as RS rates; therefore, this results in
3		\$6,000 of the \$4,437,000 being allocated to the GSR class.
4		
5	Q.	DID YOU ADJUST THE REVENUE FROM THE GP CLASS?
6	А.	My recommendation does not include any adjustment to Penn Power's proposed
7		annual revenues from the GP class because its allocated increase is well above
8		150% of the system average increase.
9		
10		SCALE BACK
11	Q.	WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS
12		THAN PENN POWER'S FULL REQUESTED INCREASE OF \$42,033,000?
13	A.	If the Commission grants Penn Power less than the full increase it has requested, I
14		recommend that the revenues for GSL and GT remain at present rate levels and
15		that all remaining classes proposed rates be reduced so that the increase for each
16		class is proportional to the percentage increase shown on I&E Exhibit No. 3,
17		Schedule 4, line 34. I recommend that the GSL and GT rates not be scaled back,
18		since my recommended revenue allocation of Penn Power's requested annual
19		revenue increase does not include an increase in base rates for these classes.
20		
21	Q.	WHY DO YOU RECOMMEND SUCH A SCALE BACK?

1	A.	This modified proportional scale back begins with a more reasonable allocation of
2		the increase, thus scaling back the revenue will result in a reasonable revenue
3		allocation at the level of revenue ultimately allowed by the Commission.
4		
5	Q.	WHAT IS YOUR SCALE BACK RECOMMENDATION BASED ON I&E'S
6		<b>RECOMMENDED OVERALL REVENUE INCREASE OF \$27,295,000?</b>
7	A.	An overall revenue increase of \$27,295,000 results in the need to scale back
8		revenue by \$13,062,000 (\$40,357,000 - \$27,295,000). The I&E recommended
9		revenue increase of approximately \$27,295,000 by class is shown on I&E Exhibit
10		No. 3, Schedule 16, line 7.
11		
12		COST OF SERVICE – WEST PENN
13	Q.	WHAT PERCENT INCREASE IS WEST PENN PROPOSING FOR THE
14		VARIOUS CUSTOMER CLASSES AS PRESENTED IN ITS COST OF
15		SERVICE STUDY?
16	A.	West Penn's proposed revenue distribution is presented in the following table
17		(West Penn Ex. TJD-1, Section 1, p. 1 and Section 2, p. 1).

West Penn Proposed Revenue Distribution (\$1,000)				
Class	Present Rates	Proposed Rates	Increase	Increase Percent
RS	\$245,565	\$319,834	\$74,269	30.2%
GS10	\$714	\$806	\$92	12.9%
GSS	\$13,213	\$18,458	\$5,245	39.7%
GSM	\$62,683	\$68,500	\$5,817	9.28%
PP40	\$9,418	\$12,444	\$3,026	32.1%
GSL	\$23,317	\$24,795	\$1,478	6.34%
POL	\$4,551	\$7,959	\$3,408	74.9%
PSU	\$1,066	\$1,165	\$99	9.29%
PP44	\$31	\$65	\$34	109.7%
PP46	\$2,998	\$4,040	\$1,042	34.8%
STLT	\$6,752	\$5,513	(\$1,239)	-18.4%
Total	\$370,309	\$463,579	\$93,270	25.2%

It should be noted that West Penn's proposed amounts in the table above reflect its
requested increase in base rate revenue requirements of \$93,270,000 of which
(\$4,918,000) is associated with smart meter costs. These amounts, however,
exclude the proposed changes which update the uncollectible accounts expense to
be collected in the Company's DSS Rider for residential and commercial
customers and the HPS Rider for industrial customers.

10 Q. DOES WEST PENN DIFFER FROM MET-ED AND PENELEC IN THE
 11 MANNER BY WHICH THE RATE SCHEDULES ARE GROUPED IN
 12 ALLOCATING THE COST OF SERVICE?

1	A.	Yes. West Penn's rate schedules 51, 53, 54, 56, 71, and 72 have been combined
2		and presented in West Penn's cost of service study as rate group STLT. Its rate
3		schedules 52, 55, 57, 58, and 59 have also been combined and presented in West
4		Penn's cost of service study as rate group POL. There have been no groupings of
5		rate schedules 10, 20, 30, 35, 40, 44, 46, or PSU; however, they have been
6		reflected in the cost of service study as RS, GSS, GSM, GSL, PP40, PP44, PP46,
7		and PSU respectively.
8		
9	Q.	DESCRIBE HOW WEST PENN IS PROPOSING TO DISTRIBUTE ITS
10		REQUESTED REVENUE INCREASE AMONG ITS CUSTOMER
11		CLASSES IN THIS PROCEEDING.
12	A.	West Penn is attempting to move the rate groups towards their respective costs of
13		service. The RS, GSS, PP40, and PP46 classes received an increase intended to
14		raise their relative rates of return. The limit on the increases proposed for the
15		GSM, GSL, and PSU classes is an effort to lower the relative rates of return for
16		these classes.
17		
18	Q.	AS STATED PREVIOUSLY, ONE OF THE CONSIDERATIONS IN
19		ESTABLISHING PROPOSED RATES IS THE RESULTING RATE OF
20		RETURN BY CUSTOMER CLASS AND THE CORRESPONDING
21		RELATIVE RATE OF RETURN BY CLASS. PLEASE SUMMARIZE THE
22		RELATIVE RATES OF RETURN FOR EACH CLASS.

- A. The relative rate of return for each class, as indicated by West Penn's cost of service
   study, are as follows:

West Penn's Relative Rates of Return			
Class	At Present Rates	At Proposed Rates	
RS	0.69	0.90	
GS10	4.89	3.05	
GSS	-0.54	0.13	
GSM	3.11	1.89	
PP40	0.69	0.87	
GSL	2.54	1.49	
POL	3.86	4.35	
PSU	2.06	1.28	
PP44	61.9	69.98	
PP46	0.64	0.86	
STLT	0.75	0.13	
Total	1.00	1.00	

6	Q.	AS PREVIOUSLY INDICATED, WEST PENN'S PROPOSED CLASS
7		REVENUE INCREASE ALLOCATION IS BASED UPON ITS PREPARED
8		COST OF SERVICE STUDY. HAVE YOU EVALUATED THE
9		REASONABLENESS OF WEST PENN'S PROPOSED CLASS INCREASES?
10	А.	Yes. Based on the results of the cost of service study, most rate groups move
11		closer to the system average rate of return; however, rate groups POL, PP44, and
12		STLT move further away from the system average rate of return. The following

table compares West Penn's cost of service and its revenues under proposed rates as filed.

3

2

1

West Penn COS and Revenues Under Proposed Rates (\$1,000)			
Customer Class	Cost of Service	Proposed Revenues	Difference
RS	\$333,198	\$319,834	(\$13,364)
GS10	\$420	\$806	\$386
GSS	\$29,416	\$18,458	(\$10,958)
GSM	\$49,074	\$68,500	\$19,426
PP40	\$13,219	\$12,444	(\$775)
GSL	\$20,242	\$24,795	\$4,553
POL	\$3,062	\$7,959	\$4,897
PSU	\$1,027	\$1,165	\$138
PP44	\$3	\$65	\$62
PP46	\$4,323	\$4,040	(\$283)
STLT	\$9,596	\$5,513	(\$4,083)
Total	\$463,579	\$463,579	\$0

4

It appears that all rate classes are moving closer to the system average rate of 5 return except for rate groups POL, PP44, and STLT. Under current rates the 6 revenue received from rate groups POL and PP44 exceed the cost of providing 7 service to those groups. West Penn proposes to allocate a portion of its requested 8 annual revenue increase to these two rate groups, resulting in a 74.9% increase in 9 10 annual revenues from the POL rate group and a 109.7% increase in annual revenues from the PP44 rate group. These increases in annual revenue proposed 11 12 for the POL and PP44 rate groups do not move towards eliminating subsidies that

1		these rate groups are currently providing and only exacerbate the existing degree
2		of cross-subsidization. The same effect is produced by West Penn's proposed
3		decrease in annual revenues for the STLT rate group. Under current rates the cost
4		of providing service to this group exceeds the revenue received. Therefore, by
5		reducing the annual revenue received from this rate group the existing degree of
6		subsidization is enhanced. Additionally, the GSM, GSL, and POL classes are still
7		recovering the majority of revenue shortfall from the RS, GSS PP40, PP46, and
8		STLT rate groups.
9		
10		<b>I&amp;E RECOMMENDED REVENUE RE-ALLOCATION</b>
11	Q.	DO YOU RECOMMEND AN ALTERNATE CLASS REVENUE
12		INCREASE ALLOCATION THAT IS CONSISTENT WITH
13		COMMISSION PRACTICE IN WHICH COST OF SERVICE RESULTS
		commission inventee in which cost of service resourts
14		ARE CONSIDERED?
14 15	А.	ARE CONSIDERED? Yes.
14 15 16	A.	ARE CONSIDERED? Yes.
14 15 16 17	А. <b>Q.</b>	ARE CONSIDERED? Yes. DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE WEST PENN'S
14 15 16 17 18	А. <b>Q</b> .	ARE CONSIDERED? Yes. DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE WEST PENN'S REQUESTED ANNUAL REVENUE INCREASE AMONG ITS
14 15 16 17 18 19	A. Q.	ARE CONSIDERED? Yes. DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE WEST PENN'S REQUESTED ANNUAL REVENUE INCREASE AMONG ITS CUSTOMER CLASSES IN THIS PROCEEDING.
14 15 16 17 18 19 20	А. <b>Q.</b> А.	ARE CONSIDERED? Yes. DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE WEST PENN'S REQUESTED ANNUAL REVENUE INCREASE AMONG ITS CUSTOMER CLASSES IN THIS PROCEEDING. My recommended allocation of West Penn's requested annual revenue increase is
14 15 16 17 18 19 20 21	А. <b>Q.</b> А.	ARE CONSIDERED? Yes. DESCRIBE HOW YOU PROPOSE TO DISTRIBUTE WEST PENN'S REQUESTED ANNUAL REVENUE INCREASE AMONG ITS CUSTOMER CLASSES IN THIS PROCEEDING. My recommended allocation of West Penn's requested annual revenue increase is designed to (1) move each rate class closer to the desired goal of full cost of

(2) limit the distribution revenue increase to any particular rate class, to which I
 allocated additional revenue, to no more than 1.5 times the overall system average
 increase.

4		My recommended revenue allocation adjusts West Penn's proposed
5		revenue allocation by re-allocating approximately \$10,836,000 from the GSM,
6		GSL, POL, PSU, and PP44 rate groups to the RS, GS10, PP44, PP46, and STLT
7		rate groups (I&E Ex. No. 3, Sch. 5, Ins. 9 and 30). The result, as shown on line 28
8		of I&E Exhibit No. 3, Schedule 5, is that the rates of return of the various
9		customer classes either remain relatively close to or move closer to the system
10		average, with the exception of the GS10 class due to shared rates with the RS
11		class.
12		
13	Q.	WHAT WAS THE FIRST STEP OF YOUR RE-ALLOCATION?
14	A.	First, I eliminated the Company's proposed allocation of the annual revenue
15		increase to the POL, PP44, GSL, GSM and PSU rate groups, all of which will
16		continue to provide revenues in excess of the cost of serving each class at present
17		rate revenue levels. In addition to eliminating the proposed increases for the POL,
18		PP44, GSL, GSM, and PSU rate groups, I eliminated the proposed decrease for the

19 STLT rate group, moving the rate group revenue closer to the rate group cost of

20 service.

Q.

#### WHAT WAS YOUR SECOND STEP?

2	A.	Second, I reallocated the STLT rate group a \$2,500,000 revenue increase, as
3		opposed to West Penn's requested revenue decrease that I had previously
4		removed, in order to keep the revenue increase under 150% of the system average
5		increase.
6		
7	Q.	WHAT WAS YOUR THIRD STEP?
8	A.	Next I redistributed the remaining requested annual revenue increase by allocating
9		\$500,000 to the PP40 class and \$80,000 to the PP46 class, keeping the percentage
10		increase below 150% of the system average. I then allocated \$6,431,000 to the RS
11		class, so that the revenue received from the RS class is now closer to the
12		corresponding costs of providing service to the class, and the annual revenue
13		increase for the RS class is under 150% of the system average increase. The rates
14		for the GS10 class are the same as RS rates; therefore, this results in \$86,000
15		being allocated to the GS10 class.
16		
17	Q.	DID YOU ADJUST THE REVENUE FROM THE GSS CLASS?
18	A.	My recommendation does not include any adjustment to West Penn's proposed
19		annual revenues from the GSS class because its allocated increase is well above

20 150% of the system average increase.

#### 1 SCALE BACK

2	Q.	WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS
3		THAN WEST PENN'S FULL REQUESTED INCREASE OF \$98,228,000?
4	A.	If the Commission grants West Penn less than the full increase it has requested, I
5		recommend that the revenues for POL, PP44, GSL, GSM, and PSU remain at
6		present rate levels and that all remaining classes proposed rates be reduced so that
7		the increase for each class is proportional to the percentage increase shown on
8		I&E Exhibit No. 3, Schedule 5, line 34. I recommend that the POL, PP44, GSL,
9		GSM, and PSU rates not be scaled back, since my recommended revenue
10		allocation of West Penn's requested annual revenue increase does not include an
11		increase in base rates for these classes.
12		
13	Q.	WHY DO YOU RECOMMEND SUCH A SCALE BACK?
14	А.	This modified proportional scale back begins with a more reasonable allocation of
15		the increase, thus scaling back the revenue will result in a reasonable revenue
16		allocation at the level of revenue ultimately allowed by the Commission.
17		
18	Q.	WHAT IS YOUR SCALE BACK RECOMMENDATION BASED ON I&E'S
19		<b>RECOMMENDED OVERALL REVENUE INCREASE OF \$54,856,000?</b>
20	A.	An overall revenue increase of \$54,856,000 results in the need to scale back
21		revenue by \$38,414,000 (\$93,270,000 - \$54,856,000). The I&E recommended

1		revenue increase of approximately \$54,856,000 by class is shown on I&E Exhibit
2		No. 3, Schedule 17, line 7.
3		
4		RESIDENTIAL CUSTOMER COST ANALYSIS
5	Q.	WHAT IS A CUSTOMER COST ANALYSIS AND HOW IS IT USED?
6	A.	A customer cost analysis is part of a cost of service study that includes only
7		customer costs. It is used to determine the appropriate customer charges for the
8		various classes.
9		
10	Q.	WHAT ARE THE COMPANIES' PROPOSALS REGARDING
11		<b>RESIDENTIAL CUSTOMER CHARGES?</b>
12	A.	All of the Companies, with the notable exception of Penn Power with a proposed
13		24% increase, propose a substantial percentage increase in residential customer
14		charges. The proposals are shown below:
15		
		<b>Residential Customer Charges</b>

			Percent
	Present	Proposed	Increase
Met-Ed	\$10.25	\$17.42	70%
Penelec	\$9.99	\$17.10	71%
Penn Power	\$10.85	\$13.41	24%
West Penn	\$5.81	\$13.98	141%

1	Q.	ON WHAT BASIS DID THE COMPANIES CALCULATE THEIR
2		REQUESTS TO INCREASE THE CUSTOMER CHARGES FOR THE
3		<b>RESIDENTIAL CLASS?</b>
4	А.	Each Company's Exhibit KMS-3 contains what the Companies have identified as
5		the development of total customer-related costs applicable to each Company's
6		distribution system from which the costs associated with their proposed residential
7		customer charges are derived. Based on these analyses, the Companies
8		determined what they believe are the direct and indirect customer costs they incur
9		to provide service to the residential class. However, theses analyses do not
10		indicate what operation and maintenance expenses were included or what
11		distribution plant accounts were included in the calculation of depreciation
12		expense and the rate base related return.
13		
14	Q.	DO YOU AGREE WITH THE RESIDENTIAL CUSTOMER CHARGE
15		INCREASES PROPOSED BY THE COMPANIES?
16	А.	No.
17		
18	Q.	HAS THE COMMISSION PREVIOUSLY DETERMINED WHAT ITEMS
19		SHOULD BE RECOVERED IN A CUSTOMER CHARGE?
20	А.	Yes, in both Pa. PUC v. Aqua Pennsylvania, Inc. ("Aqua") docketed at R-
21		00038805 (Order entered August 5, 2004) ("Aqua Order") and in Pa. PUC v. PPL
22		Electric ("PPL") at Docket R-2012-2290597 (Order entered December 28, 2012)

the Commission determined items that are properly recovered in a customer charge.

3		In the Aqua Order, the Commission endorsed Aqua's analysis, presented in
4		rebuttal testimony, which demonstrated the direct costs to be recovered in a
5		customer charge. Based on the analysis in Aqua, the Commission found that the
6		determination of a customer charge should be limited to the following items:
7		Transmission and Distribution Operating and Maintenance Expenses associated
8		with meters and services, Customer Accounts Expenses, expenses associated with
9		Employee Health Plans, Federal and State Payroll Taxes, expenses for the
10		Commission and or the Office of Consumer Advocate Assessments, and the
11		depreciation expenses and rate base-related return and income taxes related to
12		meters, services, office buildings, office furniture and equipment and computers.
13		In the PPL case, the Commission approved the customer cost analysis
14		submitted by PPL that included both direct and indirect customer costs.
15		
16	Q.	HAVE YOU CALCULATED WHAT THE MONTHLY RESIDENTIAL
17		CUSTOMER COSTS SHOULD BE FOR EACH COMPANY?
18	A.	Yes. My customer cost calculations, guided by the analysis and Commission
19		decision in the Aqua case as well as the PPL case mentioned above, are presented
20		on Schedules 6 through 9 of I&E Exhibit No. 3. Based on my customer cost
21		analyses, I determined that Met-Ed incurs \$10.72 per month in customer costs for
22		each residential customer, Penelec incurs \$11.25 per month in customer costs for

1		each residential customer, Penn Power incurs \$9.75 per month in customer costs
2		for each residential customer, and West Penn incurs \$9.74 per month in customer
3		costs for each residential customer (I&E Ex. No. 3, Schs. 6 – 9, p. 1, ln. 34).
4		
5	Q.	WHAT ITEMS DID YOU INCLUDE IN YOUR CUSTOMER COST
6		ANALYSES TO DETERMINE THE APPROPRIATE RESIDENTIAL
7		CUSTOMER CHARGES?
8	A.	I included the following customer costs in my cost analyses:
9		• Distribution expenses related to the operation and maintenance of meters,
10		supervision & engineering, miscellaneous expenses, and rents;
11		• Customer accounting expenses related to customer account supervision,
12		collections, percentage of uncollectibles, accounts expense that is
13		attributable to the revenue from customer charges, information supervision,
14		information miscellaneous expense, and account payroll;
15		• Administrative and general expenses related to employee pension and
16		benefits and payroll taxes;
17		• Depreciation expenses related to services, meters, and office equipment and
18		amortization of smart meters and legacy meters;
19		• Rate base related return and income taxes related to net services, meters,
20		and office equipment plant, including deductions for customer advances
21		and deposits and a credit for the liberalized depreciation of services, meters,
22		and office equipment; and

1		• Offsets for reflected other gas revenues and revenues from forfeited
2		discounts.
3		
4	Q.	WHAT IS YOUR RATIONALE FOR NOT INCLUDING CUSTOMER
5		ASSISTANCE EXPENSE IN YOUR RESIDENTIAL CUSTOMER COST
6		ANALYSES?
7	A.	In the PPL base rate case mentioned above, the Commission identified the specific
8		costs that are appropriately included in a customer charge. This determination by
9		the Commission in the 2012 PPL case supports my recommendation to not include
10		customer assistance expense in the customer cost analyses in the determination of
11		the appropriate residential customer charges. In the PPL case, I noted that such
12		universal service rider costs were specifically excluded from customer service
13		costs that would be recovered in a customer charge.
14		
15	Q.	WHAT IS YOUR RATIONALE FOR EXCLUDING ALL CLAIMED
16		ADMINISTRATIVE AND GENERAL EXPENSES WITH THE
17		EXCEPTION OF EMPLOYEE PENSION AND BENEFITS?
18	A.	As explained above, the customer cost analysis adopted in the Aqua case, on
19		which I have based my customer cost analysis, only includes administrative and
20		general expenses associated with Employee Health Plans and Payroll Taxes.
21		Therefore, guided by the Commission's conclusion in that case, I have determined
22		that these are the only allowable administrative and general expenses.

1	Q.	EXPLAIN WHY YOU HAVE NOT ALLOCATED 100% OF THE
2		UNCOLLECTIBLE ACCOUNTS EXPENSE TO THE CUSTOMER COST
3		FUNCTION.
4	A.	I believe that the Companies should have allocated most of the uncollectible
5		accounts expense to the usage cost functions rather than the customer cost
6		function.
7		
8	Q.	HOW DID YOU DETERMINE THE AMOUNTS THAT SHOULD BE
9		ALLOCATED TO THE CUSTOMER FUNCTION IN THE
10		DETERMINATION OF THE RESIDENTIAL CUSTOMER COSTS?
11	A.	I began by determining the percent of residential revenue received from the
12		customer charges for each Company. Then I multiplied the amount of residential
13		uncollectible accounts expense each Company claimed by these percentages to
14		determine the amounts that should be allocated to as a customer cost in the
15		residential customer charge analyses.
16		
17	Q.	WHY DO YOU RECOMMEND THAT MOST OF THE UNCOLLECTIBLE
18		ACCOUNTS EXPENSE BE ALLOCATED TO THE USAGE FUNCTIONS?
19	A.	Collectively, the Companies receive approximately 18% to 28% of their revenues
20		from customer charges. Therefore, it is appropriate to allocate only approximately
21		18% to 28% of the uncollectible accounts expense to the customer function since

1	the customer costs are only responsible for a minority of the uncolle	ectible accounts

expense.

**ANALYSES?** 

3

4

5

6

7

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### Q. WHAT IS YOUR JUSTIFICATION FOR INCLUDING OTHER REVENUES AND REVENUES FROM FORFEITED DISCOUNTS AS AN OFFSET TO CUSTOMER COSTS IN YOUR CUSTOMER COST

- 8 A. In the PPL case mentioned above, these two offsets to customer costs were
- 9 deemed acceptable. Additionally, since forfeited discount revenue is received
- 10 when customers pay their bill after the due date, it is reasonable to consider this
- 11 revenue as an offset to customer costs. Therefore, I included the same percentages
- 12 of claimed forfeited discount revenue for each Company as I allowed for each
- 13 Companies uncollectible accounts expense.
- 14

#### 15 **RESIDENTIAL CUSTOMER CHARGE RECOMMENDATION**

#### 16 Q. WHAT IS YOUR RECOMMENDATION REGARDING THE

#### 17 **APPROPRIATE LEVEL OF RESIDENTIAL CUSTOMER CHARGES FOR**

18

#### EACH COMPANY?

- 19 A. My recommendation is based on my customer cost analyses which I have
- 20 previously described and identified as Schedules 6 through 9 of I&E Exhibit
- 21 No. 3. My customer cost analyses show that Met-Ed incurs \$10.72 in direct and
- indirect costs per month to provide service to each of its residential customers,

1		Penelec incurs \$11.25 in direct and indirect costs per month to provide service to
2		each of its residential customers, Penn Power incurs \$9.75 in direct and indirect
3		costs per month to provide service to each of its residential customers, and West
4		Penn incurs \$9.74 in direct and indirect costs per month to provide service to each
5		of its residential customers.
6		Therefore, since I have concluded there is no cost basis for increasing the
7		present residential customer charges to the levels requested by the Companies, I
8		recommend that Met-Ed's present \$10.25 per month residential customer charge
9		be increased to \$10.72 per month, Penelec's present \$9.99 per month residential
10		customer charge be increased to \$11.25 per month, West Penn's present \$5.81 per
11		month residential customer charge be increased to \$9.74 per month, and Penn
12		Power to maintain its current monthly residential customer charge of \$10.85, in
13		recognition that Penn Power only incurs approximately \$9.75 of customer costs
14		per month for each residential customer.
15		
16	Q.	WHAT AFFECT DOES YOUR RECOMMENDED ALLOCATIONS OF
17		I&E'S RECOMMENDED ANNUAL REVENUE INCREASES AND YOUR
18		RECOMMENDED RESIDENTIAL CUSTOMER CHARGES HAVE ON
19		THE MONTHLY BILL OF A TYPICAL RESIDENTIAL CUSTOMER
20		USING 1,000 KWH PER MONTH FOR EACH COMPANY?
21	A.	I have summarized the indicated affects in the following table:

Compa	Company Proposed Revenue Allocation and Customer Charges (Ref. Companies' Exhibits KMS-5, p. 1)						
	Current Monthly Bill	Increase	Percentage Increase	Total Bill After Increase			
Met-Ed	\$139.91	\$17.52	12.52%	\$157.43			
Penelec	\$145.86	\$23.61	16.19%	\$169.48			
Penn Power	\$141.24	\$18.45	13.06%	\$159.69			
West Penn	\$113.27	\$10.89	9.61%	\$124.16			

#### I&E Recommended Revenue Increase and Customer Charges (Ref. I&E Ex. No. 3, Schs. 10 - 13)

	Current		Percentage	Total Bill
	Monthly Bill	Increase	Increase	After Increase
Met-Ed	\$139.91	\$15.75	11.26%	\$155.66
Penelec	\$145.86	\$21.05	14.43%	\$166.91
Penn Power	\$141.24	\$14.76	10.45%	\$156.00
West Penn	\$113.27	\$7.39	6.52%	\$120.66

2

The tables above compare how the resulting residential bills under my
recommended allocations of I&E's recommended annual revenue increases and
my recommended residential customer charges align with the resulting residential
bills under the Companies' proposed revenue increases and rate designs.

7

#### 8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes.

#### Appendix A

#### **JEREMY B. HUBERT**

#### **PROFESSIONAL EXPERIENCE AND EDUCATION**

#### **EDUCATION:**

<u>Pennsylvania State University</u>, State College, Pennsylvania Bachelor of Science; Major in Mechanical Engineering, 2003

- Attended EUCI Introduction to Rate Design for Electric Utilities, Philadelphia, PA, 2007
- Attended EUCI Introduction to Cost of Service Concepts and Techniques for Electric Utilities, Philadelphia, PA, 2007
- Attended NARUC Rate School, San Diego, CA, 2008
- PUC Gas Safety Seminar, 2008
- Participated in the NARUC sponsored PUC partnership with the country of Kosovo. This three year partnership between the PUC and Kosovo to initially assist them in the review and development of retail electricity tariffs commenced with a trip to Kosovo the first full week of November 2013 and consisted of several days of meetings and discussions with Kosovo's Energy Regulatory Office (ERO) in Pristina, the capital, 2013
- Emerging Leaders Program PA PUC, May 2016

#### **EXPERIENCE:**

#### 11/2006 - Present

#### Bureau of Investigation and Enforcement (f/k/a Office of Trial Staff), Pennsylvania Public Utility Commission - Harrisburg, Pennsylvania

<u>Fixed Utility Valuation Engineer</u> – Review and analyze financial, economic, and engineering records and testimony which are submitted by jurisdictional utilities in order for them to justify proposed changes in tariffed rates, and to identify any issues regarding revenues, the cost of service, rate design, rate base, 1307(f) gas costs and quality of service.

Technical review of base rate filings may include analysis of depreciation studies, examination of income statements, including (but not limited to) the operating revenue accounts and adjustments thereto, in order to determine whether the utility's revenues based on normalized sales volumes are reasonable for ratemaking purposes, analysis of bill frequency analyses and proofs of revenue in order to determine the appropriateness of the utility's customer classifications in rate design, performing bill comparisons at present and proposed rates, or analysis of cost of service studies in order to determine the reasonableness of a utility's allocation methodology of costs to the various customer classes, and whether a rate increase has been distributed among those customer classes in a fair and reasonable manner.

Additional duties include attending prehearing and settlement conferences, responding orally to cross examination questions in formal rate hearings, providing technical assistance to attorneys in the preparation of briefs, review of company and complainant briefs and reply briefs, and review of ALJ recommended decisions and exceptions and reply exceptions to ALJ recommended decisions.

#### 10/2005 - 11/2006

#### Pennsylvania Department of Transportation - Harrisburg, Pennsylvania

<u>Materials Technician</u> – Responsible, primarily, for performing a variety of technical duties associated with the routine testing of coarse aggregates according to AASHTO and PTMs.

#### 05/2005 - 10/2005

#### Gatter & Diehl, Inc. Consulting Engineers - Harrisburg, Pennsylvania

<u>Mechanical Designer</u> – Responsible, primarily, for assisting engineers and CADD technicians in the design aspects of HVAC, plumbing, and fire protection systems.

#### **TESTIMONY SUBMITTED:**

I have testified and/or submitted testimony in the following proceedings:

- Village Water Company, Docket No. R-00072351
- United Water of Pennsylvania, Inc., Docket No. A-210013F0017
- Total Environmental Solutions, Inc. Treasure Lake Division, Docket No. R-00072493
- National Fuel Gas Distribution Corporation, 1307(f) proceeding, Docket No. R-2008-2012502
- PECO Energy Company, Docket No. R-2008-2028394
- PPL Gas Utility Corporation, 1307(f) proceeding, Docket No. R-2008-2039634
- Newtown Artesian Water Company, Docket No. R-2008-2042293
- Equitable Gas Company, Docket No. R-2008-2029325
- National Fuel Gas Distribution Corporation, 1307(f) proceeding, Docket No. R-2009-2083181
- Columbia Gas of Pennsylvania, 1307(f) proceeding, Docket No. R-2009-2093219
- UGI Central Penn Gas, Inc., 1307(f) proceeding,

Docket No. R-2009-2105909

- Pennsylvania American Water Company, Docket No. R-2009-2097323
- PPL Electric, Energy Efficiency and Conservation Plan, Docket No. M-2009-2093216
- Utilities, Inc. of Pennsylvania, Docket No. R-2009-2117402
- Aqua Pennsylvania, Inc., Docket No. R-2009-2132019
- Newtown Artesian Water Company, Docket No. R-2009-2117550
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2009-2149262
- National Fuel Gas Distribution Corporation, 1307(f) proceeding, Docket No. R-2010-2150861
- T.W. Phillips Gas and Oil Company, Docket No. R-2010-2167797
- Columbia Gas of Pennsylvania, 1307(f) proceeding, Docket No. R-2010-2161920
- UGI Central Penn Gas, Inc., 1307(f) proceeding, Docket No. R-2010-2172922
- Total Environmental Solutions, Inc. Treasure Lake Water Division, Docket No. R-2010-2171918
- Total Environmental Solutions, Inc. Treasure Lake Sewer Division, Docket No. R-2010-2171924
- Wellsboro Electric Company, Docket No. R-2010-2172662
- Columbia Gas of Pennsylvania, Inc., Docket Nos. R-2010-2215623

- Columbia Gas of Pennsylvania, Inc., 1307(f) proceeding Docket No. R-2011-2228696
- The Newtown Artesian Water Company, Docket Nos. R-2010-2215623 R-2010-2201974
- United Water Pennsylvania, Inc. Docket No. R-2011-22332985
- Aqua Pennsylvania, Inc., Docket No. R-2011-2267958
- PECO Energy Company Gas Division, 1307(f) proceeding, Docket No. R-2012-2302784
- PPL Electric Utilities Corporation, Docket No. R-2012-2290597
- Columbia Gas of Pennsylvania, Inc., Docket Nos. R-2012-2321748 M-2012-2323645
- Columbia Gas of Pennsylvania, Inc., 1307(f) proceeding Docket No. R-2013-2351073
- Peoples TWP LLC, Docket No. R-2013-2355886
- Duquesne Light Company, Docket No. R-2013-22372129
- National Fuel Gas Distribution Corporation, 1307(f) proceeding, Docket No. R-2014-2399610
- City of Bethlehem Bureau of Water, Docket No. R-2013-2390244
- Columbia Gas of Pennsylvania, Inc. 1307(f) proceeding, Docket No. R-2014-2408268
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2014-2406274
- PECO Energy Company, 1307(f) proceeding, Docket No. R-2014-2420283

R-2010-2201974

- Duquesne Light Company, Default Service Plan Docket No. P-2014-2418242
- West Penn Power Company, Docket No. R-2014-2428742
- West Penn Power Company, Docket No. M-2013-2341991
- Pennsylvania Electric Company, Docket No. R-2014-2428743
- Pennsylvania Electric Company, Docket No. M-2013-2341994
- Pennsylvania Power Company, Docket No. R-2014-2428744
- Pennsylvania Power Company, Docket No. M-2013-2341993
- Metropolitan Edison Company, Docket No. R-2014-2428745
- Metropolitan Edison Company, Docket No. M-2013-2341990
- United Water Pennsylvania, Inc., Docket No. R-2015-2462723
- Columbia Gas of Pennsylvania, Inc., 1307(f) proceeding, Docket No. R-2015-2469665
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2015-2468056
- PECO Energy Company, 1307(f) proceeding, Docket No. R-2015-2480969
- Twin Lakes Utilities, Inc., Docket No. R-2015-2506337
- Columbia Gas of Pennsylvania, Inc., Docket No. P-2016-2521993