I&E Statement No. 2
Witness: Lisa A. Gumby

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

Lisa A. Gumby

Bureau of Investigation & Enforcement

Concerning:

OPERATING & MAINTENANCE EXPENSES
CASH WORKING CAPITAL

TABLE OF CONTENTS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lisa A. Gumby. My business address is Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

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

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Valuation Engineer.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. An outline of my educational and professional background is attached as Appendix A.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. The I&E analysis in the proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of the ratepayers and regulated utilities who provide public utility service.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to review the four FirstEnergy companies' (FirstEnergy) base rate filings, including Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn) (collectively, Companies) and to make recommended adjustments to the Companies' proposed operating and maintenance (O&M) expenses for the fully projected future test year (FPFTY) ending December 31, 2017. My recommended adjustments relate to the following areas: payroll, benefits, and related payroll taxes; rate case expense; advertising expense; relocation expenses; and cash working capital.

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 2 contains schedules relating to my direct testimony.

<u>SUMMARY OF O&M AND RATE BASE ADJUSTMENTS</u>

Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.

A. The following tables summarize my recommended adjustments.

Met-Ed

Met-Ed			
O&M	Company Claim	I&E Recommendation	Adjustment
Payroll Expense	$31,097,000	$29,875,856	($1,221,144)
Benefits Expense	$4,504,000	$4,482,482	($21,518)
Other Payroll Expense	$219,303	$134,777	($84,526)
Rate Case Expense	$274,000	$68,500	($205,500)
Advertising Expense	$344,000	$183,000	($161,000)
Relocation Expenses	$146,822	$16,324	($130,498)
Total O&M Adjustments:			**($1,824,186)**
Rate Base	Company Claim	I&E Recommendation	Adjustment
Payroll Capitalized	$36,920,000	$35,930,868	($989,132)
Benefits Capitalized	$5,348,000	$5,322,454	($25,546)
Other Payroll Capitalized	$260,362	$160,011	($100,351)
Cash Working Capital	$134,868,000	$78,644,000	($56,224,000)
Total Rate Base Adjustments:			**($57,339,029)**

Penelec

Penelec			
O&M	Company Claim	I&E Recommendation	Adjustment
Payroll Expense	$37,530,000	$34,846,287	($2,683,713)
Benefits Expense	$5,728,000	$5,519,434	($208,566)
Other Payroll Expense	$292,477	$147,218	($145,259)
Rate Case Expense	$285,000	$71,250	($213,750)
Advertising Expense	$405,000	$159,000	($246,000)
Relocation Expenses	$161,230	$56,497	($104,733)
Total O&M Adjustments:			**($3,602,021)**
Rate Base	Company Claim	I&E Recommendation	Adjustment
Payroll Capitalized	$38,197,000	$35,907,341	($2,289,659)
Benefits Capitalized	$5,829,000	$5,616,730	($212,270)
Other Payroll Capitalized	$297,671	$149,832	($147,839)
Cash Working Capital	$177,979,000	$95,370,000	($82,609,000)
Total Rate Base Adjustments:			**($85,258,768)**

Penn Power

Penn Power			
O&M	Company Claim	I&E Recommendation	Adjustment
Payroll Expense	$8,550,000	$8,023,363	($526,637)
Benefits Expense	$1,757,000	$1,711,954	($45,046)
Rate Case Expense	$81,000	$20,250	($60,750)
Advertising Expense	$191,000	$67,000	($124,000)
Relocation Expenses	$40,782	$6,849	($33,933)
Total O&M Adjustments:			**($790,366)**
Rate Base	Company Claim	I&E Recommendation	Adjustment
Payroll Capitalized	$10,164,000	$9,680,645	($483,355)
Benefits Capitalized	$2,088,000	$2,034,456	($53,544)
Cash Working Capital	$28,906,000	$22,277,000	($6,629,000)
Total Rate Base Adjustments:			**($7,165,899)**

West Penn

West Penn			
O&M	Company Claim	I&E Recommendation	Adjustment
Payroll Expense	$33,803,000	$31,226,316	($2,576,684)
Benefits Expense	$5,051,000	$4,851,029	($199,971)
Other Payroll Expense	$194,579	$24,879	($169,700)
Rate Case Expense	$353,000	$88,250	($264,750)
Advertising Expense	$316,000	$96,000	($220,000)
Relocation Expenses	$151,018	$16,447	($134,571)
Total O&M Adjustments:			**($3,565,676)**
Rate Base	Company Claim	I&E Recommendation	Adjustment
Payroll Capitalized	$33,133,000	$31,134,687	($1,998,313)
Benefits Capitalized	$4,951,000	$4,754,989	($196,011)
Other Payroll Capitalized	$190,725	$24,386	($166,339)
Cash Working Capital	$123,226,000	$84,323,000	($38,903,000)
Total Rate Base Adjustments:			**($41,263,663)**

PAYROLL, BENEFITS, AND RELATED TAXES

Q. WHAT IS INCLUDED IN PAYROLL, BENEFITS, AND RELATED TAXES?

A. In payroll, the Companies have included salaries and wages for bargaining and non-bargaining employees, including pay increases effective through May 1, 2018. There are also claims for corresponding health and other benefits, and payroll tax claims in line with the Companies' projected complement. I will address three different issues herein: (1) pay increases with effective dates beyond the end of the FPFTY; (2) a vacancy rate adjustment based on historic vacancy levels; and (3) an adjustment to "other payroll."

Payroll Increases with Effective Dates After the FPFTY

Q. WHAT ARE THE COMPANIES' CLAIMS FOR PAYROLL INCREASES WITH EFFECTIVE DATES BEYOND THE END OF THE FPFTY?

A. The payroll increases with effective dates beyond the FPFTY ending December 31, 2017, for the Companies and First Energy Service Company (FESC) are being claimed as follows:

Payroll Increases Effective After The FPFTY End				
Company	Category	Date	Amount	Company Exhibit
Met-Ed	Bargaining	5/1/2018	$ 956,000	RAD-2, p. 12, line 6
Met-Ed	Non-Bargaining	3/1/2018	$ 500,000	RAD-2, p. 12, line 11
Met-Ed	Service Company	3/1/2018	$ 388,000	RAD-2, p. 12, line 27
Penelec	Bargaining	5/1/2018	$ 906,000	RAD-2, p. 12, line 5
Penelec	Bargaining	5/1/2018	$ 231,000	RAD-2, p. 12, line 9
Penelec	Non-Bargaining	3/1/2018	$ 682,000	RAD-2, p. 12, line 13
Penelec	Service Company	3/1/2018	$ 434,000	RAD-2, p. 12, line 28
Penn Power	Bargaining	3/1/2018	$ 276,000	RAD-2, p. 12, line 9
Penn Power	Non-Bargaining	3/1/2018	$ 132,000	RAD-2, p. 12, line 5
Penn Power	Service Company	3/1/2018	$ 120,000	RAD-2, p. 12, line 24
West Penn	Bargaining	5/1/2018	$ 797,000	RAD-2, p. 12, line 5
West Penn	Non-Bargaining	3/1/2018	$ 669,000	RAD-2, p. 12, line 9
West Penn	Service Company	3/1/2018	$ 538,000	RAD-2, p. 12, line 24

Q. ARE THESE CLAIM AMOUNTS FURTHER DIVIDED BETWEEN O&M AND CAPITALIZED?

A. Yes. The Companies are claiming the following O&M allocation percentages: Met-Ed – 45.72%; Penelec – 49.56%; Penn Power – 45.69%; and West Penn – 50.50% (Met-Ed/Penelec/Penn Power/West Penn Exhibit RAD-2, p. 12). The FESC payroll is allocated by the following functional areas: Distribution; Customer Accounts; and Administrative and General. However, FESC payroll is not assigned an O&M allocation percentage, so FESC payroll is assumed to be 100% allocated to O&M.

Q. PLEASE RESTATE THE COMPANIES' CLAIM AMOUNTS TO SHOW AMOUNTS BEING EXPENSED AND CAPITALIZED.

A. The payroll claims for the pay increases with an effective date beyond the end of the FPFTY using the Companies' allocation percentages are as follows:

O&M/Capital Allocations					
Company	Category	Amount	O&M %	O&M	Capital
Met-Ed	Bargaining	$ 956,000			
Met-Ed	Non-Bargaining	$ 500,000			
Total to Be Allocated:		$ 1,456,000	45.72%	$ 665,683	$ 790,317
Met-Ed	Service Company	$ 388,000	100.00%	$ 388,000	
Allocated Post-FPFTY Payroll Increases				$1,053,683	$ 790,317
Penelec	Bargaining	$ 906,000			
Penelec	Bargaining	$ 231,000			
Penelec	Non-Bargaining	$ 682,000			
Total to Be Allocated:		$ 1,819,000	49.56%	$ 901,496	$ 917,504
Penelec	Service Company	$ 434,000	100.00%	$ 434,000	
Allocated Post-FPFTY Payroll Increases				$1,335,496	$ 917,504
Penn Power	Bargaining	$ 276,000			
Penn Power	Non-Bargaining	$ 132,000			
Total to Be Allocated:		$ 408,000	45.69%	$ 186,415	$ 221,585
Penn Power	Service Company	$ 120,000	100.00%	$ 120,000	
Allocated Post-FPFTY Payroll Increases				$ 306,415	$ 221,585
West Penn	Bargaining	$ 797,000			
West Penn	Non-Bargaining	$ 669,000			
Total to Be Allocated:		$ 1,466,000	50.50%	$ 740,330	$ 725,670
West Penn	Service Company	$ 538,000	100.00%	$ 538,000	
Allocated Post-FPFTY Payroll Increases				$1,278,330	$ 725,670

Q. WHAT IS THE BASIS FOR THE COMPANIES' CLAIMS?

A. The Companies have opined that the Commission has held that such post-test period wage adjustments are appropriate when increases become effective within a relatively short time after the conclusion of a test year (I&E Exhibit No. 2, Schedule 1, pp. 1-8).

Q. DO YOU AGREE WITH THE COMPANIES' CLAIMS FOR POST-FPFTY PAY INCREASES?

A. No.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend disallowance of all claim amounts, expensed and capitalized, for pay increases effective after the conclusion of the FPFTY ending December 31, 2017.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. Prior to Pennsylvania's acceptance of the FPFTY via Act 11, most companies filed base rate cases using a future test year (FTY). Under those circumstances, companies would, on occasion, claim pay increases for a limited period beyond the end of the FTY as long as those pay increases were considered reasonable, contractually liable (for bargaining employees), or previously approved by company management (for non-bargaining employees). Now that companies have the ability to utilize a FPFTY, those companies can claim justified pay increases for one full year beyond the end of the FTY. The Companies have opted to utilize a FPFTY when preparing the filings. Thus, the Companies already have the benefit of annualizing pay increases out through the end of December 31, 2017.

Any pay increases beyond the end of the FPFTY (December 31, 2017, in this instance) should be disallowed for ratemaking purposes. Since the identified pay increases do not go into effect until after the end of the FPFTY, it is unreasonable to include these amounts for ratemaking purposes. On the date that new rates go into effect the Companies will already be receiving amounts for payroll that exceed the current needs (given the annualization of future pay increases inherent in the FPFTY). Furthermore, it is important for ratemaking purposes to match the revenues and expenses for the FPFTY period, which in this instance ends on December 31, 2017.

<u>Payroll - Reflection of Average Historic Vacancies</u>

Q. ARE YOU RECOMMENDING ANY OTHER PAYROLL-RELATED ADJUSTMENTS?

A. Yes. The Companies have indicated that payroll, benefits, and related payroll tax claims have not been reduced to reflect ongoing vacancy levels. The claims are merely based on budgeted FPFTY levels adjusted to normalize all claimed pay increases (I&E Exhibit No. 2, Schedule 1, pp. 9-16).

Q. DO YOU AGREE WITH THE WAY THE COMPANIES DEVELOPED THE CLAIMS FOR PAYROLL, BENEFITS, AND RELATED PAYROLL TAXES IN THIS REGARD?

A. No. The Companies' numbers are inflated because there is an ongoing vacancy rate, i.e., the difference, historically, in the number of positions filled at a given time compared to the number of positions budgeted for that same period, that should be reflected in the Companies' claims in order to determine more accurate allowances.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the following payroll reductions to reflect more accurate staffing levels (I&E Exhibit No. 2, Schedule 2):

<u>Met-Ed</u>

Met-Ed – Expense:	$167,461
Met-Ed – Capitalized:	$198,815

<u>Penelec</u>

Penelec – Expense:	$1,348,217
Penelec – Capitalized:	$1,372,155

<u>Penn Power</u>

Penn Power – Expense:	$220,222
Penn Power – Capitalized:	$261,770

<u>West Penn</u>

West Penn – Expense:	$1,298,354
West Penn – Capitalized:	$1,272,643

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. As stated previously, the Companies' budgeted staffing levels have been consistently higher than actual staffing for corresponding historic periods. Thus, it stands to reason that the Companies' projected staffing levels are similarly overstated since they were not adjusted to account for normal vacancy levels.

Q. HOW DID YOU CALCULATE YOUR RECOMMENDATIONS?

A. I have calculated recommended reductions by utilizing a historic average percentage of the Companies' vacancy levels from January 2014 through May 2016. I determined the percentage vacancies for each month and averaged the percentages to arrive at an overall average percentage vacancy level. I multiplied the vacancy percentage by the FPFTY budgeted staffing level (Met-Ed/ Penelec/Penn Power/West Penn Exhibit RAD-27, Attachment A) to arrive at an overall vacancy headcount for each, and multiplied that value by the estimated overall cost per position as calculated from the payroll claims and budgeted headcounts (I&E Exhibit No. 2, Schedule 2). Next, I used the result to determine the O&M and capitalized portions using the O&M percentages provided by the Companies (Met-Ed/Penelec/Penn Power/West Penn Ex. RAD-2, p. 13).

Benefits Cost Reduction Associated with Recommended Vacancy Adjustment

Q. WHAT HAVE THE COMPANIES CLAIMED FOR BENEFITS?

A. The Companies have claimed benefit costs (adjusted to remove pension and OPEB costs) as follows: Met-Ed – $9,852,000 ($2,660,000 + $4,425,000 + $2,767,000) (Met-Ed Exhibit RAD-27, Attachment A); Penelec – $11,557,000 ($11,785,000 + $2,199,000 - $2,427,000) (Penelec Exhibit RAD-27, Attachment A); Penn Power – $3,845,000 ($1,475,000 + $812,000 + $1,558,000) (Penn Power Exhibit RAD-27, Attachment A); and West Penn – $10,002,000 ($6,338,000 + $617,000 + $3,047,000) (West Penn Exhibit RAD-27, Attachment A).

Q. WHY DID YOU ADJUST THE BUDGETED BENEFIT COSTS BY THE PENSION AND OPEB AMOUNTS?

A. The Companies have claimed normalized costs for pensions and OPEBs that are substantially different from budget claims, and these items are addressed separately in the Companies' claims.

Q. ARE THESE CLAIM AMOUNTS FURTHER DIVIDED BETWEEN O&M AND CAPITALIZED?

A. Yes. The Companies are claiming the following O&M allocation percentages: Met-Ed – 45.72%; Penelec – 49.56%; Penn Power – 45.69%; and West Penn – 50.50% (Met-Ed/Penelec/Penn Power/West Penn Exhibit RAD-2, p. 12).

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the following benefit reductions to adjust benefit costs for my recommended vacancy adjustment (I&E Exhibit No. 2, Schedule 3):

Met-Ed

Met-Ed – Expense:	$21,518
Met-Ed – Capitalized:	$25,546

Penelec

Penelec – Expense:	$208,566
Penelec – Capitalized:	$212,270

Penn Power

Penn Power – Expense:	$45,046
Penn Power – Capitalized:	$53,544

West Penn

West Penn – Expense:	$199,971
West Penn – Capitalized:	$196,011

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. As stated previously, the Companies' budgeted staffing levels have been consistently higher than actual staffing for corresponding historic periods. Thus, it stands to reason that the Companies' projected staffing levels are similarly overstated since they were not adjusted to account for normal vacancy levels, which results in benefit costs being overstated for the same employee vacancy rate.

Q. HOW DID YOU CALCULATE YOUR RECOMMENDATIONS?

A. I calculated an average benefit cost per employee by using the Companies' adjusted FPFTY benefit budget divided by the end of year employee count. The resulting average benefit costs were multiplied by the earlier calculated employee vacancy headcounts to yield recommended reductions to the Companies' benefit claims (I&E Exhibit No. 2, Schedule 3).

<u>Payroll Taxes Associated with Recommended Payroll Reductions</u>

Q. WHAT ARE PAYROLL TAXES?

A. Payroll taxes are imposed on employers and employees and are usually calculated as a percentage of the salaries paid to staff. Payroll taxes generally fall into two categories: deductions from an employee's wages, and taxes paid by the employer based on the employee's wages. The Companies have made a claim in this filing for employer paid payroll taxes.

Q. DO YOU HAVE ANY RECOMMENDED ADJUSTMENTS THAT CORRESPOND WITH YOUR RECOMMENDED PAYROLL REDUCTIONS?

A. No. I am not making a recommendation for a payroll tax reduction at this time as it appears the Companies may have understated the effective payroll tax rates.

Q. WHAT ARE THE COMPANIES' EFFECTIVE PAYROLL TAX RATES?

A. The Companies have claimed effective payroll tax rates as follows: Met-Ed – 2.991% (Met-Ed Exhibit RAD-2, p. 25, line 3); Penelec – 3.624% (Penelec Exhibit RAD-2, p. 25, line 3); Penn Power – 2.730% (Penn Power Exhibit RAD-2, p. 25, line 3); and West Penn – 3.233% (West Penn Exhibit RAD-2, p. 25, line 3).

Q. WHY DO YOU BELIEVE THAT THE COMPANIES MAY HAVE ERRORS IN THE PAYROLL TAX RATES?

A. The bulk of payroll taxes paid by an employer are for the federally mandated taxes for social security and Medicare. The social security tax is paid at a tax rate of 6.2%, up to an individual salary cap of $118,500 for 2016. The Medicare tax is paid at a rate of 1.45% for 2016 with no salary cap. The Social Security Administration has not yet released 2017 tax and salary cap information.

Employers also pay federal and state unemployment taxes. While employers pay taxes to the Pennsylvania state unemployment compensation fund at a variable rate up to 11.4192%, the salary limit applicable for tax purposes, $9,750 in 2017, causes this tax to be a small share of total payroll taxes. The federal unemployment tax is even further limited to the first $7,000 for each employee, and it is reduced by payments to state funds, and thus, it represents a very minimal share of payroll taxes due.

Based on these tax rates, it would be reasonable to assume that the Companies would be claiming tax rates in the vicinity of the 7.65% assessed for social security and Medicare as these taxes represent the bulk of payroll taxes paid by employers. The Companies' rates, ranging from 2.750% to 3.624%, do not accurately reflect known payroll tax rates.

Q. WOULD YOU TYPICALLY RECOMMEND A REDUCTION IN PAYROLL TAXES IN CONJUNCTION WITH PAYROLL REDUCTIONS?

A. Yes. I would typically recommend a reduction in payroll taxes, both expensed and capitalized, correlating to my recommended payroll reductions. I have asked the Companies to review the payroll tax claim in the filing (I&E Exhibit No. 2, Schedule 4), and I reserve the right to subsequently recommend a reduction to the payroll tax claim if the Companies' claims are revised.

<u>Other Payroll</u>

Q. WHAT IS OTHER PAYROLL?

A. The Companies have included claim amounts for payroll bonuses and severance costs (I&E Exhibit No. 2, Schedule 5).

Q. WHAT ARE THE COMPANIES CLAIMING FOR OTHER PAYROLL?

A. The Companies have included the following claim amounts for other payroll as adjusted to reflect a breakdown between O&M and capitalized amounts (I&E Exhibit No. 2, Schedules 5 and 6):

Met-Ed

Met-Ed – Expense:	$219,303
Met Ed – Capitalized:	$260,362
Total	$479,665[1]

Penelec

Penelec – Expense:	$292,477
Penelec – Capitalized:	$297,671
Total	$590,148[2]

West Penn

West Penn – Expense:	$194,579
West Penn – Capitalized:	$190,725
Total	$385,304[3]

Q. DO YOU AGREE WITH THE COMPANIES' CLAIM AMOUNTS?

A. No.

[1] I&E Exhibit No. 2, Schedule 5, p.1.
[2] I&E Exhibit No. 2, Schedule 5, p. 6.
[3] I&E Exhibit No. 2, Schedule 5, p. 14.

Q. WHAT DO YOU RECOMMEND?

A. **Met-Ed**

I recommend an allowance of $134,777 for other payroll expense, or a reduction of $84,526 ($219,303 - $134,777) to Met-Ed's claim. Additionally, I recommend an allowance of $160,011 for capitalized other payroll or a reduction of $100,351 ($260,362 - $160,011) to Met-Ed's claim (I&E Exhibit No. 2, Schedule 6, p. 1).

Penelec

I recommend an allowance of $147,218 for other payroll expense, or a reduction of $145,259 ($292,477 - $147,218) to Penelec's claim. Additionally, I recommend an allowance of $149,832 for capitalized other payroll or a reduction of $147,839 ($297,671- $149,832) to Penelec's claim (I&E Exhibit No. 2, Schedule 6, p. 2).

West Penn

I recommend an allowance of $24,879 for other payroll expense, or a reduction of $169,700 ($194,579 - $24,879) to West Penn's claim. Additionally, I recommend an allowance of $24,386 for capitalized other payroll or a reduction of $166,339 ($190,725 - $24,386) to West Penn's claim (I&E Exhibit No. 2, Schedule 6, p. 3).

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Companies' claims are significantly higher than historic actual amounts, and no reason for this has been provided. Severance pay and bonuses are not guaranteed, and furthermore they are not guaranteed to increase year by year in line with payroll or staffing increases. In my opinion, a two-year historic average is a more reliable future prediction for this expense and it should be adjusted accordingly.

Q. WHY DO YOU NOT HAVE A CORRESPONDING ADJUSTMENT FOR PENN POWER?

A. Penn Power has made no claim for other payroll in the FPFTY (I&E Exhibit No. 2, Schedule 5, p. 10).

<u>RATE CASE EXPENSE</u>

Q. BRIEFLY EXPLAIN THE NATURE AND TYPE OF EXPENSES GENERALLY CLASSIFIED AS RATE CASE EXPENSE.

A. The estimated costs that comprise a public utility's allowable claim for rate case expense are those incurred to compile, present, and defend a request for a base rate increase before the Commission. The estimated costs typically found in a rate case expense claim include legal fees for outside counsel, outside consultants, and the costs of printing, document assembly, and postal services.

Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE CASE EXPENSE FOR RATEMAKING PURPOSES?

A. The Commission has repeatedly stated that it considers prudently incurred rate case expense as an ongoing expense related to the rendering of utility service which occurs at irregular intervals. The Commission has also cited a company's history regarding the frequency of rate case filings as an essential element in determining the normalized level of rate case expense for ratemaking purposes.

Q. HOW IS THE FREQUENCY OF A COMPANY'S BASE RATE CASE FILINGS DETERMINED?

A. The frequency is determined by computing the average number of months that have expired between the filing dates of a company's previously filed rate cases up to and including the currently filed case.

Q. WHAT ARE THE COMPANIES CLAIMING FOR RATE CASE EXPENSE?

A. The Companies' normalized claims for rate case expense are:

Met-Ed	$274,000	Met-Ed Ex. RAD-2, p. 17, line 17
Penelec	$285,000	Penelec Ex. RAD-2, p.17, line 17
Penn Power	$81,000	Penn Power Ex. RAD-2, p.17, line 12
West Penn	$353,000	West Penn Ex. RAD-2, p.17, line 17

Q. WHAT IS THE BASIS FOR THE COMPANIES' CLAIMS?

A. **<u>Met-Ed</u>**

Met-Ed's claimed share of the fully litigated rate case expense is estimated to be $548,000, which when normalized over two years, results in an annual expense claim of $274,000 (Med-Ed Ex. RAD-2, p. 17, line 17). Met-Ed states that its two-year normalization period is based on its anticipated rate case interval, which Met-Ed states is consistent with the Commission's decision in its Final Order in Pa. P.U.C. v. PPL Electric Utilities Corporation (PPL) at Docket No. R-2012-2290597, entered on December 28, 2012 (I&E Exhibit No. 2, Schedule 7, p. 2).

Penelec

Penelec's claimed share of the fully litigated rate case expense is estimated to be $570,000 which, when normalized over two years, results in an annual expense claim of $285,000 (Penelec Ex. RAD-2, p. 17, line 17). Penelec states that its two-year normalization period is based on its anticipated rate case interval, which Penelec states is consistent with the Commission's decision in its Final Order in Pa. P.U.C. v. PPL at Docket No. R-2012-2290597, entered on December 28, 2012 (I&E Exhibit No. 2, Schedule 7, p. 4).

Penn Power

Penn Power's claimed share of the fully litigated rate case expense is estimated to be $162,000 which, when normalized over two years, results in an annual expense claim of $81,000 (Penn Power Ex. RAD-2, p. 17, line 12). Penn Power states that its two-year normalization period is based on its anticipated rate case interval, which Penn Power states is consistent with the Commission's decision in its Final Order in Pa. P.U.C. v. PPL at Docket No. R-2012-2290597, entered on December 28, 2012 (I&E Exhibit No. 2, Schedule 7, p. 6).

West Penn

West Penn's claimed share of the fully litigated rate case expense is estimated to be $706,000 which, when normalized over two years, results in an annual expense claim of $353,000 (West Penn Ex. RAD-2, p. 17, lines 17). West Penn states that its two-year normalization period is based on its anticipated rate case interval, which West Penn states is consistent with the Commission's decision in its Final Order in Pa. P.U.C. v. PPL at Docket No. R-2012-2290597, entered on December 28, 2012 (I&E Exhibit No. 2, Schedule 7, p. 8).

Q. DO YOU AGREE WITH THE COMPANIES' PROPOSED TWO-YEAR NORMALIZATION PERIOD?

A. No. The Companies' claimed two-year normalization period is not supported by the individual experienced filing frequencies and should be rejected.

Q. WHAT IS YOUR RECOMMENDED NORMALIZATION PERIOD?

A. I recommend a normalization period of eight years for Met-Ed, Penelec, Penn Power, and West Penn.

Q. WHAT ARE YOUR RECOMMENDATIONS FOR RATE CASE EXPENSE?

A. **<u>Met-Ed</u>**

I recommend an annual allowance of $68,500 ($548,000 ÷ 8 years), or a reduction of $205,500 ($274,000 - $68,500) to Met-Ed's claim.

<u>Penelec</u>

I recommend an annual allowance of $71,250 ($570,000 ÷ 8 years), or a reduction of $213,750 ($285,000 - $71,250) to Penelec's claim.

<u>Penn Power</u>

I recommend an annual allowance of $20,250 ($162,000 ÷ 8 years), or a reduction of $60,750 ($81,000 - $20,250) to Penn Power's claim.

<u>West Penn</u>

I recommend an annual allowance of $88,250 ($706,000 ÷ 8 years), or a reduction of $264,750 ($353,000 - $88,250) to West Penn's claim.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDED EIGHT-YEAR NORMALIZATION PERIOD?

A. **<u>Met-Ed</u>**

My recommended eight-year normalization period is based on a calculated historic average of Met-Ed's previous rate case filing intervals. While Met-Ed states that it anticipates filing a rate case in two years, the Commission traditionally does not, and should not, determine a normalization period based exclusively on a company's stated future intentions. Met-Ed's most recent base rate filings are as follows:

DOCKET NO.	DATE FILED
R-2016-2537349	April 28, 2016
R-2014-2428745	August 4, 2014
R-00061366 and R-00061367	April 10, 2006
R-00922314	April 24, 1992

Using Met-Ed's actual historic base rate case filing intervals, an average interval is computed to be 96 months ((21 months + 100 months + 168 months) ÷ 3 intervals), or eight years (I&E Exhibit No. 2, Schedule 7, p. 1). Met-Ed's requested two-year recovery period is unsupported by its historic filing frequency and should be rejected as it would result in an unreasonable increase in rates.

Penelec

While Penelec states that it anticipates filing a rate case in two years, the Commission traditionally does not, and should not, determine a normalization period based exclusively on a company's stated future intentions. Penelec's most recent base rate filings are as follows:

DOCKET NO.	DATE FILED
R-2016-2537352	April 28, 2016
R-2014-2428743	August 4, 2014
R-00061366 and R-00061367	April 10, 2006
R-860413	June 10, 1986

Using Penelec's actual historic base rate filing intervals, an average interval is computed to be 120 months ((21 months + 100 months + 238 months) ÷ 3 intervals), or 10 years (I&E Exhibit No. 2, Schedule 7, p. 3). I have reduced my recommended interval to eight years for consistency, however, to match the lower filing intervals of Met-Ed and West Penn, as explained below. Penelec's requested two-year recovery period is unsupported by its historic filing frequency and should be rejected as it would result in an unreasonable increase in rates.

Penn Power

While Penn Power states that it anticipates filing a rate case in two years, the Commission traditionally does not, and should not, determine a normalization period based exclusively on a company's stated future intentions. Penn Power's most recent base rate filings are as follows:

DOCKET NO.	DATE FILED
R-2016-2537355	April 28, 2016
R-2014-2428744	August 4, 2014
R-870732	August 5, 1987

Using Penn Power's actual historic base rate filing intervals, an average interval is computed to be 173 months [(21 months + 324 months) ÷ 2 intervals], or 14 years (I&E Exhibit No. 2, Schedule 7, p. 5). I have reduced my recommended interval to eight years for consistency, however, to match the lower filing intervals of Met-Ed and West Penn, as discussed below. Penn Power's requested two-year recovery period is unsupported by its historic filing frequency. A two-year normalization period is unsupported and should be rejected as it would result in an unreasonable increase in rates.

West Penn

My recommended eight-year normalization period is based on West Penn's historic filing frequency. While West Penn states that it anticipates filing a rate case in two years, the Commission traditionally does not, and should not, determine a normalization period based exclusively on a company's stated future intentions. West Penn's most recent base rate filings are as follows:

DOCKET NO.	DATE FILED
R-2016-2537359	April 28, 2016
R-2014-2428742	August 4, 2014
R-942986	March 31, 1994
R-922378	August 18, 1992

Using West Penn's historic base rate filing intervals, an average interval is computed to be 95 months [(21 months + 244 months + 19 months) ÷ 3 intervals], or eight years (rounded) (I&E Exhibit No. 2, Schedule 7, p. 7). West Penn's requested two-year recovery period is unsupported by a historic filing record and should be rejected as it would result in an unreasonable increase in rates.

Q. IN THE COMPANIES' MOST RECENTLY LITIGATED BASE RATE PROCEEDINGS, WHAT WAS I&E'S RECOMMENDATION FOR RATE CASE EXPENSE?

A. In the Met-Ed/Penelec rate filings at Docket Nos. R-00061366 and R-00061367, Commission Opinion and Order dated January 11, 2007, I&E recommended, and the Commission adopted a five-year normalization period for rate case expense.

Q. WHY ARE YOU NOT RECOMMENDING THE SAME FILING INTERVAL IN YOUR RATE CASE EXPENSE CALCULATION?

A. The Companies have clearly demonstrated that the historic filing frequency of base rate cases is well over five years. My recommendation of eight years is based on Met-Ed's and West Penn's actual filing history. By selecting Met-Ed's and West Penn's filing frequency, the adjustments for Penelec and Penn Power are moderated.

Q. DO YOU AGREE THAT THE COMPANIES' RELIANCE ON THE COMMISSION'S PPL DECISION SUPPORTS THE COMPANIES' PROPOSED TWO-YEAR RATE CASE INTERVAL?

A. No, the Companies reliance on this case is inappropriate. In PPL's base rate case, at Docket No. R-2012-2290597, PPL contended that it must be allowed to recover its rate case expense over a two-year period because of the level of infrastructure improvement it was facing prospectively. As stated in its Main Brief, the only reason posed by PPL for normalizing its rate case expense over a two-year period was "the pressure that PPL Electric's capital spending program will place on earnings" (Docket No. R-2012-2290597, PPL Main Brief, p. 76). Although PPL acknowledged the statutory DSIC mechanism, designed specifically to moderate the effects of the distribution system improvement expenses, PPL described that as "little comfort" and concluded "[i]t is difficult to see how such a significant increase in rate base and plant in service would not drive a rate case during 2014 or before" (Docket No. R-2012-2290597, PPL Main Brief, p. 76).

The Commission adopted PPL's position. As stated by the Commission:

> Based upon our review of the record established in this proceeding, the ALJ's recommendation, the Exceptions and the Replies filed thereto, we shall reverse the ALJ [who had adopted I&E's recommendation] and grant the Exception of PPL on this issue. As previously discussed, this proceeding is premised upon a FTY and, based upon that criterion, certain expenses may now be based upon future expectations. We believe that the normalization period for rate case expense is one of those expenses. We fully support PPL's capital expenditure program and expect that it will proceed into the future as explained by PPL. *Further, we can reasonably expect that PPL will file its next base rate case much closer to a twenty-four month interval than to a thirty-two month interval as proposed by I&E* and the OCA. Accordingly, we shall grant the exceptions of PPL on this issue (Docket No. R-2012-2290597, Order entered December 28, 2012, at 47-48 (emphasis added)).

Accepting PPL's stated intentions and allowing the Company to normalize its rate case expense over 24 months, rather than the 32-month period developed by I&E based upon an examination of the utility's actual history of rate filings, added an additional $258,000 to the Company's allowed revenue increase (Docket No. R-2012-2290597, I&E Main Brief, p. 26).

While the issue of PPL's storm expense recovery mechanism that arose out of this base rate case was still pending, however, almost one year to the day after PPL's projection, PPL abruptly reversed itself. In arguing why the Commission had to approve PPL's preferred Section 1307 storm expense rider and not await full review of that novel proposal in PPL's next base rate case as promised by PPL "during 2014 or before," PPL declared "[a]t this time, however, PPL does not foresee a need to file a base rate case in or before 2014" (Docket No. R-2012-2290597, PPL Reply Comments, p. 13, Note 3).

Q. WHEN DID PPL FILE ITS NEXT RATE CASE?

A. PPL filed its next base rate case on March 31, 2015 at R-2015-2469275, a full 36 months after the prior base rate case in which it predicted its two-year rate case interval, and four months longer than was recommended by I&E based on its historic filing interval.

Q. WHY IS THE FILING FREQUENCY OF PPL's BASE RATE CASES RELEVANT HERE?

A. The PPL case demonstrates that a company's claimed intention to file future base rate cases is not as reliable a predictor of filing frequency as its actual historic filing frequency. The same rate case expense concerns that I&E had about PPL, which were ultimately realized, translate to these cases, but on a much larger scale. The time frame between PPL's claimed filing interval and I&E's recommendation was only 8 months in the PPL case, while the difference here is 6 years.

Q. DOES THE FACT THAT FIRST ENERGY FILED ITS NEXT RATE CASE 21 MONTHS AFTER PREDICTING ITS TWO-YEAR RATE CASE INTERVAL IMPACT YOUR RECOMMENDATION?

A. No. The Companies' sample of one rate case within its anticipated filing period does not offset the multiple years of long and erratic rate case intervals evidenced by the Companies (I&E Exhibit No. 2, Schedule 7). Until the Companies demonstrate more regularity and shorter rate case intervals, I will continue to recommend the historic record as the appropriate parameter by which the rate case expense normalization period is established.

ADVERTISING EXPENSE

Q. WHAT HAVE THE COMPANIES CLAIMED FOR ADVERTISING EXPENSE?

A. The Companies' claims for advertising expense are:

Met-Ed	$344,000	I&E Exhibit No. 2, Schedule 8, p. 2
Penelec	$405,000	I&E Exhibit No. 2, Schedule 8, p. 4
Penn Power	$191,000	I&E Exhibit No. 2, Schedule 8, p. 6
West Penn	$316,000	I&E Exhibit No. 2, Schedule 8, p. 8

Q. HOW DOES THE FPFTY CLAIM COMPARE TO THE HISTORIC TEST YEAR (HTY) ACTUAL ADVERTISING EXPENSE?

A. The HTY actual advertising expense was significantly less for all of the Companies. The Companies' HTY advertising expenses are:

Met-Ed	$183,000	I&E Exhibit No. 2, Schedule 8, p. 2
Penelec	$159,000	I&E Exhibit No. 2, Schedule 8, p. 4
Penn Power	$67,000	I&E Exhibit No. 2, Schedule 8, p. 6
West Penn	$96,000	I&E Exhibit No. 2, Schedule 8, p. 8

Q. DO THE COMPANIES ATTEMPT TO JUSTIFY THE LARGE INCREASE IN ADVERTISING EXPENSE FROM THE HTY TO THE FPFTY?

A. Yes. The Companies attribute the large increase in advertising expense to increased smart meter deployment in the FTY and FPFTY (I&E Exhibit No. 2, Schedule 9).

Q. DO YOU AGREE WITH THE COMPANIES' CLAIMS?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend advertising expense allowances equal to the Companies' actual HTY advertising expenses. The recommended reductions to advertising expenses are as follows:

Met-Ed	$161,000	($344,000 - $183,000)
Penelec	$246,000	($405,000 - $159,000)
Penn Power	$124,000	($191,000 - $67,000)
West Penn	$220,000	($316,000 - $96,000)

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Companies have not exceeded the smart meter revenue requirements established in base rates in its 2014 base rate case (Met-Ed/Penelec/Penn Power/West Penn Statement No. 6, p. 6). To further increase the smart meter claim by the projected increases in advertising expenses when the Companies are not exceeding the base rate revenues established for smart meters in the prior rate case is inappropriate and it should not be recovered from ratepayers. The Companies have an unused (set to zero) smart meter rider that is available when costs exceed the rate base amounts, so recovery of excess smart meter costs is already available to the Companies through other means.

RELOCATION EXPENSES

Q. WHAT HAVE THE COMPANIES CLAIMED FOR RELOCATION EXPENSE?

A. The Companies' claims for relocation expense are:

Met-Ed	$146,822	I&E Exhibit No. 2, Schedule 10, p. 1
Penelec	$161,230	I&E Exhibit No. 2, Schedule 10, p. 2
Penn Power	$40,782	I&E Exhibit No. 2, Schedule 10, p. 3
West Penn	$151,018	I&E Exhibit No. 2, Schedule 10, p. 4

Q. HOW DO THE FPFTY CLAIMS COMPARE TO THE HTY ACTUAL RELOCATION EXPENSE AMOUNTS?

A. The HTY actual relocation expenses are significantly less for all of the Companies. The Company's HTY relocation expenses are:

Met-Ed	$16,324	I&E Exhibit No. 2, Schedule 10, p. 1
Penelec	$56,497	I&E Exhibit No. 2, Schedule 10, p. 2

Penn Power	$6,849	I&E Exhibit No. 2, Schedule 10, p. 3
West Penn	$16,447	I&E Exhibit No. 2, Schedule 10, p. 4

Q. DO THE COMPANIES EXPLAIN THE LARGE INCREASES IN RELOCATION EXPENSE FROM THE HTY TO THE FPFTY?

A. No. The Companies have not provided an explanation for the increases.

Q. DO YOU AGREE WITH THE COMPANIES' CLAIMS?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend relocation expense allowances equal to the Companies' actual HTY relocation expenses. The recommended reductions to relocation expenses are as follow:

Met-Ed	$130,498	($146,822 - $16,324)
Penelec	$104,733	($161,230 - $56,497)
Penn Power	$33,933	($40,782 - $6,849)
West Penn	$134,571	($151,018 - $16,447)

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Companies have not supported the increases in relocation expenses. Since the increases have not been shown to be necessary or reasonable, I recommend that the increased expense should be disallowed.

<u>CASH WORKING CAPITAL</u>

Q. WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE FOR RATEMAKING PURPOSES?

A. CWC includes the amount of funds necessary to operate a utility during the interim between the rendition of service, including the payment of related expenses, and the utility's receipt of revenue in payment of services rendered.

Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE RATEMAKING AND ACCOUNTING CONCEPTS OF CWC.

A. Outside the arena of utility ratemaking, accountants define working capital as the difference between current assets and current liabilities, which is a measure of a business's liquidity at a given point in time. On the other hand, the ratemaking concept defines CWC as the amount of capital a utility requires to cover the gap or lag between the payment of operating expenses and taxes and the receipt of revenue from utility ratepayers.

Q. WHAT ARE THE COMPANIES' CLAIMS FOR CWC?

A. The Companies' claims for CWC are:

Met-Ed	$134,868,000	Met-Ed Ex. JLA-1, p. 1
Penelec	$177,979,000	Penelec Ex. JLA-1, p. 1
Penn Power	$28,906,000	Penn Power Ex. JLA-1, p. 1
West Penn	$123,226,000	West Penn Ex. JLA-1, p.1

Q. WHAT IS THE BASIS FOR THE COMPANIES' CLAIMS?

A. The Companies' claims are based on lead/lag studies of revenues and expenses. A lead/lag study measures the differences in time between: (1) the time services are rendered until payments for those services are received (revenue lag); and (2) the time between when a utility incurs an expense and the actual payment of the expense (expense lag). The Companies have also included amounts for prepayments and unamortized cash pension contributions which represent payments made in prior periods that are not expensed until a future period.

Q. DO YOU AGREE WITH THE COMPANIES' CLAIMS?

A. No.

Q. WHAT ARE YOUR RECOMMENDED ALLOWANCES FOR CWC?

A. **<u>Met-Ed</u>**

I recommend a CWC allowance of $78,644,000, or a reduction of $56,224,000 ($134,868,000 - $78,644,000) to Met-Ed's claim.

<u>Penelec</u>

I recommend a CWC allowance of $95,370,000, or a reduction of $82,609,000 ($177,979,000 - $95,370,000) to Penelec's claim.

<u>Penn Power</u>

I recommend a CWC allowance of $22,277,000, or a reduction of $6,629,000 ($28,906,000 - $22,277,000) to Penn Power's claim.

<u>West Penn</u>

I recommend a CWC allowance of $84,323,000 or a reduction of $38,903,000 ($123,226,000 - $84,323,000) to West Penn's claim.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDED ALLOWANCES FOR CWC?

A. **<u>Met-Ed</u>**

My recommendation is based on the disallowance of the amount claimed for unamortized cash pension contributions ($56,224,000).

<u>Penelec</u>

My recommendation is based on the disallowance of the amount claimed for unamortized cash pension contributions ($82,609,000).

<u>Penn Power</u>

My recommendation is based on the disallowance of the amount claimed for unamortized cash pension contributions ($6,629,000).

<u>West Penn</u>

My recommendation is based on the disallowance of the amount claimed for unamortized cash pension contributions ($38,903,000).

Q. PLEASE EXPLAIN WHY THE COMPANIES' ARE INCLUDING UNAMORTIZED CASH PENSION CONTRIBUTIONS THE CWC CLAIMS.

A. As the Companies stated, these amounts represent expenses paid in prior periods that the Companies charges to expense in future periods (Met-Ed/Penelec/Penn Power/West Penn Exhibits JLA-1, p. 7). The Companies made similar claims in the 2014 base rate cases, which were settled, and attempted to justify the inclusion of unamortized cash pension contributions by using the same rationale as was used for the inclusion of prepayments. In the instant proceedings; however, the Companies are stating that large contributions to the pension trust funds have been made over the past ten years and that the Companies have been carrying costs associated with related prior period expenditures. Thus the Companies opine that the "unrecovered amount" constitutes unamortized cash pension contributions that form the basis for the claims (I&E Exhibit No. 2, Schedule 11).

Q. DO YOU AGREE THAT THE COMPANY HAS NOT BEEN RECOVERING ITS COSTS RELATED TO PENSION CONTRIBUTIONS?

A. No. The Companies pension expense claims are based on actual cash contributions, and over time the annual amounts of the cash contributions should be relatively equal to the amounts collected from ratepayers.

Q. WHAT ARE THE END DATES FOR THE COMPANIES' PROPOSED AMORTIZATIONS OF CASH PENSION CONTRIBUTIONS MADE IN PRIOR PERIODS?

A. The amortizations proposed by the Companies extend through May 31, 2026 for all four companies (Met-Ed/Penelec/Penn Power/West Penn Exhibits JLA-1, p. 7).

Q. DID THE COMPANIES OBTAIN PRIOR COMMISSION APPROVAL FOR THE INCLUSION OF THESE AMORTIZATIONS?

A. No. The Companies cite to both Met-Ed and Penelec's 2006 base rate cases as the reason for the inclusion of the amortization of cash pension contributions and note that it was not claimed for CWC purposes until the 2014 base rate cases (I&E Exhibit No. 2, Schedule 11). In the 2014 based rate cases, the Companies opined that since no party objected to the inclusion of prepayments in its CWC claims in the prior Met-Ed/Penelec cases, it is acceptable to include these unamortized amounts in its current CWC claims (I&E Exhibit No. 2, Schedule 12).

Q. PLEASE EXPLAIN THE RATIONALE FOR YOUR RECOMMENDED DISALLOWANCE OF UNAMORTIZED CASH PENSION CONTRIBUTIONS FROM CWC.

A. First, the Companies did not obtain prior approval to include a return on early payments to the pension plans and did not explain the need to make such early payments. Second, the Companies have not explained why it is acceptable for ratemaking purposes to make early payments to its pension plan that would require a 10-year amortization for each payment. Third, all four of the Companies are already receiving more in pension expense amounts than the Companies intend to pay in the FPFTY as none of the Companies plan to make an actual payment into the pension plan in the FPFTY (I&E PROPRIETARY Exhibit No. 2, Schedule 13, p. 3). The result will be that the Companies will receive money in rates much earlier than needed. Hence, the Companies are getting this pension expense money earlier than needed from ratepayers in all four cases. For all of these reasons, I recommend a complete disallowance of the unamortized cash pension contributions included in each Company's CWC claim.

SUMMARY OF I&E'S LITIGATION POSITION

Q. WHAT IS I&E'S TOTAL REVENUE REQUIREMENT RECOMMENDATION?

A. **Met-Ed**

I&E's total base rate revenue recommendation for Met-Ed is $448,440,000, which represents an increase of $94,884,000 to present rate revenues of $353,556,000 (Met-Ed Ex. RAD-2, p. 1). This amount includes the recommendations of all I&E witnesses presented in direct testimony.

Met-Ed

Metropolitan Edison Company
R-2016-2537349
INVESTIGATION & ENFORCEMENT

	12/31/07 Proforma Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)
Operating Revenue	353,556	0	353,556	94,884	448,440
Deductions:					
O&M Expenses	121,829	-1,825	120,004	0	120,004
Depreciation	118,125	0	118,125		118,125
Taxes, Other	23,472	0	23,472	5,598	29,070
Income Taxes:					
Current State	10,560	329	10,889	8,920	19,809
Current Federal	27,127	1,038	28,165	28,128	56,293
Deferred Taxes	12,561	0	12,561		12,561
ITC	-372	0	-372		-372
Total Deductions	313,302	-458	312,844	42,646	355,490
Income Available	40,254	458	40,712	52,238	92,950
Measure of Value	1,405,890	-57,339	1,348,551	0	1,348,551
Rate of Return	2.86%		3.02%		6.89%

Penelec

I&E's total base rate revenue recommendation for Penelec is $476,490,000, which represents an increase of $95,523,000 to present rate revenues of $380,967,000 (Penelec Ex. RAD-2, p. 1). This amount includes the recommendations of all I&E witnesses presented in direct testimony.

Penelec

Pennsylvania Electric Company
R-2016-2537352
INVESTIGATION & ENFORCEMENT

	12/31/07 Proforma Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)
Operating Revenue	380,967	0	380,967	95,523	476,490
Deductions:					
O&M Expenses	129,612	-3,603	126,009	0	126,009
Depreciation	111,278	0	111,278		111,278
Taxes, Other	25,706	0	25,706	5,636	31,342
Income Taxes:					
Current State	11,949	579	12,528	8,980	21,508
Current Federal	27,472	1,829	29,301	28,317	57,618
Deferred Taxes	19,675	0	19,675		19,675
ITC	-457	0	-457		-457
Total Deductions	325,235	-1,195	324,040	42,933	366,973
Income Available	55,732	1,195	56,927	52,590	109,517
Measure of Value	1,631,187	-85,259	1,545,928	0	1,545,928
Rate of Return	3.42%		3.68%		7.09%

Penn Power

I&E's total base rate revenue recommendation for Penn Power is $121,485,000, which represents an increase of $27,295,000 to present rate revenues of $94,190,000 (Penn Power Ex. RAD-2, p. 1). This amount includes the recommendations of all I&E witnesses presented in direct testimony.

Penn Power

Pennsylvania Power Company
R-2016-2537355
INVESTIGATION & ENFORCEMENT

	12/31/07 Proforma Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)
Operating Revenue	94,190	0	94,190	27,295	121,485
Deductions:					
O&M Expenses	36,806	-791	36,015	0	36,015
Depreciation	26,087	0	26,087		26,087
Taxes, Other	6,222	0	6,222	1,610	7,832
Income Taxes:					
Current State	2,203	100	2,303	2,566	4,869
Current Federal	2,778	318	3,096	8,092	11,188
Deferred Taxes	6,351	0	6,351		6,351
ITC	0	0	0		0
Total Deductions	80,447	-373	80,074	12,268	92,342
Income Available	13,743	373	14,116	15,027	29,143
Measure of Value	413,519	-7,166	406,353	0	406,353
Rate of Return	3.32%		3.47%		7.18%

<u>West Penn</u>

I&E's total base rate revenue recommendation for West Penn is $425,163,000, which represents an increase of $54,856,000 to present rate revenues of $370,307,000 (West Penn Ex. RAD-2, p. 1). This amount includes the recommendations of all I&E witnesses presented in direct testimony.

West Penn

West Penn Power Company
R-2016-2537359
INVESTIGATION & ENFORCEMENT

	12/31/07 Proforma Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)
Operating Revenue	370,307	0	370,307	54,856	425,163
Deductions:					
O&M Expenses	139,733	-3,567	136,166	0	136,166
Depreciation	97,678	0	97,678		97,678
Taxes, Other	24,724	0	24,724	3,237	27,961
Income Taxes:					
Current State	11,156	455	11,611	5,157	16,768
Current Federal	19,765	1,440	21,205	16,262	37,467
Deferred Taxes	21,592	0	21,592		21,592
ITC	-795	0	-795		-795
Total Deductions	313,853	-1,672	312,181	24,656	336,837
Income Available	56,454	1,672	58,126	30,201	88,327
Measure of Value	1,364,215	-41,263	1,322,952	1	1,322,952
Rate of Return	4.14%		4.39%		6.68%

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

LISA A. GUMBY

PROFESSIONAL EXPERIENCE AND EDUCATION

EDUCATION & TRAINING:

National Association of Regulatory Utility Commissioners Utility Rate School
October 29-November 2, 2012.

Harrisburg Area Community College, Harrisburg, Pennsylvania
Accounting & Finance Course Work, 20 credits, 2008-2011

Pennsylvania State University, Harrisburg, Pennsylvania
Bachelor of Science; Major in Electrical Engineering Technology, 1984

EXPERIENCE:

12/2012 - Present
Fixed Utility Valuation Engineer
Pennsylvania Public Utility Commission, Bureau of Investigation & Enforcement

12/2011 – 12/2012
Fixed Utility Financial Analyst
Pennsylvania Public Utility Commission, Bureau of Investigation & Enforcement

01/2010 – 12/2011
Accountant 1
Pennsylvania Department of Revenue, Gaming Division

03/2006 – 01/2010
Unemployment Compensation Tax Technician
Pennsylvania Department of Labor & Industry, UC Tax Services

10/2004 – 12/2005
Front Office Manager
Country Inn & Suites, Mechanicsburg, PA

01/1989 – 02/2004
General Manager
J&L Autoworks, Mechanicsburg, PA

07/1984 – 11/1993
High Reliability Program Manager/Design Engineer
McCoy Electronics Company, Mt. Holly Springs, PA

LISA A. GUMBY

PROFESSIONAL EXPERIENCE AND EDUCATION

TESTIMONY SUBMITTED:

I have testified and/or participated in the following proceedings:

- Equitable Gas Company LLC, Docket Nos. R-2012-2304727, R-2012-2304731, R-2012-2304735
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2012-2321748
- PGW, 1307(f), Docket No. R-2013-2346376
- UGI Utilities Inc., 1307(f), Docket No. R-2013-2361771
- UGI Utilities Inc., UGI Penn Natural Gas, Inc., UGI Central Penn Gas, Inc., Docket No. P-2013-2356232
- PPL Electric Utilities Corporation, Docket No. R-2012-2290597
- Pennsylvania American Water Company, Docket No. R-2013-2355276
- Cooperstown Water Company, Docket No. R-2013-2367125
- City of Bethlehem – Bureau of Water, Docket No. R-2013-2390244
- First Energy Companies DSP, Docket Nos. P-2013-2391368, P-2013-2391372, P-2013-2391375, P-2013-2391378
- Pike County Light & Power Company (Electric), Docket No. R-2013-2397237
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2014-2407345
- PGW, 1307(f), Docket No. R-2014-2404355
- UGI Utilities Inc., 1307(f), Docket No. R-2014-2420276
- City of Lancaster – Bureau of Water, Docket No. R-2014-2418872
- Citizens' Electric Company of Lewisburg, PA, Docket No. R-2014-2419776
- Peoples Natural Gas Company LLC, Docket No. R-2014-2429610
- First Energy Companies, Docket Nos. R-2014-2428742, R-2014-2428743, R-2014-2428744, R-2014-2428745
- PECO Energy Company, Docket No. P-2014-2451772
- United Water PA, Docket No. R-2015-2462723
- PGW, 1307(f), Docket No. R-2015-2465656
- PPL Electric Utilities Corporation, Docket No. R-2015-2469275
- UGI Utilities Inc., 1307(f), Docket No. R-2015-2480950
- Metropolitan Edison Company, Docket No. A-2015-2488903
- Pennsylvania Electric Company, Docket No. A-2015-2488904
- Mid-Atlantic Interstate Transmission LLC, Docket No. A-2015-2488905
- PGW, 1307(f), Docket No. R-2016-2526700
- UGI Utilities Inc., Docket No. R-2015-2518438
- Pennsylvania American Water Company, Docket No. A-2016-2537209
- UGI Penn Natural Gas, Inc., 1307(f), Docket No. R-2016-2543314