



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

January 22, 2020

Via Electronic Filing

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
Wellsboro Electric Company
Supplement No. 125 to Tariff Electric – Pa. PUC No. 8
Docket No. R-2019-3008208
I&E Reply Brief

Dear Secretary Chiavetta,

Enclosed please find the Bureau of Investigation and Enforcement's (I&E) **Reply Brief** in the above-captioned proceeding.

Copies are being served on active parties of record as evidenced in the attached Certificate of Service. Should you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

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JMC/ac
Enclosure

cc: Honorable Steven K. Haas (*ALJ, PUC Harrisburg*)
Honorable Benjamin J. Myers (*ALJ, PUC Harrisburg*)
Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2019-3008208
	:	
Wellsboro Electric Company	:	

**REPLY BRIEF
OF THE
BUREAU OF INVESTIGATION AND ENFORCEMENT**

John M. Coogan
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PA Attorney ID No. 313920

Bureau of Investigation & Enforcement
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Dated: January 22, 2020

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I. INTRODUCTION

A. History of the Proceeding

On January 8, 2020, the Bureau of Investigation and Enforcement (“I&E”) filed a Main Brief in this proceeding. The history of the proceeding was addressed in I&E’s Main Brief.¹ On January 8, 2020, Wellsboro Electric Company (“Wellsboro” or “Company”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) also filed Main Briefs. The issues addressed in this I&E Reply Brief are limited to matters raised in the Company, OCA, and OSBA Main Briefs that relate to recommendations made in the I&E Main Brief.

B. Burden of Proof

I&E fully addressed the Burden of Proof in its Main Brief.²

II. SUMMARY OF ARGUMENT

Wellsboro maintains it should be awarded a rate increase of \$999,999.³ However, the Company’s Main Brief fails to demonstrate its rate increase proposal is just and reasonable. Specifically, Wellsboro’s claim continues to include an inflated rate base; unjustified Operating and Maintenance expenses; an excessive rate of return; a flawed customer rate structure; and refusal to follow modest reporting recommendations. Therefore, I&E maintains Wellsboro’s proposal should be adjusted so it only receives a

¹ I&E Main Brief, pp. 1-3.

² I&E Main Brief, p. 3.

³ Although Wellsboro states its analysis supports an increase of \$1,108,000, it reduces its claim to \$999,999 to comply with Commission filing regulations. *See* Wellsboro Main Brief, p. 113-115.

rate increase of no more than \$719,538⁴ and its rate structure be adjusted as explained below and fully in I&E's Main Brief. Additionally, I&E continues to recommend the Commission order the Company to provide reports on actual capital expenditures, plant additions, and retirements for the FTY and FPFTY.

III. ISSUES RESOLVED AMONG THE PARTIES

The issues resolved among the parties are described in I&E's Main Brief.⁵

IV. RATE BASE

As explained in the Main Brief, I&E recommended adjustments to rate base for Construction Work in Progress ("CWIP"), Materials and Supplies, and Cash Working Capital ("CWC").⁶ In its Main Brief, Wellsboro confirms it removed its claim for CWIP and accepted I&E's method of using the most recent 13-month average of actual inventories for Materials and Supplies.⁷ However, Wellsboro incorrectly claims I&E did not dispute any other rate base component.⁸ As explained in I&E's Main Brief, Wellsboro's Operating and Maintenance expense claims should be reduced by \$135,463, which reduces the Company's CWC allowance by \$16,933.⁹

⁴ Wellsboro is clearly incorrect to state I&E's adjustments "would eliminate most of the proposed rate increase", Wellsboro Main Brief, p. 10.

⁵ I&E Main Brief, p. 9.

⁶ I&E Main Brief, pp. 9-12.

⁷ Wellsboro Main Brief, pp. 13-14.

⁸ Wellsboro Main Brief, p. 17.

⁹ I&E Main Brief, pp. 11-12. The Company does agree CWC should be recalculated if the Commission orders any changes to Wellsboro's claimed O&M expenses. Wellsboro Main Brief, p. 25.

V. REVENUES

A. Forfeited Discounts

I&E recommends that revenue from Forfeited Discounts be increased by \$1,734.¹⁰ However, Wellsboro reiterates its claim that because Uncollectible Accounts expense is likely to increase in approximately the same amount as Forfeited Discounts, I&E's recommendation should be rejected. Wellsboro alternatively proposes if I&E's recommendation is accepted, the Commission should approve a corresponding expense increase for Uncollectible Accounts.¹¹

Wellsboro continues to ignore a simple premise to I&E's recommendation: Wellsboro's filing projects an increase to Uncollectible Accounts, but not to Forfeited Discounts. It is unreasonable to allow an increase to one and not the other. As Wellsboro admits, both items are likely to increase concurrently.¹² However, revenues from Forfeited Discounts remain constant at \$35,443 under HTY, FTY, and both present and proposed FPFTY rates,¹³ but Uncollectible Accounts expense is increased from its FTY figure by 3% to create its FPFTY claim.¹⁴ Wellsboro's alternative recommendation to approve a corresponding expense increase for Uncollectible Accounts is also unreasonable. First, as a threshold matter, this recommendation is only raised for the first

¹⁰ I&E Main Brief, pp. 12-13.

¹¹ Wellsboro Main Brief, p. 28.

¹² As I&E witness Ethan Cline explained, Forfeited Discounts is revenue from charges for customer late-payments, and because the amount of revenue generated by the Forfeited Discount rate is a function of revenue, it is reasonable to expect that Forfeited Discounts revenues will increase whenever a utility's base rates are increased. I&E Statement No. 3, pp. 18-19.

¹³ Wellsboro Exhibit_(HSG-1), Schedule B6(W), page 1 of 1.

¹⁴ Wellsboro Exhibit_(HSG-1), Schedule C1-1(W), page 3 of 4.

time in Main Brief. Doing so was procedurally improper as Commission regulations prohibit parties from introducing new evidence this late in the proceeding:

A party will not be permitted to introduce evidence during a rebuttal phase which:

- (2) Should have been included in the party's case-in-chief.
- (3) Substantially varies from the party's case -in chief.¹⁵

Given that the Company raised this alternative recommendation for the first time in Main Brief and did not support it in either direct or rebuttal testimony, I&E's expert witnesses have had no opportunity to evaluate the prudence of this position, and it should therefore be rejected. Notwithstanding, Wellsboro's alternative recommendation would solve a problem with Forfeited Discounts only to create a new one for Uncollectible Accounts. As mentioned, Wellsboro has already increased its Uncollectible Accounts expense figure by 3% to attain its FPFTY claim. However, there has been no increase to revenue under Forfeited Discounts, whether by 3% or any other figure.¹⁶ Wellsboro's alternative recommendation would simply result in a second, unjust and unreasonable increase to its Uncollectible Accounts expense. Therefore, I&E continues to recommend Wellsboro's claim for Forfeited Discounts revenue be increased by \$1,734, and the Company should include revenue from Forfeited Discounts equal to the percentage of sales the Company is ultimately granted the opportunity to recover through rates by the Commission.

¹⁵ 52 Pa. Code § 5.243(e).

¹⁶ To be clear, I&E is not advocating for a 3% increase to Forfeited Discounts revenue. I&E witness Cline clearly explains the basis for his adjustment is the average actual Forfeited Discount revenues for 2016, 2017, and 2018 expressed as a percent of sales revenue. I&E Statement No. 3, p. 20; I&E Exhibit No. 3, Schedule 8.

VI. EXPENSES

A. Total O&M Expenses

In Main Brief, the Company reiterates its position that the Commission should reject I&E and OCA's individual expense adjustment recommendations in favor of accepting the Company's full expense claim as stated in rebuttal testimony.¹⁷ By contrast, Wellsboro characterizes I&E and OCA's individual expense adjustments as a "mix and match" approach that "penaliz[es] to Company for its effective budget management."¹⁸

For the same reasons stated in Main Brief, I&E continues to oppose this deeply flawed method for determining Operating and Maintenance ("O&M") expenses.¹⁹ Wellsboro has the burden of proof in this proceeding and I&E has presented evidence that certain specific, individual expense claims for the FPFTY are unjust and unreasonable. Wellsboro claims these individual expense adjustments should be rejected because "the Company is carefully managing its costs".²⁰ However, to support its position, the Company primarily relies on vague and unquantifiable statements, e.g., "projections cannot account for all contingencies", "the Company strives to operate within the budgeted total expenses", and "the adjustments for the FPFTY are conservative expense adjustments".²¹ Such statements do not provide substantial evidence justifying the individual expense claims that I&E recommended adjustments to

¹⁷ Wellsboro Main Brief, pp. 28-40.

¹⁸ Wellsboro Main Brief, pp. 33-34.

¹⁹ I&E Main Brief, pp. 14-17.

²⁰ Wellsboro Main Brief, p. 11.

²¹ Wellsboro Main Brief, pp. 31-32.

on specific, quantifiable bases. Additionally, they do not justify the wholesale revision to O&M expenses Wellsboro provided in rebuttal testimony. To the extent Wellsboro's Main Brief actually addressed I&E's recommended adjustments, they will be discussed in the specific expense sections below.²²

Wellsboro further claims the non-company parties "have not disputed the fact that Wellsboro's revised expense claim was derived from 9-month YTD data", and therefore Wellsboro's revised expense claims should be approved in their entirety.²³ That is incorrect. I&E witness D.C. Patel specifically rejected the wholesale \$204,093 downwards adjustment made by Wellsboro between direct and rebuttal testimony. Instead, he continued with his individual expense adjustments, taking into account the Company's rebuttal position, but only as it related to claims he had analyzed in direct testimony.²⁴ As explained in I&E's Main Brief, to the extent the Company's position now updates expense claims, whether upwards or downwards, not subject of non-company parties' direct testimony, the Commission should reject them as a prohibited attempt to raise late-brought claims.²⁵

Wellsboro also asks the Commission to not weigh the prudence of managerial discretion based on information discovered after the fact.²⁶ It is unclear to I&E how this

²² Wellsboro claims any resolution of an individual dispute "should be grossed up by the inflation adjustment". Wellsboro Main Brief, p. 40. However, I&E did not dispute the Company's 3% inflation adjustment and therefore, any recommendations made by I&E should not be further inflated without specific justification.

²³ Wellsboro Main Brief, p. 40.

²⁴ I&E Main Brief, p. 16.

²⁵ I&E Main Brief, pp. 14-17.

²⁶ Wellsboro Main Brief, p. 29.

statement relates to I&E's recommendations or supports Wellsboro's position.²⁷ I&E contends its position regarding expenses is not based on "information discovered after the fact", but instead is largely based on historical and projected analysis of expense trends as is appropriate for each individual expense adjustment at issue as it relates to the FPFTY. Additionally, the Commonwealth Court just recently held "[t]he Commission does have the authority, pursuant to [66 Pa. C.S. § 315(e)] to make after-the-fact adjustments and to require a utility to support its prior projections in a subsequent rate case."²⁸ Parties can clearly rely on a company's experience in informing its positions in subsequent rate filings.

More appropriately, Wellsboro states "[t]he relevant question in a base rate proceeding is whether the proposed expenses are reasonable and appropriate for furnishing of service to customers."²⁹ As explained in Main Brief and further below, I&E has addressed a number of individual expenses that are not reasonable or appropriate for furnishing service to customers.³⁰ In summary, for the reasons explained above and in

²⁷ If Wellsboro means to infer I&E is interfering with managerial discretion, I&E's expense adjustments are based on trends and projections to reflect just and reasonable rates, not claimed superior knowledge of day-to-day operations, and therefore clearly do not constitute an attempt to micromanage or act as a super board of directors. See *Bell Tel. Co. of Pa. v. Driscoll*, 21 A.2d 912 (Pa. 1941); *Metropolitan Edison Co. v. Pa. P.U.C.*, 437 A.2d 76 (Pa. Cmwlth. 1981); *Pa. P.U.C. v. Philadelphia Electric Co.*, 501 Pa. 153 (Pa. 1983). Additionally, the cases Wellsboro relies upon to support its position are inapposite to the present case. In *Pa. P.U.C. v. Philadelphia Suburban Water Company*, the Commission denied OCA's recommendation that Philadelphia Suburban Water Company not be allowed to receive a return on meter registers that became obsolete soon after their purchase. 1991 Pa. PUC LEXIS 206, pp. 6-10 (Pa. P.U.C. 1991). Similarly, in *Pa. P.U.C. v. Duquesne Light Co.*, the Commission's discussion of the "prudence standard" was in the context of whether already incurred costs should be allowed into a rate claim. 63 Pa. P.U.C. 337 (Pa. P.U.C. 1987). I&E is not recommending disallowance of a past cost, but refinement to cost *projections* (i.e., the FPFTY) based on past experience.

²⁸ *McCloskey v. Pa. P.U.C.*, 2020 WL 215931 (Pa. Cmwlth. 2020).

²⁹ Wellsboro Main Brief, p. 29.

³⁰ I&E Main Brief, pp. 17-27.

I&E's Main Brief, the Commission should reject the Company's attempt to wholesale discredit non-company parties' expense claim recommendations.

B. Operations Supervision and Engineering Expense

I&E recommends Operations Supervision and Engineering Expense be set at \$86,662 for the FPFTY.³¹ Wellsboro confirms the annualized FTY Operations Supervision and Engineer Expense, with 3% added, totals \$86,662.³² This was the FPFTY claim sponsored by Wellsboro witness Howard Gorman in rebuttal testimony, and I&E accepted this expense claim.³³ However, in Main Brief, Wellsboro now reverts to its initial claim of \$106,704.³⁴ I&E contends it is inappropriate for Wellsboro to rebut I&E's direct testimony for the first time in Main Brief. None of Wellsboro's witnesses provided specific rebuttal for I&E's analysis of this specific expense, depriving I&E of its ability to respond in surrebuttal testimony.³⁵ Nevertheless, the only reason Wellsboro now gives for the prudence of its \$106,704 claim is "the expense for this account varies due to the projects, maintenance, and repairs occurring from year to year."³⁶ This vague rationale does not justify this claim. To the contrary, the only reason \$106,704 was the Company's claim in the first place is because it escalated the FTY expense of \$103,596 reflected in the original filing by 3%.³⁷ However, that figure is now well outdated. I&E witness Patel first used updated figures to recommend \$78,980 for this expense in direct

³¹ I&E Main Brief, p. 17.

³² Wellsboro Main Brief, pp. 43-44.

³³ I&E Main Brief, p. 17.

³⁴ Wellsboro Main Brief, p. 44.

³⁵ See I&E Main Brief, p. 17.

³⁶ Wellsboro Main Brief, p. 44.

³⁷ I&E Exhibit No. 1, Schedule 2, page 1 of 1 ($\$103,596 \times 1.03 = \$106,704$).

testimony by annualizing the FTY expense, plus a 3% inflation factor.³⁸ Wellsboro witness Gorman further updated the FTY figure in rebuttal testimony, resulting in a \$86,662 FPFTY claim, which I&E accepts. There is no reason to now rely on Wellsboro's outdated FTY expense figures presented in the Company's original filing, and therefore, there is no basis for a \$106,704 expense claim. For these reasons, I&E continues to recommend an expense claim of \$86,662.

C. Maintenance Supervision and Engineering Expense

I&E recommends Maintenance Supervision and Engineering Expense be set at \$65,275 for the FPFTY.³⁹ Although Wellsboro's rebuttal testimony only supported a \$65,275 claim, the Company now asserts its original \$80,232 claim for this expense is correct.⁴⁰ I&E maintains its recommended downward adjustment of \$14,957 for this expense is reasonable. First, I&E again contends it is inappropriate for Wellsboro to rebut I&E's direct testimony analysis for the first time in Main Brief. Second, I&E's recommendation is consistent with Wellsboro's update to the Company's claim of \$65,275 in rebuttal testimony.⁴¹ Third, if Wellsboro's claim for \$80,232 was approved, a single expense would be double counted in the FPFTY. Specifically, Wellsboro explained the shortfall from its original \$80,232 claim for this expense is because an employee's costs were instead charged to another account, Miscellaneous Distribution Expense (Account 588).⁴² Therefore, Account 588, discussed immediately below,

³⁸ I&E Statement No. 1, pp. 9-11.

³⁹ I&E Main Brief, pp. 18-19.

⁴⁰ Wellsboro Main Brief, pp. 45-46.

⁴¹ Wellsboro Statement No. 1-R, p. 4.

⁴² Wellsboro Main Brief, pp. 45-46.

already includes the employee's costs at issue. If Wellsboro's claim for \$80,232 was approved, the employee's costs at issue would be reflected in the FPFTY two times, i.e., in both Account 588 and Maintenance Supervision and Engineering Expense (Account 590). The Company admits this expense has only been booked to Account 588.⁴³ The Company has provided no evidence that the expense in dispute for this particular employee, which exists only in Account 588 in the FTY, will exist in both accounts in the FPFTY.

Wellsboro further claims I&E's adjustment should only be accepted if I&E's recommendation regarding Account 588 is rejected.⁴⁴ Specifically, the Company claims I&E's recommendation regarding Account 588 already includes a downward adjustment to remove the employee expense at issue. Wellsboro is incorrect. As explained below, I&E's recommendation regarding Account 588/Miscellaneous Distribution Expense regards the Company's "other" expense subcategory, not a specific employee's expense being booked to one account or the other. Wellsboro explained the "other" expense was for training new employees, not for an unidentified expense for an already existing employee. Because Wellsboro has not met its burden of proof justifying \$80,232 for this expense, the Commission should adopt I&E's recommended downward adjustment of \$14,957.

⁴³ Wellsboro Main Brief, p. 46.

⁴⁴ Wellsboro Main Brief, p. 46.

D. Miscellaneous Distribution Expense

I&E recommends a reduction of \$29,016 to Miscellaneous Distribution Expense claim.⁴⁵ Wellsboro's rebuttal testimony did not specifically address I&E's recommended \$29,016 decrease to this expense,⁴⁶ but in rejoinder testimony generally stated projected employee turnover justifies the Company's expense claim. I&E maintains its recommended \$29,016 decrease is reasonable. The Company still has not rebutted I&E's specific basis for its recommendation, i.e., the "other" subcategory to this expense increased exponentially in the FTY and FPFTY without sufficient explanation. Wellsboro provided the historical and projected "other" expense figures as follows:⁴⁷

2016	2017	2018	FTY	FPFTY
\$12,581	\$9,562	\$17,807	\$41,100	\$42,333

As explained by I&E witness Patel, the Company states that the projected increase of \$23,293 (130.81% increase) in FTY "other" expense as compared with the HTY expense is due to an anticipated increase in training requirement for new employees.⁴⁸ However, the Company did not specify the number of new employees expected to be trained, duration of the training, and the basis for projected training expense to be incurred in the FTY. The Company, however, continues to project the FPFTY "other" expense claim at an elevated level with a 3% increase to the FTY expense claim on the speculative assumption that the training expense will recur at the same pace for new

⁴⁵ I&E Main Brief, pp. 19-20.

⁴⁶ See I&E Main Brief, pp. 19-20.

⁴⁷ I&E Statement No. 1, p. 15; I&E Exhibit No. 1, Schedule 5, pp. 1-2.

⁴⁸ I&E Exhibit No. 1, Schedule 5, p. 1.

employees in the FPFTY, when there is no certainty about future additions of new employees to characterize this expense as a normal, recurring annual expense.⁴⁹ Additionally, Wellsboro did not provide any evidence in rejoinder that it is experiencing or will experience employee turnover or specific impact to the “other” expense subcategory that it has not experienced historically. Therefore, I&E’s recommended allowance of \$13,317 or a reduction of \$29,016 (\$42,333 - \$13,317) for the FPFTY “other” expense based on an average of the last three years’ actual expense to smooth out highs and lows of the expense trend is reasonable and should be adopted by the Commission.

E. Regulatory Commission Expense

Despite objecting to I&E’s overall recommended O&M expense adjustment, as recommended by I&E,⁵⁰ Wellsboro confirms its Regulatory Commission Expense should be adjusted downwards by \$68,710.⁵¹

F. Safety and Communications Expense

Despite claiming a \$5,013 FPFTY expense in rebuttal testimony, Wellsboro now claims a \$12,694 expense in Main Brief for Safety and Communications Expense.⁵² For the reasons explained in I&E’s Main Brief, the Commission should accept the \$5,013 FPFTY claim sponsored by Wellsboro’s expert witness testimony.⁵³ Nevertheless, I&E witness Patel explained why Wellsboro’s original claim of \$19,197 was overstated by

⁴⁹ I&E Statement No. 1, pp. 15-16.

⁵⁰ I&E Main Brief, p. 20.

⁵¹ Wellsboro Main Brief, p. 15.

⁵² Wellsboro Main Brief, p. 47.

⁵³ I&E Main Brief, pp. 21-22.

\$10,282.⁵⁴ This amount includes \$4,777 for Customer Assistance, \$10,815 for Customer Service, and \$3,605 for Advertising.⁵⁵ First, as the Company agrees, Wellsboro's tri-annual Eligible Customer List expense should be normalized over three years, reducing customer service expense to \$4,138.⁵⁶ Second, Wellsboro's entire Advertising claim of \$3,605 should be disallowed. Ratepayers should not be required to pay for advertising associated with sales promotion and advertising designed to promote the Company's image.⁵⁷ Such costs are not necessary to provide service to customers.⁵⁸ The Company provided no rebuttal or justification for its Advertising costs.⁵⁹ Therefore, of its original claim for Safety and Communications Expense, only \$4,138 for Customer Service Expense is justified and none of the Advertising claim is justified.⁶⁰

G. Maintenance of Overhead Lines

I&E recommends a Maintenance of Overhead Lines expense of \$580,364.⁶¹ Wellsboro continues to contend its expense claim for Maintenance of Overhead Lines should be set at \$649,081.⁶² However, Wellsboro's specific claim of \$649,081 is inconsistent with and unsupported by evidence provided by the Company in this

⁵⁴ I&E Statement No. 1, pp. 20-22.

⁵⁵ I&E Exhibit No. 1, Schedule 3, p. 2.

⁵⁶ Wellsboro Main Brief, p. 47. The Company cites I&E Statement No. 1 to support its contention that this adjustment would therefore reduce customer service expense to \$4,318. However, I&E witness Patel demonstrated customer service expense should be reduced to \$4,138. I&E Statement No. 1, p. 22.

⁵⁷ I&E Statement No. 22.

⁵⁸ *Butler Township Water Company v. Pa. P.U.C.*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980); *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906, 908 (Pa. Cmwlth. 1980).

⁵⁹ In Main Brief, Wellsboro vaguely states this expense is for "advertising following a rate increase", without cite to any witness testimony in the record providing further explanation or why such an expenditure would be justified. Wellsboro Main Brief, p. 47.

⁶⁰ I&E witness Patel did not recommend any adjustment to Wellsboro's claim of \$4,777 for Customer Assistance.

⁶¹ I&E Main Brief, pp. 22-23.

⁶² Wellsboro Main Brief, pp. 41-43.

proceeding and should be rejected. First, Wellsboro is not correct that I&E “mistakenly concluded” that Wellsboro’s claim was revised to \$580,364.⁶³ As noted by I&E witness Patel and still uncontroverted, Wellsboro’s primary O&M witness, Howard Gorman, did adjust Wellsboro’s claim for Account 593 – Maintenance of Overhead Lines to \$580,364.⁶⁴ Second, as explained in I&E’s Main Brief, Wellsboro provided updated expenses of \$515,199.33 through November 30, 2019, and annualizing and escalating this amount by 3% would only produce a claim of \$578,896.70.⁶⁵ Lastly, as OCA witness Stacy Sherwood notes, the three year average expense for Account 593 is \$518,492.⁶⁶ Based on OCA’s analysis, even if an additional \$60,000 is added to Wellsboro’s tree trimming budget for 2020,⁶⁷ total expense would only be \$578,492 for the FPPTY. Therefore, I&E maintains its recommendation of \$580,364 for Account 593 expense is reasonable and should be adopted by the Commission.

H. Office Supplies and Expenses

Again, despite Wellsboro’s primary O&M witness adjusting Wellsboro’s Office Supplies and Expenses FPPTY claim to \$64,367 in rebuttal testimony,⁶⁸ the Company now reverts to its original \$140,595 claim. For the reasons explained in I&E’s Main Brief, the Commission should accept Wellsboro’s revised clam of \$64,367.⁶⁹ However, the Company now claims for the first time since its original filing that the full \$140,595

⁶³ Wellsboro Main Brief, p. 42.

⁶⁴ Wellsboro Statement No. 1-R, p. 4.

⁶⁵ If Wellsboro witness Byron Farnsworth’s projections for December 2019 are accepted, escalating Account 593 by a 3% inflation factor would only produce a FPPTY claim of \$614,415($\$596,519.33 \times 1.03 = \$614,414.57$).

⁶⁶ OCA Statement No. 1-SR (Revised), p. 7.

⁶⁷ Wellsboro witness Farnsworth claims an additional \$60,000 will be required for the 2020 tree trimming budget. Wellsboro Statement No. 6-R.

⁶⁸ Wellsboro Statement No. 1-R, p. 4.

⁶⁹ I&E Main Brief, pp. 23-24.

expense is appropriate, and I&E witness Patel's \$11,364 recommended downward adjustment from his direct testimony should be rejected. The only rationale Wellsboro provides is that this expense includes permissible costs for "employee recognition events".⁷⁰ Wellsboro overlooks that I&E witness Patel's original recommendation depends on two separate rationale, one completely unrebutted by the Company. First, and unrebutted by the Company, I&E witness Patel explained his original recommendation was based on use of the Company's HTY amount of \$125,467 plus a 3% increase for determining the FPFTY expense allowance of \$129,231 ($\$125,467 \times 1.03$). I&E witness Patel escalated this expense from the HTY, not the FTY, because the Company provided the general ledger accounts for Office Supplies and Expenses for the years 2016 through 2018 as well as for the first six months of 2019, and the Company's Office Supplies and Expense amount for the first six months of the FTY was only \$58,428 or an average monthly expense of \$9,738 ($\$58,428 \div 6$ months).⁷¹ When this amount is annualized to reflect a full year of Office Supplies and Expenses, it produces an amount of \$116,856 ($\$9,738 \times 12$ months). This annualized expense amount is \$19,644 ($\$136,500 - \$116,856$) less than the Company's FTY claim of \$136,500. Therefore, I&E witness Patel's recommendation was even greater than FTY data at the time supported. The Company's position regarding this expense is even more tenuous now, as its primary O&M witness reports the annualized FTY expense is \$62,492.⁷²

⁷⁰ Wellsboro Main Brief, pp. 47-48.

⁷¹ I&E Exhibit No. 1, Schedule 9, pp. 14-19.

⁷² Wellsboro Statement No. 1-R, p. 4.

I&E witness Patel also explained his adjustment was reasonable because this account includes costs ratepayers should not be required to pay. For example, the 2018 ledger account includes expenses for 3000 AD POP Lollipops of \$797, Player's/Hole sponsorship of \$650, 2019 calendars of \$305, pocket calendars of \$426, team registration of \$400, Pro-AM Golf sponsorship of \$800, picnic expenses of \$332, Christmas gift cards of \$374, and Christmas parties/banquet of \$5,107 for a total of \$9,191.⁷³ Wellsboro objects to I&E's characterization of this expenses, claiming the Commission allows expenses for employee recognition events.⁷⁴ However, the simple fact is, as the party with the burden of proof, Wellsboro has provided no evidence that these costs are related to employee recognition events. In *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, the Commission was clear that a company must provide evidence demonstrating costs qualify as an employee recognition event.⁷⁵ The Commission also reiterated that it disallows employee activity costs not clearly identified as employee recognition costs.⁷⁶ Wellsboro has provided no further evidence that the costs identified by I&E witness Patel are for employee recognition events. Therefore, although the Commission should only allow \$64,367 for Office Supplies and Expenses as supported by Wellsboro expert witness testimony, in no event should the Commission allow inclusion of any of the above cited employee activity costs that have no reasonable basis in the record to be charged to ratepayers.

⁷³ I&E Statement No. 1, p. 27.

⁷⁴ Wellsboro Main Brief, p. 48.

⁷⁵ Docket No. R-2017-2640058, pp. 70-71 (Order Entered October 25, 2018) ("*UGI Utilities, Inc. – Electric Division*").

⁷⁶ *UGI Utilities, Inc. – Electric Division*, pp. 70-71 (citing *Pa. P.U.C. v. York Water Co.*, 62 Pa. PUC 459 (Pa. P.U.C. 1986)); *Pa. P.U.C. v. Columbia Water Company*, Docket No. R-2013-2360798 (Order Entered January 23, 2014).

I. Rate Case Expense

I&E recommends a 48-month normalization period for Rate Case Expense, resulting in an annual allowance of \$81,500 ($(\$326,000 \div 48 \text{ months}) \times 12 \text{ months}$), which is a reduction of \$27,167 ($\$108,667 - \$81,500$) to the Company's claim.⁷⁷ However, Wellsboro points to the Commission's decision in *UGI Utilities, Inc. – Electric Division* to support its position that a normalization period for rate case expense should reflect its future intentions to file, rather than historic frequency of filing.⁷⁸ Comparison to the Commission's decision in *UGI Utilities, Inc. – Electric Division* is inappropriate for several reasons. First, as Wellsboro admits, prior to its 2018 rate case filing, UGI Electric had not filed a base rate case for 22 years. By contrast, Wellsboro last four rate cases were filed within 34, 75, and 37 months of each other.⁷⁹ Clearly, Wellsboro has a much more frequent filing history than UGI Electric. Therefore, it is much more reasonable to rely on a historical filing frequency for Wellsboro than UGI Electric.

Second, Wellsboro has not provided the same level of specificity regarding capital expenses that the Commission found persuasive in granting UGI Electric deviation from the general rule that historic frequency be used to determine rate case expense normalization period. The Commission found that UGI Electric's reference to \$8 million in annual spending for capital projects following the FPFTY would cause a \$3 million shortfall at the end of a three-year period.⁸⁰ By contrast, Wellsboro has provided no quantifiable or otherwise reliable bases or projections why its proposed normalization

⁷⁷ I&E Main Brief, pp. 24-27.

⁷⁸ Wellsboro Main Brief, pp. 50-51.

⁷⁹ See I&E Main Brief, p. 26.

⁸⁰ *UGI Utilities, Inc. – Electric Division*, p. 60.

period is appropriate. As explained in I&E’s Main Brief, Wellsboro’s witnesses’ specific bases for a shorter normalization period reflect routine or speculative costs.⁸¹ I&E therefore continues to recommend the Commission approve normalization of Wellsboro’s Rate Case Expense with reference to its historical filing frequency only, i.e., a 48-month average, resulting in a \$27,167 reduction to Rate Case Expense.

VII. FAIR RATE OF RETURN

A. Return on Common Equity – Methodologies

I&E agrees with Wellsboro that the primary dispute regarding rate of return is return on equity (“ROE”).⁸² Unlike I&E, which primarily used the Discounted Cash Flow (“DCF”) model, Wellsboro analyzed multiple ROE models to develop an ROE recommendation.⁸³ Although Wellsboro correctly notes “the Commission has primarily relied on the [DCF] to set ROE”, to support its use of multiple models and discount primary reliance on the DCF, Wellsboro states “the Commission has also observed [in *UGI Utilities, Inc. – Electric Division*] that DCF-only results may understate the appropriate ROE.”⁸⁴ However, in its full context, the Commission stated:⁸⁵

[W]here evidence based on other cost of equity methods indicates that the DCF-only results may understate the utility’s current cost of equity capital, we will consider those other methods, to some degree, in evaluating the appropriate range of reasonableness for our equity return determination

⁸¹ I&E Main Brief, pp. 26-27.

⁸² Wellsboro Main Brief, p. 55.

⁸³ Wellsboro Main Brief, p. 55. Wellsboro witness D’Ascendis used the DCF, Risk Premium (“RP”), and Capital Asset Pricing Model (“CAPM”) methods, as well as comparison to non-price regulated companies. See Wellsboro Main Brief, p. 58.

⁸⁴ Wellsboro Main Brief, p. 55 (citing *UGI Utilities, Inc. – Electric Division*, p. 105).

⁸⁵ *UGI Utilities, Inc. – Electric Division*, p. 105 (emphasis added).

The Commission did not hold that the DCF method understates ROE or that multiple methods should be used to determine ROE, but only commented that it will look to other methods if the DCF appears understated by comparison. In this case, I&E justified its DCF analysis by comparison to the Capital Asset Pricing Model (“CAPM”).⁸⁶ I&E’s analysis is consistent with the Commission’s decision in *UGI Utilities, Inc. – Electric Division* that the cost of equity should “primarily be based upon the use of the DCF methodology and that the results of the CAPM analysis should be used as a comparison to the DCF results”.⁸⁷ As explained in I&E’s Main Brief, I&E calculated a CAPM ROE of 7.59%.⁸⁸ Therefore, as endorsed by the Commission, I&E’s CAPM analysis confirms the reasonableness of I&E’s 8.10% DCF calculation. Additionally, in *UGI Utilities, Inc. – Electric Division*, the Commission rejected the other models used by Wellsboro in developing its recommended ROE, i.e., the Risk Premium (“RP”) method and Comparable Earnings (“CE”) method.⁸⁹

Wellsboro criticizes I&E for “maintain[ing] an unreasonably narrow focus on replying primarily on the DCF and considering only the CAPM as a check”.⁹⁰ However, as explained above, this methodology has been expressly endorsed by the Commission. Instead, Wellsboro’s Main Brief reiterates the methods Company witness Dylan

⁸⁶ See I&E Main Brief, pp. 32-35.

⁸⁷ *UGI Utilities, Inc. – Electric Division*, p. 104; See also I&E Main Brief, p. 32, fn. 120 (citation of Commission decisions validating use of the DCF as the primary methodology to determine ROE).

⁸⁸ I&E Main Brief, p. 35.

⁸⁹ *UGI Utilities, Inc. – Electric Division*, p. 105.

⁹⁰ Wellsboro Main Brief, p. 72.

D'Ascendis used to develop his DCF, CAPM, RP and CE positions.⁹¹ As explained above, and fully in I&E's Main Brief, use of these rejected RP and CE methodologies,⁹² in addition to unorthodox modifications to DCF and CAPM analyses,⁹³ should be disregarded as inaccurate, unreliable, and inconsistent with Commission precedent.⁹⁴

Abandoning a methodological ROE analysis completely, Wellsboro points to non-jurisdictional and irrelevant metrics for other companies' ROEs to support its claim. First, Wellsboro claims I&E's recommended ROE is below any major electric utility followed by Regulatory Research Associates since at least 1980.⁹⁵ It is alarming that Wellsboro makes this broad claim while misstating I&E's actual ROE recommendation. In Main Brief the Company incorrectly states that I&E's recommended return on equity is 7.33%.⁹⁶ I&E's recommended return on equity is 8.10%.⁹⁷ Further, this statement is completely unsupported by any evidence in the record. Wellsboro witness D'Ascendis

⁹¹ Wellsboro Main Brief, pp. 58-67. Wellsboro goes on to criticize I&E for not adopting its various methodologies, which, as explained in I&E's Main Brief, were rejected. Wellsboro Main Brief, pp. 67-79; See I&E Main Brief, pp. 35-49.

⁹² See I&E Main Brief, pp. 39-45. Wellsboro incorrectly asserts the Commission's decision in *UGI Utilities, Inc. – Electric Division* validated use of a Comparable Earnings analysis. Wellsboro Main Brief, p. 78. To the contrary, the Commission expressly rejected UGI Electric's use of the CE method. *UGI Utilities, Inc. – Electric Division*, p. 105.

⁹³ Specifically, use of an inappropriate risk-free rate and ECAPM for the CAPM analysis, and reference to market-to-book ratios with regard to the DCF analysis. See I&E Main Brief, pp. 45-49. Additionally, I&E objected to the proxy group Wellsboro used for its DCF analysis. See I&E Main Brief, pp. 37-39.

⁹⁴ The Company again claims the Commission incorporated multiple models into its authorized ROEs in *Pa. P.U.C. v. Emporium Water Company*, Docket No. R-2014-2402324 (Order Entered January 28, 2015) ("*Emporium Water*") and *Pa. P.U.C. v. Columbia Water Company*, Docket No. R-2013-2360798 (Order Entered January 23, 2014) ("*Columbia Water*"). See Wellsboro Main Brief, p. 68. As explained in I&E's Main Brief, in *Columbia Water*, the Commission specifically states that it used the DCF method as the foundation in determining the cost of equity, and in *Emporium Water*, the Commission simply summarized the recommendations presented by OCA, I&E, and Emporium Water and did not comment on which model(s) it relied on for its ROE determination. I&E Main Brief, p. 42.

⁹⁵ Wellsboro Main Brief, p. 56.

⁹⁶ Wellsboro Main Brief, p. 56.

⁹⁷ I&E Main Brief, p. 42.

simply cites “Source of Information: Regulatory Research Associates” for this claim.⁹⁸ There is no specific cite or data attached to Wellsboro witness D’Ascendis’s testimony. Second, Wellsboro cites past higher ROE awarded to various Commission regulated companies.⁹⁹ However, Wellsboro has provided absolutely no analysis why these ROEs are germane to the Company’s ROE claims here. As Wellsboro recognizes, “market conditions may change”¹⁰⁰ and comparison to ROEs awarded to companies a decade ago should not be allowed to carry weight without any analysis. Although UGI Electric was awarded a 9.85% ROE in 2018, this amount also included a 1.20% downward adjustment to remove a size adjustment completely and a five basis points performance factor adjustment. If a similar adjustment was made to the Company’s ROE claim, Wellsboro would only be awarded a 9.10% return on equity (10.30% - 1.20%).

Last, Wellsboro cites the Commission-approved 9.55% Distribution System Improvement Charge (“DSIC”) ROE for electric utilities as a reason why I&E’s recommended return on equity is deficient.¹⁰¹ I&E avers comparison to the Commission’s standard DSIC ROE for electric utilities is inappropriate for several reasons. First, citation to this standard is completely divorced from any of the various analyses parties have used in developing their respective positions. The Commission should not abandon parties’ analyses just to look at a generic standard that has no relevance to the specific facts in this record. Second, the 9.55% ROE is developed in a

⁹⁸ Wellsboro Statement No. 2-R, p. 5.

⁹⁹ Wellsboro Main Brief, p. 72. Specifically, 11% to Aqua Pennsylvania, Inc. in 2008; 10.40% to PPL Electric Utilities Corporation in 2011; and 9.85% to UGI Electric in 2018.

¹⁰⁰ Wellsboro Main Brief, p. 72.

¹⁰¹ Wellsboro Main Brief, p. 56.

different context than Wellsboro's ROE in this proceeding. As Wellsboro witness D'Ascendis correctly recognizes, DSIC is only designed to recover costs on specifically defined capital improvements between rate cases.¹⁰² The Commission's most recently performed Quarterly Earnings Summary Report states the current market indicated ROE ranges between 7.05% and 9.56% for electric utilities.¹⁰³ I&E suggests the Commission sets the DSIC rate at the very highest level of market indicated returns to incentivize utilities to undertake critical infrastructure projects.¹⁰⁴ By contrast, simply awarding the DSIC rate at the high end of the Commission's DCF analysis¹⁰⁵ in a base rate proceeding would provide an elevated ROE to all elements of the rate base, not just critical infrastructure projects.¹⁰⁶ Therefore, utilities should not simply expect the DSIC rate to serve as a substitute for a base rate ROE analysis. Further, as PUC Commissioner Andrew Place recently stated regarding the Quarterly Earnings Report of Jurisdictional Utilities,¹⁰⁷ the standard DSIC ROE for electric utilities suffers flaws. Specifically, although the DSIC ROE for electric utilities is 9.55%, the DCF analysis for electric utilities only indicates a ROE of 8.31%, with one standard deviation of 7.05% to

¹⁰² Tr. 57-59.

¹⁰³ *Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended June 30, 2019*, Docket No. M-2019-3013392, p. 14 (November 14, 2019) ("Quarterly Earnings Summary Report").

¹⁰⁴ 66 Pa. C.S. §§ 1350, et seq.

¹⁰⁵ The Quarterly Earnings Summary Report explains "[t]he Commission consistently uses the DCF model to determine the appropriate cost of equity for utilities". Quarterly Earnings Summary Report, p. 16.

¹⁰⁶ Relatedly, although the Public Utility Code mandates a utility's DSIC cost of equity match its litigated cost of equity within a two-year period, the reverse is not true. 66 Pa. C.S. § 1357(b)(2). In a base rate proceeding, a company can demonstrate why its proposed ROE is justified, including by reference to any infrastructure projects. I&E avers Wellsboro has not provided any particular evidence why any of its infrastructure projects justify an elevated ROE.

¹⁰⁷ *Statement of Commissioner Andrew G. Place*, Docket No. M-2019-3013392 (November 14, 2019) ("Commissioner Place Statement").

9.56%.¹⁰⁸ A 9.55% ROE is at the very upper end of the Commission's DCF analysis, and Commissioner Place recommended its adjustment downwards. Additionally, the CAPM analysis only produces a 7.74% ROE.¹⁰⁹ Commissioner Place also cites a decline to national rate case ROEs and changes to DCF-based ROEs from the Commission's previous quarterly earnings reports to indicate the Commission's DSIC rate for electric utilities is overstated. In summary, Wellsboro's reliance on the Commission's DSIC rate to support its separate ROE analysis should be disregarded as irrelevant and unreliable, and the Commission should accept I&E's specific DCF analysis, as checked by a CAPM analysis.

B. Return on Common Equity – Equity Adjustments

1. Size Adjustment

Wellsboro maintains the Commission “must” include a size adjustment of 100 basis points and claims a body of evidence supports its position.¹¹⁰ To support its position, Wellsboro cites one Commission Order from 2007 where a size adjustment was allowed.¹¹¹ Wellsboro then reiterates its position, including reference to non-utility specific technical literature.¹¹² However, as explained in I&E's Main Brief, in *UGI Utilities, Inc. – Electric Division* the Commission recently rejected use of technical literature not specific to the regulated utility industry to support a size adjustment.¹¹³

¹⁰⁸ Commissioner Place Statement, p. 1.

¹⁰⁹ Commissioner Place Statement, p. 1.

¹¹⁰ Wellsboro Main Brief, p. 87.

¹¹¹ Wellsboro Main Brief, p. 88 (citing *Pa. P.U.C. v. PPL Gas Utilities Corp.*, Docket No. R-00061398, p. 105 (Order Entered February 8, 2007)). In this one proceeding, the Commission awarded a 31 basis point upwards adjustment to PPL Gas Utilities Corporation's ROE. *Id.*, pp. 107-108.

¹¹² Wellsboro Main Brief, pp. 88-91.

¹¹³ *UGI Utilities, Inc. – Electric Division*, p. 100.

Additionally, I&E presented technical literature demonstrating a size effect for utilities does not exist,¹¹⁴ and Wellsboro did not provide sufficient evidence to the contrary. As explained in I&E's Main Brief, the study Wellsboro presented to rebut I&E's technical literature is speculative and, at best, applicable only to water utilities. Wellsboro witness D'Ascendis also admits his own study has limited explanatory power.¹¹⁵ Therefore, for the reasons stated herein and in I&E's Main Brief, the Commission should find Wellsboro has not justified its claim for a size adjustment to its return on equity.

2. Management Performance

Wellsboro maintains its management performance merits a 25 basis point increase to return on equity.¹¹⁶ As explained in I&E's Main Brief, Wellsboro should not be awarded additional basis points simply for performing what is required to provide adequate, efficient, safe, and reasonable service.¹¹⁷ Therefore, I&E continues to recommend a 25 basis point performance factor increase be disallowed.

VIII. TAXES

As explained in I&E's Main Brief, I&E's various recommendations have a flow-through impact on the Company's taxes for the FPFTY as depicted in Table I attached therein.

¹¹⁴ See I&E Main Brief, p. 51.

¹¹⁵ See I&E Main Brief pp. 51-52.

¹¹⁶ Wellsboro Main Brief, pp. 83-87.

¹¹⁷ I&E Main Brief, p. 53.

IX. CUSTOMER RATE STRUCTURE

A. Allocated Cost of Service Study

I&E makes various recommendations based on Wellsboro's cost of service study as explained in the Customer Rate Structure section of I&E's Main Brief.

B. Revenue Allocation

Based on Wellsboro's cost of service study, I&E recommends rate class POL be allocated neither an increase nor decrease under proposed rates. Instead, the proposed reduction to POL should be reallocated to the MSL and CS rate classes.¹¹⁸ Wellsboro maintains a rate decrease for class POL is appropriate, citing the Commission's decision in *UGI Utilities, Inc. – Electric Division* granting a rate decrease to a rate class.¹¹⁹

However, I&E contends that Wellsboro misinterprets the significance of the Commission granting a rate decrease in *UGI Utilities, Inc. – Electric Division*. First, neither the Commission nor the ALJs' decision explicitly discussed the appropriateness of a rate decrease.¹²⁰ Rather, both more generally rejected OCA's alternative cost of service study, which happened to include no rate decrease for any party.¹²¹ Second, only OCA recommended rejection of a rate decrease in *UGI Utilities, Inc. – Electric Division*. Here, as the Company correctly notes, I&E, OCA, and OSBA all oppose a decrease to rate class POL.¹²²

¹¹⁸ I&E Main Brief, pp. 55-61.

¹¹⁹ Wellsboro Main Brief, p. 101.

¹²⁰ *UGI Utilities, Inc. – Electric Division*, pp. 164-166; *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058, Recommended Decision, pp. 120-122 (August 20, 2018).

¹²¹ *Id.*

¹²² Wellsboro Main Brief, pp. 100-101.

Wellsboro also cites *Lloyd v. Pa. P.U.C.* to support its revenue allocation as most reasonable and consistent with precedent.¹²³ I&E does not dispute Wellsboro’s contention that *Lloyd* confirmed cost of service as the “polestar” of utility ratemaking. However, Wellsboro simply cites *Lloyd* without any interpretation of its relevance to I&E’s revenue allocation recommendation or why the Company’s proposal is more reasonable. Consistent with *Lloyd*, I&E’s recommendation still moves rate class POL closer to its cost of service.

Change in Relative Rate of Return (I&E Ex. No. 3, Sch. 10, lines 33-34)			
Rate Class	Present Rate	Company As-Filed	I&E Recommended
CS	4.17	1.62	1.57
MSL	7.09	2.08	2.08
POL	12.42	2.37	3.54

However, I&E’s recommendation achieves the additional goal of assigning further rate relief to rate classes CS and MSL, both which have a relative rate of return above 1.0.¹²⁴ OCA asserts the rate decrease should be proportionately distributed.¹²⁵ I&E maintains its proposal is more reasonable because it assigns rate relief solely to classes whose relative rate of return are above 1.0, i.e., classes that are generating revenue greater than its cost to serve. Although OSBA did not offer the exact same redistribution proposal as I&E, it did not object to I&E’s proposal and indicated I&E’s proposal was

¹²³ Wellsboro Main Brief, p. 101 (citing *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (“*Lloyd*”).

¹²⁴ As explained in I&E’s Main Brief, if a rate class has a relative rate of return of greater than 1.0, that class is generating revenue greater than its cost to serve. I&E Main Brief, p. 56.

¹²⁵ OCA Main Brief, p. 81.

similar to OSBA's proposal.¹²⁶ Therefore, as explained in Main Brief, I&E avers its revenue allocation proposal is most reasonable should be approved by the Commission.

C. Rate Design

Wellsboro claims its proposal to insert a portion of demand costs into the customer charge is a form of "alternative ratemaking" consistent with Act 58 and the Commission's Final Policy Statement regarding alternative ratemaking.¹²⁷ For the reasons explained in I&E's Main Brief, simply characterizing Wellsboro's proposal as "alternative ratemaking" is not an adequate basis for approval. To the contrary, I&E explained how Wellsboro's proposal would violate principles of efficiency, cost causation, and customer protection; principles that continue to exist under alternative ratemaking.¹²⁸

Wellsboro also generally claims adding a portion of demand costs to the customer charge is reasonable because it reflects cost of service principles.¹²⁹ Additionally, Wellsboro claims, as designed, the added charges are minimal, and for rate classes CS and CSH, will not actually be able to recover demand costs.¹³⁰ I&E avers Wellsboro's rationale is inadequate for two reasons. First, charging a customer for a cost it may not create clearly does not comply with cost of service principles. Second, the Company already has a mechanism to recover demand costs: *the demand charge*. The Company's claim that its proposal only shifts a minimum of demands costs to customer charges

¹²⁶ OSBA Statement No. 1-R, pp. 4-5; *See* OSBA Schedule BK-1R(W).

¹²⁷ Wellsboro Main Brief, pp. 103-104.

¹²⁸ I&E Main Brief, pp. 65-68.

¹²⁹ Wellsboro Main Brief, p. 107.

¹³⁰ Wellsboro Main Brief, pp 105-107.

ignores the premise that these costs should be recovered through demand charges, not the customer charge. If the Company believes its demand charge is deficient, it should seek recourse through adjusting the demand charge, not simply increasing the customer charge. As explained thoroughly in I&E's Main Brief, the customer charge is not the appropriate avenue to recoup demand costs.¹³¹ Accordingly, I&E maintains its position that the Commission should reject Wellsboro's proposal to assign a portion of demand charge to customer charge, and should instead adopt I&E's recommendations, which are in accordance with the Company's cost of service study.

D. Scale Back

I&E and Wellsboro agree that, if the Commission approves a revenue requirement less than requested, rates should be proportionally scaled back based on the cost of service study.¹³² However, the Company claims its scale back proposal is most reasonable, reiterating its support that a scale back should include classes receiving a rate decrease.¹³³ I&E maintains that, for the same reasons explained why rate class POL should not receive a revenue decrease, only rate classes receiving a proposed increase should be included in a scale back. OSBA claims rate classes RASE, NRH, and CSH should be excluded from any scale back since they "exhibit little or no movement toward cost of service at the Company's proposed maximum increase."¹³⁴ As explained in I&E's Main Brief, making even a little progress towards cost of service is a reasonable basis to include these rate classes in a scale back of rates while making no progress is not a

¹³¹ I&E Main Brief, pp. 62-65.

¹³² I&E Main Brief, pp. 68-69; Wellsboro Main Brief, p. 111.

¹³³ Wellsboro Main Brief, p. 112.

¹³⁴ OSBA Main Brief, p. 12.

harmful outcome. Therefore, for the reasons explained in Main Brief, the Commission should accept I&E's scale back proposal.

E. Summary

As explained in Main Brief, I&E's revenue allocation, customer charge, and scale back proposals are based on sound Commission ratemaking policies and precedent and should be adopted.

X. MISCELLANEOUS ISSUES

A. Reporting Requirements

The Company opposes I&E's recommendation that it provide updated schedules to the Commission reflecting actual capital expenditures, plant additions, and retirements for the FTY and FPFTY.¹³⁵ The Company states the information can already be found in the Annual Reports and quarterly updates while the rate case is pending.¹³⁶ As a threshold matter, I&E notes Wellsboro is raising this point for the first time in Main Brief, thereby depriving I&E of its ability to provide an expert witness response on the factual basis for its contention. Therefore, the Commission should disregard Wellsboro late-brought assertion that other filing requirements address I&E's recommendation. Nonetheless, I&E avers its recommendation aligns with the test year of the Company in a form consistent with the rate filing, providing an apples-to-apples comparison of what the Company is projecting and what actually will be in the plant. Additionally, if Wellsboro contends that its Annual Reports provide similar information, I&E avers it is therefore

¹³⁵ Wellsboro Main Brief, p. 112.

¹³⁶ Wellsboro Main Brief, pp. 112-113.

even less of a burden to repurpose this information into a form directly corresponding to a schedule provided in the rate filing.¹³⁷

Additionally, the Company reiterates its position that it should not be required to provide reporting while rules and regulations regarding use of the FPFTY are pending.¹³⁸ As explained in I&E's Main Brief, current lack of detailed standardized rules and regulations regarding use of the FPFTY should support, rather than discourage, this sort of reporting requirement.¹³⁹ Indeed, many other utilities have agreed to the exact same reporting requirements under consideration.¹⁴⁰ Therefore, I&E continues to recommend the Company provide the reporting requirements as outlined in Main Brief.¹⁴¹

XI. CONCLUSION

For the reasons explained herein and in I&E's Main Brief, Wellsboro has failed to bear its burden of proof with respect to each and every element of its proposed rate increase. The Company's proposal must be amended to reflect the necessary and appropriate adjustments proposed by the Bureau of Investigation & Enforcement fixed utility financial analyst and engineer witnesses. Therefore, the Bureau of Investigation & Enforcement respectfully requests the Administrative Law Judges and the Commission to adopt its recommendations in this proceeding, which include adjustments and

¹³⁷ Quarterly reports end upon close of a rate case proceeding, and therefore would not satisfy I&E's reporting recommendation. *See* 52 Pa. Code § 53.56.

¹³⁸ Wellsboro Main Brief, p. 113.

¹³⁹ I&E Main Brief, pp. 71-72.

¹⁴⁰ *See* I&E Main Brief, p. 71, fn. 242.

¹⁴¹ I&E Main Brief, pp. 69-70.

modifications as supported herein and in I&E's Main Brief, and as reflected in I&E's tables attached to I&E's Main Brief.

Respectfully submitted,



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Dated: January 22, 2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2019-3008208
	:	
Wellsboro Electric Company	:	
Supplement No. 125 to Tariff Electric – Pa.	:	
PUC No. 8	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Reply Brief** dated January 22, 2020, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

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