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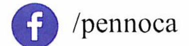
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March 13, 2020

Rosemary Chiavetta, Secretary
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. P.U.C. No. 8
Docket No. R-2019-3008208

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Exceptions in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

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Enclosures:
cc: The Honorable Steve K. Haas, ALJ
The Honorable Benjamin J. Myers, ALJ
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Certificate of Service

*285125

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Exceptions, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 13th day of March 2020.

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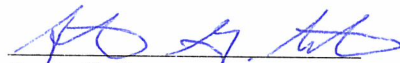

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS
OF THE
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Dated: March 13, 2020

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I. INTRODUCTION

On February 28, 2020, Administrative Law Judges (ALJs) Steven K. Haas and Benjamin J. Myers issued a Recommended Decision (RD), setting forth their recommendations in Wellsboro Electric Company's (Wellsboro) base rate case. As part of their comprehensive RD, the ALJs recommended that Wellsboro's end of year rate base proposal be accepted and consequently, the ALJs recommended approval of the Company's depreciation expense claims based on the end of year numbers. The ALJs apparently rejected OCAs adjustment for plant retirements, based on the mistaken conclusion that it was tied to the OCAs average rate base adjustment. The ALJs accepted the Bureau of Investigation and Enforcement's (I&E's) proposed adjustment for Miscellaneous Distribution Expense (Account 588). Additionally, the ALJs adopted Wellsboro's Maintenance of Overhead Lines/Vegetation Management (Account 593) expense claim. The ALJs also adopted the Company's annualized nine-month expenses for Account 932 (Maintenance of General Property). The ALJs normalized Wellsboro's rate case expense over three years. The ALJs recommended a 9.31 percent return on equity and a management adjustment adder of 25 basis points to the return on equity. The ALJs also adopted the Company's classification of a significant portion of upstream secondary distribution plant as customer-related in the ACCOSS. In addition, the ALJs adopted I&E's proposed revenue allocation and scale back proposal.

For the reasons set forth in these Exceptions and in the OCA's Main and Reply Briefs, the OCA respectfully submits that the ALJs erred by recommending acceptance of the various Wellsboro proposals as set forth above. Therefore, the OCA requests that the Commission grant these Exceptions and adopt the modifications and recommendations herein and in the OCA's Main and Reply Briefs on these issues.

II. EXCEPTIONS

OCA Exception No. 1: The ALJs Erred By Recommending That Wellsboro's End of Year Rate Base Proposal Be Accepted. (R.D. at 9-14; OCA M.B. at 11-16; OCA R.B. at 4-8)

In their Recommended Decision, the ALJs rejected that the OCA's average rate base proposal. R.D. at 9-11. The ALJs also denied the associated accumulated depreciation, depreciation expense adjustment, and the impact on Construction Work In Progress (CWIP). R.D. at 11-14. The ALJs principally relied upon the UGI Order and the Commonwealth Court's decision regarding the UGI Order. R.D. at 10; see, Pa. PUC v. UGI Utilities, Inc. –Electric Division, Docket No. R-2017-2640058 (Order entered Oct. 25, 2018); Tanya J. McCloskey, Acting Consumer Advocate v. Pa. PUC, Case No. 1529 C.D. 2018 (McCloskey). The ALJ's Recommended Decision states:

> Regarding the issue of the Company's use of a Fully Projected Future Test Year, we agree with the Company that using the FPFTY is appropriate and is supported by law. The Company correctly cites to the recent Commission decision in the *UGI Order*, wherein the Commission allowed the use of an FPFTY even though some of the utility plant in service might not be operational until the latter part of the FPFTY. We note here that the Commonwealth Court recently upheld the Commission's order on this issue on January 15, 2020. *See, McCloskey v. Pa. Pub. Util. Comm'n,* 1549 C.D. 2018 (Pa. Cmlwth. Jan. 15, 2020). Accordingly, the parties to this proceeding, and subsequent rate proceedings are bound by the Commission's holding in the *UGI Order*.

R.D. at 10. The OCA respectfully requests that the Commission consider the record and arguments here, on their own merits, which clearly show that the Company's earnings will be overstated if the end-of year method is used.

The ALJs' R.D. misstates the Commonwealth Court's conclusion in McCloskey regarding the UGI Order when they state that "subsequent rate proceedings are bound by the Commission's holding in the *UGI Order*." R.D. at 10. The Commonwealth Court did not conclude that all utilities are bound by its determination or that an average rate base could never be used. The Court instead

concluded that this was a matter within the Commission's discretion, and that the determination of Commission in that case was not clearly erroneous. The Court ultimately concluded that it would not disturb the Commission's decision based on the record before it. McCloskey at 24-29. As a matter of discretion, the OCA would urge the Commission to consider this record and the arguments here which clearly shows that the Company's earnings will be overstated if the end of test year method is used.

The OCA's evidence demonstrates the effect of the Company's proposal. OCA M.B. at 11-16. The ALJs' decision appears to erroneously conclude that the OCA's proposal would not allow the Company to use the FPFTY. OCA witness Morgan's proposal in this case would continue to allow the Company to use the FPFTY. The OCA submits that the ALJs have misunderstood the purpose of using the average rate base rate for the FPFTY. OCA witness Morgan explained the difference between using the end of test year plant in a FTY versus with the FPFTY:

> I continue to believe that average test year plant is appropriate to use for the FPFTY. In rate cases that predated Act 11, the revenue requirements of utilities were established based on FTY costs. Because the FTY ended at approximately the same time that new rates were scheduled to take effect, it was appropriate to make adjustments to reflect the end of the test year because those costs would have been incurred before the new rates went into effect. Adjusting plant balances to year end levels is not appropriate now that a FPFTY is being used to establish rates because those costs will not be incurred when new rates go into effect. Adjusting costs to end of rate year levels and beyond would result in the Company recovering costs from ratepayers that are in excess of the costs that will be incurred during the rate year. Therefore, the end of period balance should be rejected.

OCA St. 2-SR at 2. The average method properly reflects the fact that plant is added throughout the year and not all at once on the first day of new rates.

The ALJs also state that they see "no record evidence to show that the proposed rate base or rates are unjust or unreasonable." R.D. at 10. The ALJs also erroneously conclude that if the Company earns interest for the whole FPFTY on an asset that is not put in service until the end of

year, the Company will not be overearning on the investment in contravention of Section 1301 of the Public Utility Code. R.D. at 10. As pointed out in the OCA's Main and Reply Briefs and explained by OCA witness Morgan, the year-end method would be the equivalent of an individual making a deposit into an interest-bearing savings account on Day 365, but requiring the bank to pay interest beginning on Day 1. The bank would likely deny such a request because the interest is paid from the time of deposit, not one year in advance. See, OCA St. 1 at 4-5. Indeed, the individual would earn more interest than what he/she is entitled to.

In reaching their conclusion that the Company will not be over-earning, the ALJs adopted the Company's argument that the OCA's proposal would deny the Company rate recovery. R.D. at 10. The annual average method will not cut Wellsboro's earnings. Rather, the annual average method calculates the rate base by properly reflecting investments as they are made throughout the FPFTY and reflecting the return requirements as projects are placed in service throughout the FPFTY. It is, in fact, the Company that has not supported its end of test year method. The Company's only argument is that the annual average method would "blunt the purpose of using FPFTY." Wellsboro 1-R at 13. Indeed, the purpose of the FPFTY is to mitigate regulatory lag, not eliminate it, which is exactly what the average rate base method does.

It is the Company's burden, not the OCA's burden, to demonstrate that the rates charged to customers are just and reasonable. The record in this case shows that the Company has not met its burden. Allowing the Company to over-earn on plant will result in rates that are unjust and unreasonable in direct contravention of Section 1301 of the Public Utility Code. Section 1301 of the Public Utility Code requires that "[e]very rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or order of the commission." 66 Pa. C.S. § 1301. By law, a utility is only provided

with a "rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers as well as a reasonable return on its investment." City of Lancaster (Sewer Fund) v. Pa. PUC, 793 A.2d 978, 982 (Pa. Commw. 2002). The utility bears the burden of "proving the reasonableness of its rates" and proving the "reasonableness of those expenses which form the basis for its rates." Carnegie Nat'l Gas Co. v. Pa. PUC, 433 A.2d 939, 942 (Pa. Commw. 1981); see also, Keystone Water Co. White Deer Dist. v. Pa. PUC, 477 Pa. 495, 609-610 (1978)(addressing the inclusion of a specific plant in rate base). Allowing the Company to recover more than its necessary costs cannot be found to be just and reasonable.

The OCA submits that the reasons offered by the Company in support of utilizing an end of year rate base in the FPFTY do not justify requiring ratepayers to overpay the revenue requirement. For the reasons set forth in the OCA's Main Brief and Reply Brief and based upon the record presented in this case, the OCA requests that the Commission adopt the OCA's recommendation and approve the use of an average rate base. If the Commission adopts the OCA's proposed use of the average rate base, the accumulated depreciation, depreciation expense, and CWIP should be adjusted accordingly.

OCA Exception No. 2: The ALJs Erred By Addressing The OCA's Claim Regarding Plant Retirements As A Part Of The End Of Year Rate Proposal. (R.D. at 9-11; OCA M.B. at 16-17; OCA R.B. at 8-9).

In their Recommended Decision, the ALJs appear to have denied the OCA's claim regarding Wellsboro's plant retirements and corresponding effect on accumulated depreciation. R.D. at 9-11. The ALJs included the issue as a part of their summary of the OCA's position regarding average rate base and do not otherwise address the issue in their Recommended Decision. R.D. at 9. The OCA submits that the ALJs misunderstood the OCA's claim regarding the Company's plant retirements. The issue is not related to the OCA's claim regarding average

rate base. The OCA adjusted year-end FPFTY amounts for inclusion in rate base to reflect the use of the average rate base, but OCA witness Morgan did this to conform the adjustment to the calculation of the average rate base. The issue is not impacted by whether the average rate base or end-of-test year rate base is used, but instead, it is about the plant that is permitted to be included in rate base.

OCA witness Morgan modified the Company's proposed retirements and contributions of plant in service in the FTY and the FPFTY. OCA M.B. at 16-17; OCA R.B.at 8-9; OCA St. 2 at 4, Sch. LKM-1.OCA witness Morgan testified:

> As presented on Exhibit (HSG-1) Schedule C3, during the historical periods, the activity for each year includes plant additions and retirements in the determination of the year end balances for the FTY or the FPFTY. The exclusion of retirements causes the year end balances for the FTY or the FPFTY. The exclusion of retirements causes the year end balances to be overstated. Therefore, I have determined that it is necessary to adjust plant retirements and contributions in 2019 and 2020.

OCA St. 2 at 4, Sch. LKM-1.

The OCA submits that there is also a corresponding effect on accumulated depreciation. OCA witness Morgan, therefore, made a corresponding adjustment to the Accumulated Depreciation Balance to remove the effect of the retired plant in service. OCA St. 2 at 4. OCA witness Morgan testified:

> On Schedule LKM-1, I have adjusted the year-end Plant in Service and Accumulated Deprecation to reflect the removal of the plant retirement amounts for 2019 and 2020 of $270,000 and $800,000, respectively. These amounts were provided by the Company in response to data requests. After reflecting these reductions, the total adjustment to Plant in Service and Accumulated Depreciation is $1,070,430 and $1,111,730, respectively.

OCA St. 2 at 5, Sch. LKM-1 (footnote omitted).

In Rebuttal Testimony, OCA witness Gorman did not specifically address Mr. Morgan's recommendations with respect to plant retirements. See, Wellsboro St. 1-R at 12-13 (Gorman

discussion of response to OCA witness Morgan's plant in service, Materials and Supplies, Customer Deposits, removal of CWIP, use of average rate base in the FPFTY, and EDIT recommendations). In its Main Brief and Reply Brief, Wellsboro did not deny the exclusion of retirements, but only stated that the adjustments did not have a material impact on the Company's rate base claim. Wellsboro M.B. at 18; Wellsboro R.B. at 3. Without any further justification or argument, Wellsboro concludes that the Company's calculations of its Plant in Service and Accumulated Depreciation should be adopted without modification.

The ALJs' decision does not address the issue raised by the OCA. The Company has not addressed Mr. Morgan's concerns that the exclusion of retirements causes the year-end balances to be orchestrated. Whether the Company considers the impact to be minimal or significant, the Company cannot justify including overstated balances in rates. The OCA submits that the Company has failed to meet its burden of proof to demonstrate that its proposed calculation of Plant in Service and Accumulated Depreciation are accurate. The OCA requests that the Commission adopt the OCA's recommendation.

OCA Exception No. 3 The ALJs Erred By Recommending That OCA's Recommendation For Miscellaneous Distribution Expense (Account 588) Be Rejected And I&E's Be Accepted. (R.D. at 30-32; OCA M.B. at 25-27; OCA R.B. at 15-17)

In the R.D., the ALJs rejected the OCA's proposed adjustment to Wellsboro's Miscellaneous Distribution Expense, which would result in an $88,447 decrease to the Company's claim in Account 588. R.D. at 31. Instead, the ALJs accepted I&E's Account adjustment of $29,016. R.D. at 30.

Wellsboro's original claim for Account 588 equaled $219,007, with the Company specifically noting that based on YTD data from September 30, 2019, the expenses for this account were tracking above its projections. R.D. at 30. The Company cites new employee training and a

limited overall work force for the increase in this Account. Wellsboro M.B. at 45. The Company claims approximately 50% of its workforce has the potential of retiring within ten years and its anticipated turnover and possible need to train new employees justifies the increased projections. Wellsboro M.B. at 45.

I&E recommended an adjustment of $29,016 to the Company's claim. R.D. at 30. I&E's recommendation is based on an average of the three most recent historic years' "other" expense category[1] because the Company significantly increased its FPFTY "other" expense claim (+137.73%) over the HTY and this increase was not supported by the fluctuating trend experienced in the last three years. I&E Stmt. No. 1 at 15. Further, I&E stated the Company's claim was based on speculative assumption regarding the training expenses for new employees and Wellsboro did not provide any evidence that it is experiencing or will experience employee turnover that is not experienced historically. OCA R.B. at 12.

OCA recommends an adjustment of $88,147 to the Company's claim. OCA M.B. at 27. OCA witness Sherwood's recommendation is based on a three-year average (2015-2017) expense for the Account, due to the variance of expenses in the Account over the years. OCA M.B. at 25. OCA witness Sherwood further testifies:

[1] The "other" expense subcategory is for training new employees. I&E Reply Brief at 10.

> Although the overall budget for Account 588 is decreasing from HTY, the labor, overhead, and other expenses are still higher than in prior years (2015-2017). As noted in Table 1, the Company's FPFTY expenses are 168 percent, or $88,323, higher than the average expenses from 2015 through 2017.
>
> **Table 1. Wellsboro Account 588 Three-Year Average Expenses**
>
> | | 2015 - 2017 Average Expense | FPFTY Projected Expense | Variance | |
> |---|---|---|---|---|
> | Labor | $ 75,224 | $ 100,981 | $ 25,757 | 134% |
> | Overhead | 45,542 | 75,693 | $ 30,151 | 166% |
> | Other | 9,918 | 42,333 | $ 32,415 | 427% |
> | **Total:** | **$ 130,684** | **$ 219,007** | **$ 88,323** | **168%** |
>
> Source: Company response to I&E-RE-5-D.
>
> The Company cites new employee training and a limited overall work force as the reason for the increased cost; however, beyond the retirement of an employee in 2018, there appears to be no change in employees for 2019 and 2020. Furthermore, the new employee training costs are unlikely to continue in future years unless the Company plans to hire additional employees. Due to the variance of expenses in Account 588 over the years, I recommend that the three-year average (2015 – 2017) expense for this account. Using this methodology, I recommend that the total expense for Account 588 be $130,860.

OCA M.B. at 25.

While I&E witness Patel similarly calls attention to the lack of certainty surrounding future additions of new employees, his testimony does not make the full adjustment that is explained fully through OCA witness Sherwood. The OCA submits that based off the above analysis it is proper for the Commission to accept its adjustment of $88,147 to this account.

OCA Exception No. 4: <u>The ALJs Erred By Recommending That Wellsboro Maintenance of Overhead Lines / Vegetation Management (Account 593) Expense Claim Be Accepted.</u> (R.D. at 25-28; OCA M.B. at 27-28; OCA R.B. at 17.)

In the R.D., the ALJs recommended that the OCA's proposal to reduce Wellsboro's claim by $106,155 (equaling $563,460) be rejected and that Wellsboro's new claim of $616,619.33 be

approved. R.D. 29-30. The OCA submits that the ALJ's findings are in error and that the Commission should not adopt the ALJ's recommendation as to the Company's maintenance of overhead lines and vegetation management expense claim.

The Company made an original claim of $669,615 for maintenance of overhead lines for the FPFTY. OCA St. 1 at 7; OCA M.B. at 27. This claim was $168,687 or 14 percent higher than the expenses in the HTY. Id. According to the Company, the increased costs are due to maintenance and repair of damage dealt to trees in Wellsboro's service territory by the onslaught of the Emerald Ash Borer. OCA M.B. at 27. However, the Company's position fails to account for the fact that vegetation contractor costs have, and will continue to vary by year.

OCA witness Sherwood explained why the Company's claim was not reasonable, as follows:

> The Company's FTY annualized expense of $563,460 is on par with the expense recognized in 2017 ($563,909), but higher than those recognized in 2018 ($500,930). The Company's FPFTY projection was $669,615, but based upon their revised projections is now $580,364, using the annualized FTY expenses plus a three percent adder. It is evident that the Company's original projection is higher than necessary. If the 2019 accelerated tree trimming costs are normalized, to reflect how the costs are typically incurred, then the Company's projected increase in 2020 expenses by $60,000 is likely offset.
>
> Based upon the historical expenses for Account 593, it would appear that the adjustment I made to reduce the budget to $523,261 may result in under recovery of these costs. Therefore, I recommend using the Company's annualized expense for 2019 as the budget for FPFTY. I am not multiplying it by the adder, as OCA witness Morgan has objected the use of the adder.

OCA M.B. at 27. Additionally, I&E argued that an adjustment is appropriate stating "it is apparent that the Company experienced a fluctuating trend. . ." I&E St. 1 at 17.

The ALJs found that the proposed increase "in vegetation management expenses is due to a known and measurable change, in particular, the impact that the Borer will have on this account . . ." R.D. at 26. However, as discussed in the OCA's Main Brief, this account is prone to substantial fluctuation as shown through previous years. The Company has offered unsupported estimates that are contrary to actual experience. As a result, OCA witness Sherwood's recommendation to average the vegetation management contractor costs for three years, 2016 through 2018, is reasonable given the inherent inconsistency in this account. The OCA submits that the Commission should reject the ALJs' recommendation as to the Company's overhead line and vegetation management expense claim and adopt the OCA's proposal to average the inconsistent results and reduce the amount of this claim accordingly.

OCA Exception No. 5: The ALJs Erred By Adopting The Company's Annualized Nine-Month Expenses For Account 932 (Maintenance of General Property). (R.D. at 40-41; OCA M.B. at 29-30; OCA R.B. at 18-19)

In the R.D., the ALJs recommended that the Company's proposed claim for Maintenance of General Property be adopted. R.D. at 40-41. The ALJ erroneously relied upon the nine-month actual data and accepted the Company's claim for $68,546, based upon the annualized end of year 2019 data. R.D. at 41.

The Company projects that the total cost of maintenance of general property will be $90,199. R.D. at 40. This expense is $27,492, or 44 percent, higher than the expense in the HTY. OCA St. 1 at 10. The Company cites to no particular project that would justify the proposed increase or why the expenses would vary from year to year. OCA St. 1 at 10. OCA witness Sherwood testified:

> Without justification for the increase in expense, I recommend that the three-year average of 2016-2018 other expense plus the remaining FTY expenses be used to calculate the expense for the FPFTY. The FTY expense levels are used to remove

> the Company's inflation factor…This would result in Account 932 FPFTY other expense decreasing from $72,100 to $46,957.

OCA St. 1 at 10.

The Company did not specifically address OCA witness Sherwood's recommendation in Rebuttal Testimony. The OCA's adjustments to Account 932 result from lack of justifications by the Company. The ALJs rely entirely upon the Company's nine-month annualized expenditures for 2019 and disregard the Company's historical experience and state that it is justified since the OCA's adjustment would "not cover the actual $51,409 expense incurred for the Account as of September 30, 2019." R.D. at 41. As OCA witness Sherwood testified:

> While the Company has adjusted its O&M expenses based on the annualized expense for the FTY, that does not mean that it is an appropriate adjustment. During the year, there can be aberrations in the incurred expenses, including one-time or emergency expenses that should be adjusted when forecasting for the FPFTY. The Company is accepting the expenses based on nine-months of expense levels and then adding the average quarterly account expenses; essentially ignoring the historical expense trends associated with the individual accounts. As with any year, there is potential for the FTY expenses to be considered along with known and measurable increases when setting rates.

OCA St. 1-SR (Revised at 5-6)

The ALJs's R.D. disregards the historical experience of Wellsboro in place of the Company's nine-month annualized expenditure. The OCA submits that the Commission should reject the ALJs' recommended adjustment and adopt the OCA's recommended adjustment.

OCA Exception No. 6: The ALJs Erred In Recommending That Wellsboro's Rate Case Expense Be Normalized Over Three Years. (R.D. at 41-45; OCA M.B. at 30-31; OCA R.B. at 19)

In the R.D., the ALJs' recommended that Wellsboro's rate case expense be normalized over three years as proposed by the Company. R.D. 41-45. The OCA submits that a three-year normalization period is inconsistent with both Commission precedent and the Company's filing frequency. As detailed in the OCA's Main Brief, in past rulings, the Commission utilized the

actual filing history to establish the normalization period for rate case expense. OCA M.B. at 30-31.

The Company justifies its proposed three-year normalization period by citing the lack of forecasted future load growth, increased capital expenses and tree trimming costs for the three-year normalization period. OCA M.B. at 30. OCA witness Sherwood recommends a more appropriate 45-month normalization period. Ms. Sherwood explained why a 45-month normalization period is more appropriate as follows:

> There is Commission precedent to utilize the average period between rate cases to determine the normalization of the rate case expense, as I have done to calculate the normalization period in this case. This method is not to penalize or discourage the Company from filing a rate case as needed, rather it is a way to match the expense recovery over the average period of time of when cases are filed. Therefore, I maintain my recommendation to utilize a 45-month normalization period. Additionally, as with the Company's concern regarding under-recovery, there is concern for over-recovery of rate case expense if the Company does not file within the time period.

OCA St. 1-SR (Revised) at 11.

It is generally accepted that the purpose of a rate case normalization period is to spread costs over the actual frequency that the Company files rate cases. OCA M.B. at 30-31. Moreover, the Commission has consistently held that rate case expenses are normal operating expenses, and normalization should, therefore, be based on the historical frequency of the utility's rate filings. Popowsky v. Pa. PUC, 674 A.2d 1149, 1154 (Pa. Commw. 1996); Pa. PUC v. Columbia Water Co., 2009 Pa. PUC LEXIS 1423 (2009); Lancaster Sewer, 2005 Pa. PUC LEXIS *84; Pa. PUC v. National Fuel Gas Distribution Corp., 84 Pa. PUC 134, 175 (1995); Pa. PUC v. Roaring Creek Water Co., 73 Pa. PUC 373, 400 (1990); Pa. PUC v. West Penn Power Co., 119 PUR4th 110, 149 (Pa. PUC 1990). In recent cases the Commission reiterated that the normalization period is

determined, "by examining the utility's actual historical rate filings, not upon the utility's intentions." Pa. PUC v. City of Lancaster – Bureau of Water, 2011 Pa. PUC LEXIS 1685, *56-57 (Lancaster 2011); Pa. PUC v. Metropolitan Edison Co., 2007 Pa. PUC LEXIS 5 (2007); Lancaster Sewer, 2005 Pa. PUC LEXIS *84; Pa. PUC v. City of Dubois – Bureau of Water, Docket No. R-2016-2554150 (Order entered May 18, 2017, at 65) (City of Dubois).

By changing the normalization period, OCA witness Sherwood is recommending an adjustment of $21,734, this adjustment is reflected in OCA schedule SLS-8. OCA M.B. 30-31; App. A, Table II. Wellsboro has historically filed a rate case every 48 months on average. R.D. at 42. Wellsboro has not supported its claim that a shortened normalization period is appropriate. The OCA therefore recommends that the ALJ's recommendation to adopt the Company's proposed three year normalization period be rejected and the OCA's 45-month normalization period be utilized.

OCA Exception No. 7: The ALJs Erred By Recommending A 9.31% Return On Equity For Wellsboro. (R.D. at 47-81; OCA M.B. at 33-62; OCA R.B. at 21-32)

In the R.D., the ALJs recommended that the OCA's proposed Return on Common Equity of 8.38% be rejected. R.D. at 80-81. Instead the ALJs recommended that Wellsboro be awarded an ROE of 9.74%, adjusted down to 9.31%.[2] R.D. at 80-81. The ALJs based their recommendation roughly on size and performance adjustments. R.D. 67-80. The OCA submits that the recommendation to award Wellsboro an ROE of 9.31% is both inconsistent with the evidence and inconsistent with the low-cost capital environment, therefore should not be adopted.

[2] Wellsboro is limited to a revenue increase of $999,999.00, therefore the ALJs recommended 9.74% ROE was adjusted to 9.31%. R.D. at 81.

A. Introduction

In determining their recommended return on equity, the ALJs held that following Commission precedent and contrary to the Company's position, the DCF should be the primary method used to determine the ROE. R.D. at 53. Furthermore, the ALJs held the CAPM method is appropriate to check the reasonableness of the DCF results. R.D. at 53. Company witness D'Ascendis initially recommended an ROE of 11.15%, which was later adjusted to 10.30%. Wellsboro M.B., Table 2 at 59; OCA M.B. at 33. OCA witness Dr. Habr recommends an ROE of 8.38% and I&E witness Spadaccio recommends an ROE of 8.10%. See, OCA M.B. at 39. As explained in more detail in OCA's Main Brief, Dr. Habr's analysis of the cost of common equity for similar risk utility operations persuasively supports a cost of equity of 8.38%.

B. The ALJs Erred In Utilizing The Upper Range DCF Results To Accommodate The Company's Desired Size Adjustment

While the Company used four methods to determine the cost of equity, the ALJs affirmed that the "Commission has traditionally utilized the DCF method, with the CAPM method as a check." R.D. at 58. The ALJs determined that with each parties DCF results being similar and reasonable, to adopt Wellsboro's. R.D. at 64. Furthermore, regarding Wellsboro's DCF results, the ALJs stated we "note the standalone CAPM ROE and DCF ROE were both 8.27%, thus making Mr. D'Ascendis' DCF analysis appears reasonable." R.D. at 67.

The Company proposed a 100-basis point size adjustment to account for its perceived additional risks due to operating as a smaller utility. OCA St 3 at 29-30; OCA M.B. at 58. In its Main Brief, the Company suggests that it would be appropriate for them to receive up to a 470 basis point adjustment in compensation for the size of the Company. R.D. at 67.

The Company argues that investors demand greater returns to account for the size risk associated with the Company. R.D. at 67. However, as detailed further in OCA's Main Brief, Dr.

Habr appropriately disposes of the Company's argument and further testifies that a size adder to ROE would be unduly burdensome for ratepayers. See, OCA M.B. at 58-59. More specifically, Dr. Habr found that, after review of all the Company testimony on the subject, the economic literature presented by the Company in an attempt to bolster its position, actually, more accurately supports a downward adjustment. Dr. Habr explained:

> The size premiums on Schedule DWD-8, page 1 do not tell the whole story. Duff & Phelps also provides the OLS (ordinary least squares) betas associated with each of the size deciles shown on this page. Table -6 below shows the size premium and OLS beta for each size decile from an earlier Duff & Phelps study.

Table -- 6 Duff & Phelps Size Premium and Associated OLS Betas

	Market Capitalization ($Mil)			
Decile	Low	High	Size Premium	OLS Beta
1	$24,361.659	$609,163.498	-0.35%	0.92
2	$10,784.101	$24,233.747	0.61%	1.04
3	$5,683.991	$10,711.194	0.89%	1.11
4	$3,520.556	$5,676.716	0.98%	1.13
5	$2,392.689	$3,512.913	1.51%	1.17
6	$1,571.193	$2,390.899	1.66%	1.17
7	$1,033.341	$1,569.984	1.72%	1.25
8	$569.279	$1,030.426	2.08%	1.30
9	$263.715	$567.843	2.68%	1.34
10	$2.516	$262.891	5.59%	1.39

Source: Duff & Phelps, Valuation Handbook, 2017, p. 7-11 and Appendix 3.

> When the OLS betas and size premiums for all ten deciles are taken into account, it is clear that regulated utility companies have more in common with the first decile.
>
> What this table shows is that positive size premiums are associated with OLS betas that are greater than one. All of the utility holding companies in the proxy groups in this proceeding have betas that were calculated using ordinary least squares and have values less than one. This suggests that if any adjustment is made for size, it should be negative rather than positive.

OCA St 3 at 29-30 (footnote omitted); OCA M.B. 58-59.

Dr. Habr further commented on the proposed size adjustment:

> Utility customers should not be required to pay higher costs associated with inefficient utility operations. If a utility company chooses to operate at such a small scale that its cost of common equity is truly increased, there is no reason for the utility's captive customers to pay any increased costs resulting from the utility's inefficient size.

OCA St. 3 at 29-30.

I&E opposes the unnecessary size adjustment as well. I&E witness Spadaccio testified that the Company's size adjustment is unnecessary because none of the technical literature the Company cites to in support is specific to the utility industry. I&E M.B. at 50-51. Furthermore, I&E cites an article stating a size adjustment for risk is not applicable to utility companies. I&E M.B. at 50-51.

Nonetheless, the ALJs were persuaded by the Company that "there is a general inverse relationship between size and risk . . ." R.D. at 74. The ALJs further stated "we are unable to conclude whether size is or is not a risk for utilities although, generally, size does seem to be a risk factor for companies. Ultimately, we must conclude that smaller companies face size risk and Wellsboro is a smaller company." R.D. at 75. The OCA disagrees with the ALJs' reasoning here, essentially claiming that because size is a risk factor for companies in general, it is equally a risk factor to utilities. Such a proposition conflicts with solid ratemaking principals, especially considering the fact that utilities are natural monopolies and are to be treated as such.

While the ALJs agree to the principle presented by the Company, they hesitated to assign a specific number to the size adjustment, instead suggesting, "that the Company's ROE be based upon the higher end of the DCF range. This ensures that we utilize a market-based result while acknowledging the risk of a small utility." R.D. 76. Further the ALJs state:

> We recommend use of a one standard deviation range of 7.05% to 9.49% based on the average of Wellsboro mean and median constant growth DCF results. We note that the top of Wellsboro range falls below the top of the range for both I&E and OCA. Accordingly, we shall utilize a 9.49% to represent our DCF results. The charts below summarize the results of the DCF range.

R.D. at 76.

The ALJs' adoption of the higher end of the DCF range violates the OCA's CAPM limits. As explained more fully in OCA's Main Brief, Dr. Habr states:

> [T]he CAPM/Risk Premium model yields maximum common equity estimates when it is applied assuming the bond betas equal zero as done in this case. Thus, the combined CAPM/Risk Premium median 8.76% and 8.92% average provide an upper limit for common equity cost rates. All of the measures of central tendency (medians and averages) for my DCF analysis fall below these values.

OCA M.B. at 53.

Additionally, the ALJs adopted the Company's CAPM analysis which OCA witness Dr. Habr found to be unreasonable. As described in more detail in OCA's Main Brief, Dr. Habr refuted Mr. D'Ascendis' CAPM analysis because Mr. D'Ascendis relied on an average 3.36% 30-year treasury yield based on a period covering the second quarter of 2019 through 2029. OCA St. 3 at 34; OCA M.B. at 55. Dr. Habr explains that the purpose of a test-year in utility regulation is to match the costs incurred that year with the services provided during that year. OCA St. 3 at 34; OCA M.B. at 55. Test-year costs are not based on costs that may exist during some period in the future. Id. To rectify this problem, Dr. Habr substituted the 2.66% 30-year treasury yield that was used in Dr. Habr's CAPM/Risk Premium analysis. The columns in Table – 8 from OCA St. 3 at 34 (OCA M.B. at 56) representing the Electric Company proxy group demonstrate the impact of this change in the 30-year treasury rate.

The ALJs found the Company's DCF range of 7.05-9.49% to be reasonable. The average and the median for that range both equal 8.27%. Additionally, OCA's DCF results, which the ALJs also found to be reasonable, equaled 8.38% and I&E's equaled 8.10%. OCA M.B. at 39. It is the position of the OCA that a recommendation based on a DCF result of 9.49% is unreasonable given the DCF range presented by the parties in this proceeding. Accordingly, the OCA submits that the recommendation of the ALJs to base the Company's ROE upon the higher end of the DCF range should not be adopted.

OCA Exception No. 8: The ALJs Erred By Recommending A Management Effectiveness Adjustment Adder Of 25 Basis Points To Wellsboro's Return On Equity. (R.D. at 77-81; OCA M.B. at 59-60; OCA R.B. at 29-30.)

In the R.D., the ALJs recommend adoption of Wellsboro's proposed 25 basis point management effectiveness adder. R.D. at 77-81. In rejecting the OCA's proposal, the ALJs recommended that Wellsboro be awarded the full 25 basis point adder. Id. The OCA submits that the Management Effectiveness adder is unsupported and should not be granted.

As detailed more fully in OCA's Main Brief, the Commission should reasonably expect regulated utilities to provide safe, adequate, efficient and reasonable service in accordance with the utilities' public service obligation. OCA M.B. at 60. Accordingly, proposals such as Wellsboro's "Management Effectiveness Adjustment" should be carefully scrutinized and only awarded in truly exceptional circumstances. The OCA submits that the record in this matter does not support the ALJs' recommended 25 basis point adder.

The ALJs' recommended 9.49% base ROE award is well above what the record here supports. Adding another 25 basis points on top of that already overinflated ROE is neither reasonable nor fair to the ratepayers, and is certainly not required to attract capital. OCA witness

Dr. Habr explained that a management bonus is not a factor for reasonable investment decision making, as follows:

> I found descriptions of management doing the job they are expected to do. That is, they are taking actions any successful company has to take to efficiently maintain its operations and provide satisfactory customer service. Regulated utilities are expected to operate efficiently and should not be given a rewarded for doing what is expected.

OCA M.B. at 59.

Additionally, I&E witness Spadaccio argued against granting Wellsboro's 25-basis-point adder, as follows:

> Ultimately, for any company, true management effectiveness is earning a higher return through its efficient use of resources and cost cutting measures. The greater net income resulting from growth, cost savings, and true efficiency in management and operations is available to be passed on to shareholders. I do not believe that Wellsboro or Citizens' should be granted additional basis points for doing what they are required to do in order to provide adequate, efficient, safe, and reasonable service.

OCA M.B. at 59.

The OCA submits that the record in this matter does not support the award of an additional financial adder based on management performance. Accordingly, the Commission should reject the ALJs' acceptance of Wellsboro's request for an additional 25 basis point ROE adder.

OCA Exception No. 9: The ALJs Erred By Adopting The Company's Improper Classification Of A Significant Portion Of Upstream Secondary Distribution Plant As Customer-Related in the ACCOSS. (R.D. at 87-92; OCA M.B. at 68-77; OCA R.B. at 34-38)

A. Introduction

In the R.D., the ALJs recommended that the OCA's proposed modifications to the Allocated Class Cost of Service Study (ACCOSS) not be adopted in this matter. R.D. at 92. Instead, the ALJs recommended that Wellsboro's ACCOSS should be accepted and used as a guide

to set rates in this matter. R.D. at 92. The OCA accepted many aspects of the Company's ACCOSS, including Mr. Gorman's classification of primary distribution as demand-related and classification of services and meters as customer-related. See, OCA M.B. at 68; OCA R.B. at 34. OCA witness Mierzwa proposed modifications to the Company's ACCOSS to change the Company's classification of a significant portion of the secondary distribution plant upstream of meters and services as customer-related. OCA M.B. at 68-77; OCA R.B. at 34-38. As OCA witness Mierzwa explains, the secondary portion of upstream distribution plant should be classified as 100% demand-related. OCA St. 4 at 4, 10; OCA M.B. at 69-70; OCA R.B. at 34-38. In addition to concerns about the classification of a significant portion of the secondary distribution plant upstream of meters and services as customer-related, OCA witness Mierzwa also identified flaws in Mr. Gorman's application of the methodology. The ALJs' Recommended Decision in this case relies upon the determinations in the UGI Order and PPL 2012, but ignores the significant flaws in the methodologies as applied by Company witness Gorman in this case. R.D. at 91-92, citing UGI Order at 160; Pa. PUC *et al.* v. PPL Electric Utility Corp., Docket No. R-2012-2290597 (Order entered Dec. 28, 2012)(PPL 2012).

The ALJs state that the methods that it has utilized in this proceeding are similar to UGI and PPL, and the arguments made by the OCA are the same arguments that the OCA made in the prior proceedings. R.D. at 92. Contrary to the ALJs' conclusion in their Recommended Decision, the arguments made here are not identical to the arguments made in the UGI Order proceeding or the PPL 2012 Order proceeding. The arguments here are based upon the flaws in the analysis performed by Company witness Gorman in this proceeding. For the reasons set forth in Mr. Mierzwa's testimony and in the OCA's briefs, the OCA does not agree with the Company's classification of portions of the secondary distribution plant as customer-related. The OCA

submits, however, even if one were to accept that a portion of secondary distribution plant should be classified as customer-related, Mr. Gorman's methodologies are still flawed and cannot be relied upon for use in this proceeding.

Company witness Gorman classifies a significant portion of secondary distribution plant as customer-related using two methodologies to determine the customer-related component. OCA M.B. at 70. Mr. Gorman uses a minimum system approach to estimate the customer-related portion of line transformers and what he terms a "zero-load analysis" to estimate the customer-related portion of all other upstream secondary distribution plan (poles; towers; fixtures, overhead conductors and devices; underground conduit; and underground conductors and devices). OCA St. 4 at 9. In determining the classification for secondary distribution plant as customer-related, however, Company witness Gorman failed to account for how the distribution system is engineered and how it is designed to work on a day-to-day basis.

These flaws make the ACCOSS unsuitable to rely upon as a guide to setting rates in this matter. The OCA's proposed ACCOSS more accurately follows the principles of cause causation. The OCA submits that the Commission reject the ALJs' recommendation and adopt the OCA's modified ACCOSS.

B. Mr. Gorman's Zero-Load Analysis Is Flawed.

The ALJs' R.D. erred in failing to recognize the impact of the fundamental flaws identified by OCA witness Mierzwa in the "zero-load analysis" performed by Mr. Gorman. R.D. at 91-92. Company witness Gorman performed what he referred to as a "zero-load analysis" to determine a customer-related portion of secondary distribution plant other than line transformers. Mr. Mierzwa explained the process that Mr. Gorman used to perform his "zero-load analysis":

> Mr. Gorman has examined what appears to be the installed replacement costs of poles, overhead conductors and underground conductors. He has disaggregated

> these installed costs into two categories: labor-related (i.e., all costs except materials), and the cost of material. He then assumes that all of the labor-related costs are customer-related, while the materials costs are demand-related. The basis for this division, as explained in the 2016 base rate proceedings of Wellsboro and Citizens', is that "The portion of total installation costs that are labor-related (i.e., all costs except material) is a zero-load system because a system with no material costs would have zero load-carrying capability. Since this "Zero-Load Component" has no load-carrying capacity, no adjustment to the demand allocators is proposed by Mr. Gorman.

OCA St. 4 at 11 (footnote omitted).

The "zero-load analysis" performed by Company witness Gorman is fundamentally flawed and cannot be relied upon by the Commission. OCA witness Mierzwa explained the problem with this analysis as follows:

> I would agree that the installation of no material would result in a system that has zero load-carrying capability. But, at the same time, I cannot envision a system that has no material (i.e., no actual conductor and no actual poles) connecting customers to the system, which is the basic concept behind classifying some portion of upstream secondary distribution plant as customer-related. There are no facilities to connect the customer to the system. Further, the very idea of sending a crew out to undertake work to construct a secondary distribution system with no material has no basis.
>
> When a distribution line is upgraded, the costs of doing so are integrated. If new conductor is added, or new poles installed, there is no rationale in trying to separate out the costs of labor, vehicle and overhead as customer-related while only the costs of the poles and conductor are related to demand. Without the poles and the conductor there would be no distribution line upgrade, and that upgrade was no doubt required because the expected future coincident demand to be imposed on those facilities required the upgrade. Mr. Gorman's separation of these installation costs into customer- and demand-related is artificial, and merely has the effect of shifting cost responsibility to those classes with numerous small customers.

OCA St. 4 at 11.

As can be seen, Mr. Gorman's "zero-load analysis" has no basis in how secondary distribution costs are actually incurred or the reason for the incurrence of such costs. Secondary distribution plant costs are incurred to meet the coincident loads of customers and the size and costs are a function of the diversity of customers' loads and expected future coincident loads. OCA

St. 4 at 10. The artificial assumptions used by Mr. Gorman improperly shift cost responsibility and must be rejected.

C. Company Witness Gorman's Minimum System Analysis For Classifying A Portion Of Line Transformers As Customer-Related Is Flawed.

The ALJs' R.D. also does not address the flaws identified by OCA witness Mierzwa in Mr. Gorman's minimum system analysis. R.D. at 91-92. In addition to the "zero-load analysis," Mr. Gorman also used a minimum system analysis for the portion of secondary distribution. A minimum system method hypothetically reconstructs the distribution system with the smallest size poles, conductors, and transformers possible. In this case, the minimum system method was applied to the line transformers. The cost of the hypothetical system is deemed to be customer-related and the remaining actual cost is deemed to be demand-related. OCA St. 4 at 9. Even if, as the Company has done here, a partial customer classification was appropriate, the Company's minimum system study to determine the customer percentage for line transformers is flawed. The ALJs' decision in this case does not examine these flaws.

Company witness Gorman's methodology does not reflect how coincident load drives the transformer costs. Nor does Mr. Gorman's analysis account for the load-carrying capability of the hypothetical minimum system. As OCA witness Mierzwa explained:

> For Wellsboro, the minimum size transformer was determined to be a 10 kVa transformer serving one customer…He then multiplies this minimum size transformer cost for each of the Companies by the number of line transformers on the system to arrive at the portion of total line transformer costs that he defines as customer-related. As indicated earlier, there is no direct relationship between the number of customers and the cost of line transformers. The total transformation capacity will depend upon the coincident loads that must be met by the local neighborhood distribution systems. The reasons for making transformer investments are the need to meet those local coincident loads. Finally, the so-called minimum size transformer has significant load-carrying capability and so the investment is not made simply to connect the customer to the system. For all of these reasons, Mr. Gorman's classification of these costs should be rejected and 100 percent of these costs should be classified as demand-related.

OCA St. 4 at 12.

Company witness Gorman's minimum system analysis is flawed because it fails to reflect that the number, size, and costs of transformers will depend on the diversity of loads of the customers in a locality, the mix of customers served in the area, the density of the population, and the general configuration of the distribution system in the locality. OCA St. 4 at 12. Mr. Gorman presents no evidence to demonstrate the correlation between the length or mileage of Wellsboro's secondary distribution system and the number of customers served by Wellsboro's system. OCA St. 4-SR at 2. Moreover, the size of the transformer that Mr. Gorman has deemed minimum, in fact, has significant load carrying capability. For these flaws in the analysis, the OCA submits that Mr. Gorman's proposed minimum system analysis for line transformers should be rejected.

D. Conclusion

In their Recommended Decision, the ALJs' did not appropriately consider the flaws in Company witness Gorman's "zero-load analysis" and minimum system analysis. Those flaws create an unreliable ACCOSS and should not be used in this proceeding. OCA witness Mierzwa has presented a modified ACCOSS which classifies upstream secondary distribution plant as 100 percent demand-related. See, OCA M.B. at 74-77; OCA St. 4 at 15-16, Sch. JDM-3. As described on pages 74 to 77 of the OCA's Main Brief, OCA witness Mierzwa's modified ACCOSS does not contain these flaws and should be adopted. OCA's M.B. at 74-77.

OCA Exception No. 10: The ALJs Erred By Adopting I&E's Proposed Revenue Allocation. (R.D. 92-105; OCA M.B. at 77-83; OCA R.B. at 38-42).

In the R.D., the ALJs improperly recommended that the OCA's revenue allocation be rejected and that I&E's proposed revenue allocation be approved. R.D. at 103-105. The OCA

submits that the ALJs' findings are in error and that the Commission should not adopt the ALJs' recommendation as to revenue allocation.

Company witness Gorman's proposal provided for a rate decrease of 19.9 percent for the POL rate class and only a 1.2 percent increase for the MSL rate class when other rate classes are experiencing significant rate increases. OCA St. 4 at 18. OCA, I&E, and OSBA all agreed that a rate decrease was not appropriate. OCA St. 4 at 19; I&E St. 3 at 26; OSBA St. 1 at 7-8. Although the ALJs do not approve Wellsboro's proposed rate decrease for Rate POL, in dicta, the ALJs specifically reject the idea that a rate decrease is not appropriate. R.D. at 103.[3] The ALJs state that "a proposed revenue allocation is reasonable if it moves distribution rates for each class closer to the full cost of providing service." R.D. at 103.

The ALJs adopted I&E's proposed allocation. I&E witness Cline's proposal eliminates the rate decrease for the POL rate class. I&E St. 3 at 26. Mr. Cline proposed to eliminate the $245 assigned to the MSL rate class, and use the remaining $16,930 to reduce the CS rate class increases rather than reducing the rate increases for all classes. OCA St. 3 at 26.

In support of their decision, the ALJs cited Lloyd v. Pa. PUC, 904 A.2d 1010 (Pa. Commw. 2004) (Lloyd) noting that the "primary goal in revenue allocation is to have rates reflect the actual cost of service," but this is an inaccurate interpretation of Lloyd. R.D. at 92. Lloyd provides that the cost of service is a "polestar" for revenue allocation, or merely a "guide."[4] Lloyd also provides that other factors, including gradualism, avoidance of rate shock, and fundamental fairness, may be taken into consideration. Lloyd at 1020-1021. In Pa. PUC v. City of DuBois-Bureau of Water,

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[3] The OCA does not agree that a rate decrease is appropriate for the reasons set forth at pages 77 to 83 of the OCA's Main Brief and pages 38 to 42.

[4] Polestar is a literary reference meaning "guide." The American Heritage Dictionary, Houghton Mifflin Co. (1985).

Docket No. R-2016-25541150 (Order entered May 18, 2017)(City of DuBois), the Commission recognized this point. The Commission stated, "while Lloyd establishes cost of service as the polestar of ratemaking, it does not preclude consideration of other factors." City of DuBois at 26; OCA M.B. at 78. Because cost of service studies are more of an art form rather than a science, it is appropriate to consider factors such as gradualism in assessing the reasonableness of a proposed revenue allocation.[5]

While the ALJs acknowledge these other factors and the City of DuBois case, the ALJs do not appear to give appropriate weight to these other factors in their analysis. R.D. at 93, 103. The ALJs conclude that I&E's proposed revenue allocation best considers and balances these factors. R.D. at 104. The OCA does not agree. The ALJs state that "OCA's recommendation should be rejected as it would provide relief to classes whose relative rates of return are already below 1.0 – and therefore not generating sufficient revenue to recover the costs the utility spends to serve those class [sic]." R.D. at 105. This, however, does not properly reflect the principle of gradualism.

The OCA submits that it is clear from the ALJs' discussion that the ALJs are not appropriately applying principles of gradualism. In testimony, OCA witness Mierzwa discussed his concerns with I&E witness Cline's proposal and why it was not applying the principles of gradualism for the other rate classes. While the rate classes may still be below 1.0, the rate classes under Mr. Mierzwa's proposal, including Rate POL, do move towards cost of service. In particular, I&E witness Cline's proposal does not consider gradualism. OCA witness Mierzwa testified:

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[5] See, Application of Metropolitan Edison Co. for Approval of Restructuring Plan Under Section 2806 of the Public Utility Code, 1998 Pa. PUC LEXIS 160, *159 (1998); Pa. PUC v. Pa. Power & Light, 55 P.U.R. 4th 185, 249 (Pa. PUC 1983); Pa. PUC v. Aqua, Pa., Inc., Docket No.R-0072711 (Order entered July 31, 2008).

Wellsboro has provided a system average increase in distribution rates of 19.5%. Under the initial revenue distribution proposed by Wellsboro, the CS rate class was assigned an increase of 10.7 percent, and the MSL rate class was assigned an increase of 1.2 percent. The rate increase proposed by Wellsboro for several other rate classes approaches 30 percent. Under Mr. Cline's proposal, the rate increases for the CS and MSL rate classes would be reduced to 9.4 percent and 0.0 percent, respectively. Given the significant increases proposed for the other rate classes, I believe a revenue distribution that provides for additional gradualism, such as the proposal I have made, is more reasonable than Mr. Cline's proposal.

OCA St. 4-R at 3.

The OCA's proposed revenue allocation will move classes towards the cost of service. Therefore, the OCA's revenue allocation properly reflects movement towards the indicated cost of service, while also reflecting the important factor of gradualism. The OCA's proposed revenue allocation at Wellsboro's filed revenue increase is as follows:

Table 4. Wellsboro Electric Company – OCA Proposed Revenue Distribution

Class	Present Rates	Proposed Rates	Increase	Percent
RS	$2,619,792	$3,249,171	$629,379	24.0%
RSAE	25,825	32,931	7,106	27.5
NRS	390,322	455,866	65,544	16.8
NRH	1,395	1,788	393	28.2
CS	1,322,797	1,461,702	138,905	10.5
CSH	1,109	1,420	311	28.0
IS	656,296	812,409	156,113	23.8
MSL	20,906	21,147	241	1.2
POL	86,066	86,066	0	0.0
EU	7,813	9,788	1,975	25.3
Total:	**$5,132,321**	**$6,132,288**	**$999,967**	**19.5%**

OCA St. 4 at 19.[6]

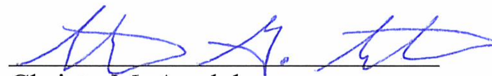
[6] As discussed in Exception No. 12 below, the Commission should proportionately scale-back the increase for each class. OCA St. 4 at 19.

The OCA submits that while cost of service should guide the Commission when setting rates in this proceeding, other ratemaking principles such as gradualism, avoidance of rate shock, and basic fairness must not be abandoned. The OCA further submits that its proposed revenue allocation appropriately reflects movement toward the class cost of service and reflects gradualism. Therefore, the OCA requests that the Commission reject the ALJs' recommendation and adopt the OCA's proposed revenue allocation.

III. CONCLUSION

For the reasons set forth above and in these Exceptions, and the OCA's Main and Reply Briefs, the OCA requests that the Commission grant these Exceptions and adopt the modifications and recommendations herein and in the OCA's Main and Reply Briefs.

Respectfully Submitted,



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