

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	DOCKET NO. R-2010-2179522
	:	
DUQUESNE LIGHT COMPANY	:	

**OFFICE OF SMALL BUSINESS ADVOCATE
STATEMENT IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT**

I. Introduction

The Office of Small Business Advocate (“OSBA”) is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50) to represent the interests of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission (“Commission”).

II. Filing Background

On or about July 23, 2010, Duquesne Light Company (“Duquesne” or the “Company”) filed proposed Tariff Electric-Pa. P.U.C. No. 35 with the Commission. The Company’s July 23rd filing requested an additional \$87.3 million in annual distribution rate revenue.

On August 12, 2010, the OSBA filed a Complaint and a Public Statement against the proposed increase. On September 16, 2010, the Commission entered an Order at this

docket which suspended the proposed increase for investigation. As a result, the filing was suspended by operation of law through April 21, 2011.

A pre-hearing conference, at which a procedural schedule was established, was held on September 24, 2010. The OSBA, and other parties, filed Direct Testimony on October 22, 2010. Specifically, the OSBA filed the Direct Testimony of its witness, Brian Kalcic. Rebuttal Testimony was filed by the OSBA and other parties on November 17, 2010. Surrebuttal Testimony was filed by the OSBA and other parties on December 1, 2010.

The OSBA participated in the negotiations that led to the Joint Petition for Settlement (“Settlement”) and is a signatory to the Settlement. The OSBA submits this statement in support of the Settlement.

III. OSBA’s Principal Concerns

In its Complaint, Prehearing Memorandum, and testimony, the OSBA identified several issues of concern, including the following:

1. Whether the Company’s proposed 11.25% Return on Equity is excessive;
2. Whether the Company’s proposed cost-of-service methodology is appropriate;
3. Whether the Company’s proposed class revenue distribution properly moves all classes closer to their respective cost of service indications; and
4. Whether the Company’s proposed rate design for its GS/GM and GH classes comports with traditional rate design principles.

IV. Settlement

The Settlement sets forth a comprehensive list of issues which were resolved through the negotiation process. This statement outlines the OSBA's specific reasons for concluding that the Settlement is in the best interests of small business customers.

A. Distribution Revenue Requirement

1. Summary

In its initial filing, Duquesne proposed a distribution revenue increase of \$87.3 million per year.¹ In the Settlement, Duquesne has agreed to a revenue increase of \$45.7 million per year.² At a time when all types of utility service are becoming more expensive, the significant reduction in the distribution revenue increase provided by the Settlement will benefit Duquesne's small business customers.

2. Return on Equity

In analyzing the Company's filed request for an \$87.3 million distribution rate increase, OSBA witness Brian Kalcic opposed Duquesne's proposed return on equity ("ROE") of 11.25%. Specifically, Mr. Kalcic testified, as follows, that the Company's awarded ROE should be significantly lower:

Counsel advises that the PPL Electric base rate case at Docket No. R-00049255, and the Metropolitan Edison Company ('Met-Ed') and Pennsylvania Electric Company ('Penelec') consolidated base rate case at Docket Nos. R-00061366 & R-00061367 (respectively), represent the two (2) most recent litigated [electric base rates] proceedings. I am further advised that the Commission awarded PPL Electric an ROE of 10.70% (Opinion and Order entered December 22, 2004) and Met-Ed / Penelec an ROE of

¹ Duquesne Statement No. 7 at 6.

² Settlement, Para. 26.

10.1% (Opinion and Order entered January 11, 2007) in those proceedings.³

* * *

In general, interest rates and capital costs have declined since late 2004. For example, in December 2004, the prime lending rate (charged by banks to their most credit-worthy customers) was 5.00%. Today, the prime lending rate stands at 3.25%. [footnote omitted] Logically, this suggests that the baseline 10.70% ROE awarded to PPL Electric in Docket No. R-00049255 should act as the cap or ceiling on the ROE awarded to the Company in this proceeding.⁴

As Mr. Kalcic testified, “a reduction in Duquesne’s requested ROE from 11.75% to 10.70% would reduce the Company’s requested increase by \$7.7 million, i.e., from \$87.3 million to \$79.6 million.”⁵

In addition, Mr. Kalcic testified that Duquesne’s filing failed to include any increase in revenue from late payment charges. As Mr. Kalcic explained, these revenues will increase as the Company’s underlying rates increase.⁶ Therefore, the \$79.6 million revenue requirement should be further reduced by \$360,000 to \$79.240 million.⁷

Furthermore, in rebuttal testimony, Duquesne accepted numerous adjustments which lowered its revenue requirement by \$11.684 million.⁸ These conceded

³ OSBA Statement No. 1 at 10.

⁴ OSBA Statement No. 1 at 11.

⁵ OSBA Statement No. 1 at 11.

⁶ OSBA Statement No. 1 at 9.

⁷ OSBA Statement No. 3 at 5.

⁸ OSBA Statement No. 3 at 5.

adjustments would lower the OSBA's revenue requirement cap from \$79.240 million to \$67.556 million.

The Settlement revenue requirement of \$45.7 million is well below the "cap" proposed by the OSBA.

B. Rate Schedules

Currently, Duquesne serves over 97% of its customers on three rate schedules, *i.e.*, Rate RS-Residential Service, Rate RH-Residential Service Heating, and Rate GS/GM-General Service Small and Medium.⁹ In its filing, Duquesne proposed to split Rate GS/GM into three rate schedules: a) Rate GS, which will be available to non-demand metered general service customers; b) Rate GM (< 25 kW), which will be available to demand metered general service customers with monthly demands less than 25 kilowatts; and c) Rate GM (\geq 25 kW), which will be available to demand metered general service customers with monthly demands greater than or equal to 25 kilowatts. As explained in Mr. Kalcic's direct testimony, the OSBA agrees that the Company's proposed split of GS/GM is appropriate.¹⁰

C. Distribution Revenue Allocation

In its filing, Duquesne proposed a revenue allocation that purportedly moved all classes closer to cost of service as measured by the class cost of service indicators.¹¹ However, as noted by Mr. Kalcic in his direct testimony, Duquesne's proposed revenue allocation was problematic, in part because the degree of movement (towards cost of

⁹ OSBA Statement No. 1 at 3.

¹⁰ OSBA Statement No. 1 at 3.

¹¹ Duquesne Statement No. 14 at 5-6.

service) varied by rate class.¹² Additionally, Mr. Kalcic noted that Duquesne's initial proposal would have resulted in some classes (Rates RH and RA) receiving distribution increases which equate to 1.75 times the requested system average increase in distribution rate revenue, which exceeds the typical limit of 1.5 times the system average increase as suggested by traditional customer impact guidelines.¹³

In an effort to move all classes closer to cost and to minimize rate shock, Mr. Kalcic proposed an alternative allocation of the distribution rate increase at the Company's full revenue requirement. Mr. Kalcic began by assigning each class its cost-based increase calculated by using the Company's cost of service study ("COSS"). He then adjusted those results to prevent any class from receiving an increase that was greater than 1.5 times the system average increase and to prevent any class from receiving a rate decrease.¹⁴ In rebuttal testimony, the Company revised its COSS to reflect certain modifications and corrections.¹⁵ Therefore, in surrebuttal, Mr. Kalcic updated his revenue allocation recommendation to reflect the Company's modifications to its COSS, but he applied the same parameters as he did in his direct testimony. Mr. Kalcic's updated alternative revenue allocation is set forth in Schedule BK-2S of his surrebuttal testimony.

Table 1 (below) displays the OSBA's revenue allocation proposal for the small business classes at the Settlement revenue requirement of \$45.7 million.

¹² OSBA Statement No. 1 at 6.

¹³ OSBA Statement No. 1 at 7.

¹⁴ OSBA Statement No. 1 at 8.

¹⁵ Duquesne Statement No. 13R at 2.

Table 1
OSBA Recommended Increases at
Settlement Revenue Level
(\$000)

Class	Present Revenue	OSBA Recommended Increase 1/	Percentage Increase
GS	\$5,512	\$1,012	18.4%
GM<25 kW	\$21,099	\$3,873	18.4%
GM≥25 kW	\$50,036	\$3,868	7.7%
GMH	\$7,145	\$1,311	18.3%

Source: Schedule BK-2S.

1/ Increase derived by scaling back column 2 of Sch. BK-2S by the ratio of \$45.700 divided by \$75.616.

Table 2 (below) displays Duquesne's litigation position regarding the allocation of the Settlement revenue requirement among the small business classes.

Table 2
Duquesne Proposed Increases at
Settlement Revenue Level
(\$000)

Class	Present Revenue	Duquesne Proposed Increase 1/	Percentage Increase
GS	\$5,512	\$1,025	18.6%
GM<25 kW	\$21,099	\$3,924	18.6%
GM≥25 kW	\$50,036	\$5,491	11.0%
GMH	\$7,145	\$1,154	16.2%

Source: Schedules BK-1 & BK-2S.

1/ Increase derived by scaling back column 2 of Sch. BK-1 by the ratio of \$47.919 divided by \$89.549, so that the Company's proposed *decreases* to Rates SE and SL remain unchanged.

Table 3 (below) compares the litigation positions of the OSBA and Duquesne to the Settlement revenue allocation on a dollar basis.

Table 3
 Comparison of OSBA and Duquesne Litigation Positions
 to Settlement Increases
 (\$000)

Class	OSBA Recommended	Duquesne Proposed	Settlement Increase
GS	\$1,012	\$1,025	\$1,012
GM<25 kW	\$3,873	\$3,924	\$3,863
GM≥25 kW	\$3,868	\$5,491	\$4,505
GMH	\$1,311	\$1,154	\$1,292

Source: Tables 1 & 2 and Appendix B to Settlement.

Table 4 (below) compares the litigation positions of the OSBA and Duquesne to the Settlement revenue allocation on a percentage increase basis.

Table 4
 Comparison of OSBA and Duquesne Litigation Positions
 to Settlement Percentage Increases

Class	OSBA Recommended	Duquesne Proposed	Settlement Increase
GS	18.4%	18.6%	18.4%
GM<25 kW	18.4%	18.6%	18.3%
GM≥25 kW	7.7%	11.0%	9.0%
GMH	18.3%	16.2%	18.1%

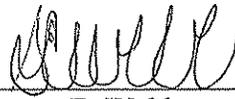
Source: Tables 1 & 2 and Appendix B to Settlement.

As shown in Table 4, the Settlement results in an increase which is virtually the same as the OSBA recommended for GS, GM <25 kW, and GMH. For GM≥25 kW, the Settlement results in an increase of 9%, which is a compromise between the positions of the OSBA and the Company and which moves GM≥25 kW closer to cost of service than proposed by the Company.

V. **Conclusion**

For the reasons set forth in the Joint Petition itself, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed Settlement and respectfully requests that the ALJ and the Commission approve the Settlement in its entirety and without modification.

Respectfully submitted,



Sharon E. Webb
Assistant Small Business Advocate
Attorney ID No. 73995

For:

William R. Lloyd, Jr.
Attorney ID No. 16452
Small Business Advocate

Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101
(717) 783-2525

Dated: January 7, 2011