

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
 : DOCKET NO. R-2014-2428743
v. :
 :
PENNSYLVANIA ELECTRIC COMPANY :

REBUTTAL TESTIMONY

OF

RALPH C. SMITH

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

DECEMBER 18, 2014

1 **I. INTRODUCTION**

2 **Q. Please state your name, position and business address.**

3 A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates,
4 PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

5

6 **Q. Are you the same Ralph C. Smith who filed Direct Testimony in this case on**
7 **behalf of the Pennsylvania Office of Consumer Advocate (“OCA”) to review the**
8 **rate requests of the FirstEnergy electric distribution utilities (“FE” or**
9 **“Companies”)?**

10 A. Yes. I filed Direct Testimony in this case on behalf of the OCA on November 24,
11 2014.

12

13 **Q. What is the purpose of your Rebuttal Testimony?**

14 A. The purpose of my Rebuttal Testimony is to respond to certain recommendations
15 from Bureau of Investigation and Enforcement ("I&E") witness Boyd concerning a
16 storm damage reserve account with a rider.

17 **II. STORM DAMAGE RESERVE AND RIDER**

18 **Q. How will your testimony be organized?**

1 A. I will first summarize my understanding of Ms. Boyd's recommendations concerning
2 a storm damage reserve account and rider and the functioning of an accounting
3 reserve for storm costs. I will then explain areas of agreement and disagreement
4 with those recommendations, and will present the OCA's recommendations on these
5 issues.

6
7 **Q. What does Ms. Boyd recommend in her direct testimony regarding**
8 **FirstEnergy's claim for a Storm Damage Charge Rider (Rider B)?**

9 A. Focusing on her testimony in the Met-Ed rate case concerning the Storm Damage
10 Charge Rider (Rider B)¹, she recommends that the Companies' Rider B be
11 disallowed and that Companies revisit this issue in a separate proceeding after the
12 appeal is decided for a Storm Damage Expense Rider (SDER) that the Commission
13 approved for PPL Electric Utilities Corporation (PPL) in Docket No. R-2012-
14 2290597, but which is currently being challenged in court.

15 Even without consideration of the PPL appeal, she recommends that the
16 Companies' Rider B should be disallowed because it places no limit on the type of
17 storm expenses to be reimbursed and makes no distinction between ordinary storm
18 occurrences and those that would be deemed reportable or extraordinary (p. 23).

19 She also disagrees with the creation of a §1307(a) Rider for storm recovery in
20 general. She indicates that her recommendations are consistent with I&E's position
21 in the PPL SDER proceeding that any storm management should be in form of self-

¹ Ms. Boyd's testimony in the Met-Ed case on these issues contains discussions for the other three FirstEnergy utilities related to Rider B and the storm damage reserve.

1 insurance with a reserve account established via a base rate and/or a rider funding
2 mechanism (p. 23-24).

3
4 **Q. What does Ms. Boyd recommend in her direct testimony for a Storm Damage**
5 **Reserve Account for the FirstEnergy Companies?**

6 A. Again focusing on her testimony in the Met-Ed rate case concerning a Storm
7 Reserve Account², she recommends establishing a storm reserve account to be
8 funded from base rate storm damage expenses with an established upper limit equal
9 to a 5-year average of actual storm expenses (p. 24).

10 She states that the Companies' requested base rate storm expenses would not
11 provide adequate margin to establish a reserve account in a reasonable timeframe.
12 She indicates that there is a need to increase base rate storm expense amounts to
13 pursue a reserve account storm funding alternative. (p. 25). However, this
14 conclusion appears to be based upon including extraordinary storm expenses in the
15 five-year average.

16
17 **Q. Does OCA agree with Ms. Boyd's recommendation that the Companies'**
18 **proposed Rider B should be disallowed?**

19 A. Yes. OCA's position is that storm costs are properly addressed in utility base rate
20 proceedings and that the Companies' proposed Rider B should therefore be rejected.
21 Storm damage expenses should continue to be recovered through base rates, not
22 through use of a rider. For any extraordinary storm damage expenses, the

² Her testimony on the storm reserve is similar in concept in all four of the current FirstEnergy utility rate cases.

1 Companies can file a deferral petition with the Commission. This system has
2 worked well in the past and should continue to be used going forward.

3
4 **Q. Does OCA agree with Ms. Boyd's proposed functioning of a storm damage
5 reserve account?**

6 A. Not completely. OCA is not categorically opposed to the establishment of a storm
7 damage reserve account if shown that such an accounting mechanism is necessary,
8 but does oppose certain aspects of its functioning which appear to be encompassed
9 within I&E witness Boyd's recommendations, such as funding the storm damage
10 reserve with a surcharge.

11
12 **Q. Please elaborate on the functioning of a storm damage reserve account.**

13 A. In concept, a storm damage reserve account would function similarly to an Injuries
14 and Damages reserve account that has been used in ratemaking in the past. Expense
15 accruals for storm damage would be recorded to build up a reserve, and costs would
16 be charged against the reserve account when incurred. The reserve account and the
17 level of costs would be reviewed in the utility's base rate cases. Amounts over or
18 under the funding level in the reserve account are addressed in the subsequent base
19 rate case. There would not be any related surcharge, and the annual accrual amounts
20 would not be adjusted between utility base rate cases. Issues concerning the
21 determination of a normalized amount of storm costs would be addressed in utility
22 base rate cases.

1 **Q. What procedures would apply if a utility experiences an extraordinary storm**
2 **during the period between rate cases?**

3 A. The same standard procedure that has been used in Pennsylvania for decades would
4 continue to apply. That procedure involves the utility submitting a petition to the
5 Commission for deferred accounting for extraordinary storm damage. As history has
6 shown, the PUC typically approves these petitions for deferred accounting, but
7 cautions that no decision is being made at that time as to whether those costs can
8 actually be collected in the utility's next base rate case. In response to such utility
9 deferral petitions, the Commission has traditionally only approved the utility's ability
10 to defer the costs and to seek recovery in the next base rate case. To address recovery
11 of storm costs, as was done in these current FirstEnergy utility rate cases, the utility
12 files a base rate case and seeks to collect those costs over some amortization period,
13 and the issues concerning storm cost recovery are addressed in the utility's base rate
14 case.

15
16 **Q. I&E witness Boyd recommends (at page 24) establishing "a storm reserve**
17 **account to be funded from the base rate storm damage expenses with an**
18 **established upper limit equal to a five-year average of Company actual storm**
19 **expenses." Please address that part of the I&E recommendation.**

20 A. OCA does not see a compelling need in the current FirstEnergy rate cases to
21 establish a storm reserve account, and thus does not recommend that one be
22 established for these utilities in the current rate cases. The traditional procedure of
23 having utilities apply for deferred accounting for extraordinary storms has

1 functioned acceptably and there is no compelling need to establish a new reserve for
2 storm costs.

3 However, if a storm reserve is to be established, the establishment of a storm
4 reserve with an upper limit equal to a five-year average of Company actual storm
5 expenses (and excluding costs for extraordinary storms) could be one reasonable
6 way to establish a storm reserve.

7
8 **Q. If a five-year average of storm expenses were to be used to establish a storm**
9 **reserve, should the five-year average include or exclude costs for extraordinary**
10 **storms?**

11 A. The average should reflect expenses for all storm events except for “extraordinary”
12 storms, i.e., that the cost of "extraordinary" storms should be excluded from an
13 average that is used for this purpose. The issue of whether costs for extraordinary
14 storms, which are being recognized via the deferral and amortization process, should
15 be included in or excluded from the five-year average based limit to be used for the
16 storm accrual is a related issue and would need to be addressed if a reserve accrual
17 approach is to be implemented. Care is needed to avoid duplicative recovery of
18 utility storm costs via a combination of amortizations and reserve accruals. Costs for
19 extraordinary storms should continue to be treated as an anomaly, and not as a
20 normal recurring operating expense, or in an average that is used as the basis for
21 setting storm reserve accruals. The fact that some storms are so extreme as to be
22 extraordinary is why the Commission allows deferred accounting treatment for those
23 unusual events. Ultimately, since the deferral and amortization process currently in

1 use appears to be functioning appropriately, as noted above, there is no compelling
2 need to establish storm reserve accruals for these utilities at this time.

3

4 **Q. I&E witness Boyd (at page 24) also recommends that: "The reserve account**
5 **would have an associated rider mechanism to either refund the base rate**
6 **expense amount not required to fund annual expenses or the reserve balance.**
7 **Likewise, if the reserve account and annual base rate storm expense was**
8 **inadequate to fund a particular year's storm costs, the rider could be used in**
9 **the subsequent year to recover the shortage." Does the OCA support creation**
10 **of a storm reserve that involves a rider mechanism or surcharges to ratepayers?**

11 A. No. There should not be a rider mechanism associated with the storm reserve
12 account, if one is to be established. Having an "associated rider mechanism" is not
13 necessary for the proper functioning of a storm reserve account. Also, having a
14 "rider mechanism" for a storm reserve account is not substantially different than a
15 rider mechanism for utility recovery of storm costs. The reserve account (if one is to
16 be established) and the related level of costs, should be reviewed in the utility's base
17 rate cases, as were the injuries and damages reserve accounts. There would not be
18 any related surcharge or rider mechanism, and the annual storm reserve accrual
19 amounts would not be adjusted between utility base rate cases. Issues concerning
20 the determination of a normalized amount of storm costs would be addressed
21 periodically in utility base rate cases and the reserve accruals would only be adjusted
22 in utility base rate cases.

23

1 Q. Does this conclude your rebuttal testimony?

2 A. Yes, it does.

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VERIFICATION

I, Ralph C. Smith hereby state that the facts above set forth in my Rebuttal Testimony, OCA Statement No. 1 is true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Signature:



Ralph C. Smith

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DATED: December 18, 2014

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