

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REBUTTAL TESTIMONY
OF
CLARENCE L. JOHNSON

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

DECEMBER 18, 2014

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I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Clarence L. Johnson. My business address is 816 Congress Avenue, Suite
3 1900, Austin, Texas 78701.

4 **Q. ARE YOU THE SAME CLARENCE L. JOHNSON WHO SUBMITTED DIRECT**
5 **TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE OFFICE OF**
6 **CONSUMER ADVOCATE?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. My testimony will rebut class cost allocation and class revenue distribution testimony of
10 intervenor witnesses including: Mr. Kalcic and Mr. Knecht, on behalf of the Office of
11 Small Business Advocate ("OSBA"), Mr. Baudino, on behalf of AKSteel, Mr. Pollock on
12 behalf of industrial intervenors ("WPPH", "PICA," and "MEIUG"), and Mr. Chriss on
13 behalf of WalMart and Sam's Club East. In addition, my testimony will address
14 Investigation and Enforcement (I&E) witness Apetoh's recommended customer charge
15 and revenue scale back proposal. Omission of any witness' recommendations should not
16 be construed as agreement with the witness' testimony.

17 **Q. PLEASE DESCRIBE HOW YOU ADDRESSED THE VARIOUS WITNESSES'**
18 **TESTIMONY AS IT AFFECTS THE FOUR FIRSTENERGY (FE) COMPANIES**
19 **REQUESTING A RATE INCREASE.**

20 A. Like my direct testimony, the rebuttal testimony will address issues which are common to
21 all four FE companies. If numerical values are specific to each utility, the values will be
22 presented in a manner which clearly identifies the associated company. Most of the

1 witnesses filed testimony addressing issues common to all of the companies. Issues
2 which are specific to a company will be addressed and identified separately. Given the
3 number of witnesses and companies, I grouped positions advocated by multiple witnesses
4 together in order to facilitate an orderly response to those issues.

5 **Q. CAN YOU SUMMARIZE YOUR CONCLUSIONS?**

6 A. Yes. My conclusions are summarized below.

- 7 • Mr. Pollock's recommendation to shift certain primary distribution line costs onto
8 secondary classes should be rejected.
- 9 • Mr. Baudino's recommendation to shift certain West Penn substation costs onto
10 classes with customers taking service below 23 kV should be denied.
- 11 • Correction of the errors in West Penn Power's class cost of service study does not
12 alter my conclusion that the residential class is paying a higher than average relative
13 rate of return.
- 14 • I oppose the testimony of witnesses seeking to allocate a higher proportion of the
15 revenue increase to the residential class, because that result is inconsistent with the
16 OCA recommended CCOS study.
- 17 • I&E's proposal for a non-uniform revenue scale back should be denied.
- 18 • I correct three errors in I&E's customer charge calculation; as a result, Mr. Apetoh's
19 proposed customer charges should be significantly reduced.

20 **II. CLASS COST OF SERVICE (CCOS) STUDY MODIFICATIONS**

21 ***A. POLLOCK RECOMMENDATION***

22 **Q. BRIEFLY EXPLAIN HOW THE ELECTRIC UTILITY SYSTEM**
23 **DIFFERENTIATES FACILITIES WHICH OPERATE AT DIFFERENT**
24 **VOLTAGES.**

25 A. The highest voltage is used by the transmission system to deliver power from generation
26 plants to the distribution system. The power at transmission voltage enters the
27 distribution system through substation facilities which transform the power to primary
28 distribution voltage. Primary lines carry power at the higher level primary distribution

1 voltages throughout the system. Some commercial and industrial customers are primary
2 customers because they take power at primary voltage. Most customers can only use
3 power at lower secondary voltages. Primary lines transmit power to the secondary
4 network, where transformers transform the voltage to lower secondary voltages. From a
5 CCOS study perspective, primary and secondary customers share cost responsibility for
6 the primary lines and substations, while only secondary customers are allocated
7 secondary transformers and line costs. Demand allocation factors allocate primary and
8 secondary demand-related costs on the basis of classes' share of non-coincident peak
9 demand (NCP), which is based on total maximum demands for each class.

10 **Q. WITH THIS BACKGROUND, CAN YOU DESCRIBE THE**
11 **RECOMMENDATION OF WITNESS POLLOCK WHICH YOU WILL**
12 **ADDRESS?**

13 A. Yes. Mr. Pollock identifies certain primary customers who are located near or adjacent to
14 a substation and therefore require a single voltage transformation at the substation. He
15 suggests that these customers require a shorter primary voltage line to connect to the
16 substation, and, as a result, have no responsibility for the larger network of primary lines.
17 As described above, the Company's CCOS study allocates primary line accounts to both
18 primary and secondary customers. Mr. Pollock would prefer grouping these customers in
19 a separate customer class which is not allocated any primary facility costs other than
20 substations. However, for purposes of this case, he recommends that the identified
21 customers should receive a credit equal to his calculation of allocated primary line cost.

1 **Q. DO YOU AGREE WITH HIS RECOMMENDATION?**

2 A. No. As I understand his recommendation, the demands for these customers would be
3 removed from the primary line allocation factors, which would shift costs to other
4 customer classes who share responsibility for the primary line costs. Consequently, the
5 amount of primary costs allocated to secondary customer classes would increase if his
6 recommendation is adopted. If the impact of Mr. Pollock's discount or credit was limited
7 to primary customers—in effect, treated as an intra-class issue—I would not object to his
8 recommendation. An intra-class adjustment does not affect cost allocation among
9 customer classes, but instead limits cost shifting to customers within the class.

10 **Q. DOES MR. POLLOCK'S RECOMMENDATION RAISE REGULATORY**
11 **POLICY QUESTIONS?**

12 A. Yes. Average cost rate making is based on the premise that individual cost differences
13 among customers will be averaged across rates, meaning that individual characteristics of
14 geography, terrain, or location may result in individual customers paying average costs
15 which are higher or lower than costs derived from their particular circumstances. For
16 instance, given the lack of density, longer distances, and terrain, rural customers are
17 frequently more costly to serve than urban customers. Yet most regulatory commissions
18 are averse to de-averaging rates on a geographic basis to reflect this cost differential. Mr.
19 Pollock's proposal raises the issue of geographic or locational pricing. The location of
20 the customer adjacent to the substation is the basis for identifying customers who are
21 exempted from primary line allocation. To the extent that these customers require a
22 primary line, even if the span is not a significant length, it is problematic to exempt the
23 customers from the allocation of the primary line account. For example, one could make

1 a similar argument that customers near the end of a primary feeder should pay a higher
2 cost than a customer near the originating point of the line. The former customer requires
3 more length of wire, more poles, and perhaps necessitates a larger sizing of the line.
4 However, that kind of de-averaging of distribution costs would require complex pricing
5 and would be viewed by most regulators as inconsistent with rate principles applicable to
6 utility networks. The question is, “where should the Commission draw the line between
7 permissible and impermissible de-averaging of costs?” In my view, the Commission has
8 not been presented with sufficient information and detail regarding the cost
9 circumstances of the customers identified by Mr. Pollock.

10 ***B. WEST PENN CCOS STUDY***

11 **1. Errors in the WPP CCOS Study**

12 **Q. DOES THE FILED CCOS STUDY OF WEST PENN CONTAIN ERRORS?**

13 A. Yes. My direct testimony referenced certain errors in the West Penn study. In addition,
14 further errors beyond those cited in my initial testimony are discussed in the testimony of
15 Mr. Pollock, Mr. Knecht, and Mr. Baudino. Mr. Baudino, in particular, presented a
16 CCOS study which attempted to correct “admitted” errors in the Company’s study, and
17 contends that the corrections “reveal a major shift in customer class cost responsibility.”
18 Subsequently, West Penn provided an interrogatory response which included a revised
19 CCOS study that made the corrections discussed in Mr. Baudino’s testimony.¹ The
20 revised CCOS study provided by West Penn indicates that Mr. Baudino’s CCOS study
21 overstates the magnitude of change in relative rates of return associated with the
22 corrections. For that reason, I will refer to the results from the Company’s revised study.

¹ Confidential AKS IV-4, Attachment B.

1 Q. HAVE YOU REVIEWED THE IMPACT OF THE CORRECTIONS ON YOUR
2 CCOS STUDY RESULTS?

3 A. Yes. The residential class continues to produce relative rates of return well above the
4 system average. The table below shows the residential relative rates of return based on
5 OCA's primary recommendation rejecting WPP's minimum grid study and alternate
6 recommendation which adjusts the minimum grid study, reducing the customer
7 classification percentage.²

8 **Residential Class Relative Rates of Return**

	Before WPP CCOS Correction	After WPP CCOS Correction
9 OCA's Classification	179%	147%
10 Of Accts 362 – 368		
11 On Demand		
12		
13		
14		
15 OCA's Alternative	118%	107%
16 Classification Based		
17 On Modifying Minimum		
18 Grid Study		

19 A relative rate of return above 100% means that the class rate of return exceeds
20 the system average rate of return.³ Even with the West Penn error corrections, the OCA
21 CCOS study demonstrates that the residential class should be assigned a revenue
22 allocation percentage below system average. My preliminary review indicates that the
23 proposed class revenue allocation set out in my direct testimony is largely unaffected by

² The alternate method adjusts customer percentages by correcting the application of the minimum grid method and reflecting only labor installation expenses related to minimum size components.

³ The relative rates of return at present rates for all classes, with the OCA adjustments to the customer classification, are shown in Schedule CJ-R-2 (WP).

1 the CCOS error correction. However, I will continue to evaluate the impact of the West
2 Penn CCOS changes on my class revenue allocations.

3 **2. Mr. Baudino's Modification of the WP CCOS Study**

4 **Q. HAS MR. BAUDINO PROPOSED A MODIFICATION TO THE ALLOCATION**
5 **FACTORS IN THE WEST PENN CCOS STUDY?**

6 A. Yes. Mr. Baudino proposes to create a different allocation method for substation costs
7 based on whether the customer class is served at a voltage of 23 kV or higher. The
8 impact is to exempt primary customers at 23 kV or higher from the allocation of
9 substations which provide power only to primary customers below 23 kV and/or
10 secondary customers. The effect of this change is to shift additional substation costs onto
11 primary customer classes below 23 kV and residential and general service classes.

12 **Q. DO YOU AGREE WITH MR. BAUDINO'S PROPOSED ADJUSTMENT TO THE**
13 **WEST PENN CCOS STUDY?**

14 A. No. His proposal is problematic for many of the same regulatory policy concerns stated
15 in my rebuttal of Mr. Pollock's proposal. The extent that some substations serve only
16 customers above 23 kV can result from the geographic proximity of those customers to
17 particular substations. The selection of a 23 kV demarcation within the primary class
18 appears somewhat opportunistic. Furthermore, Mr. Baudino could not cite specific
19 support from the NARUC Electric Utility Cost Allocation Manual for his proposal.⁴ In
20 addition, West Penn Power's current planning procedures provide for designing and
21 sizing substations so that it can provide support for adjacent substations in the event of

⁴ AKSteel Response to WPP-II-3.

1 outage conditions.⁵ Although this capability may not apply to some of the existing
2 substations due to historical and geographic constraints, the current practice demonstrates
3 that substations are viewed as part of an integrated distribution network.

4 **Q. IF MR. BAUDINO'S RECOMMENDATION IS ADOPTED, WOULD IT**
5 **CHANGE YOUR POSITION THAT THE RESIDENTIAL CLASS SHOULD BE**
6 **ASSIGNED A BELOW SYSTEM AVERAGE PERCENT INCREASE?**

7 A. No. Even if his allocation method is adopted, the residential class relative rate of return
8 is 133%, based upon rejecting minimum distribution system, as recommended in my
9 testimony. As stated previously, the comparable relative rate of return without Mr.
10 Baudino's proposed CCOS adjustment is 147%. Although the cost-shifting resulting
11 from his position reduces the residential class relative rate of return, if OCA's CCOS
12 study is adopted, the residential class cost position continues to exceed system average.

13 III. CLASS REVENUE INCREASE ALLOCATION

14 **Q. DO YOU DISAGREE WITH THE VARIOUS WITNESSES' CLASS REVENUE**
15 **INCREASE RECOMMENDATIONS?**

16 A. Yes. The witnesses propose a variety of different methods for spreading the companies'
17 proposed revenue increases among the customer classes. Witnesses Baudino, Pollock,
18 Kalcic, Knecht, and Apetoh each claim that their method is superior to the Companies'
19 proposed revenue distribution at moving classes toward the CCOS target. The witnesses'
20 recommendations generally increase the residential class revenue increase relative to the
21 Companies' proposal. By contrast, my proposal recommended below system average
22 percentage increases to the residential class.

⁵ WPP-OCA-VIII-9.

1 **Q. WHY DO YOU OBJECT TO THE WITNESS RECOMMENDATIONS WHICH**
2 **INCREASE THE PROPOSED REVENUE DISTRIBUTION TO THE**
3 **RESIDENTIAL CLASS?**

4 A. All of the recommendations are based on the Companies' class cost of service study. If
5 the CCOS modifications proposed in my direct testimony are adopted, each of these
6 witnesses' recommended revenue increase proposals will move the residential class
7 farther from cost. My testimony recommended the following changes: (1) classify 100%
8 of poles, conductors, underground facilities, and transformers on the basis of demand; (2)
9 allocate uncollectibles on the basis of revenues; and (3) modify the allocation of accounts
10 908 and 910. The most significant modification is the demand classification change for
11 distribution facilities. As shown in my initial testimony, OCA's recommended CCOS
12 study demonstrates that the residential class present revenues produce relative rates of
13 return substantially above 100%; class relative rates of return above 100% indicate that
14 the class should be assigned a revenue increase below the system average increase. As an
15 alternative to rejection of the minimum distribution system method, my testimony
16 presented alternate CCOS results that reflect a higher demand classification (and
17 consequently a lower customer classification) of distribution facilities than the
18 Companies' CCOS study. This revision also produces residential class rates of return in
19 excess of the system average rate of return. The table below shows the residential
20 relative rates of return (RROR) at present rates based on OCA's proposed adjustments to
21 the CCOS study.

1 **Residential RROR at Present Rates**

2	RROR Per Company Filing⁶		RROR Per OCA Calculation
3	ME	71%	181%
4	PN	77%	180%
5	PP	88%	154%
6	WPP	71%	147%

7 Therefore, the residential class revenue increase should be set less than the system
8 average percentage increase based on the OCA CCOS results; in contrast, the
9 Companies' proposal assigns a higher than system average increase to the residential
10 class. Inasmuch as the previously cited witnesses propose to increase the residential rate
11 increase even higher than the Companies' request, those recommendations are clearly at
12 odds with the results of the OCA CCOS study, or any other CCOS study which is
13 adjusted to materially decrease the customer classification of jointly used distribution
14 infrastructure.

15 **Q. PLEASE EXPLAIN WHY THE CCOS CHOICES RELATED TO THE**
16 **MINIMUM DISTRIBUTION SYSTEM ARE CRITICAL TO THE REVENUE**
17 **ALLOCATION.**

18 A. The minimum distribution system (called "minimum grid" by FirstEnergy) is a
19 theoretical construct applied to the CCOS study which classifies a percentage of poles,
20 conductors, underground facilities, and transformers as customer-related. The customer
21 classification transfers a disproportionate amount of plant cost to the residential class,
22 which is allocated close to 90% of customer-related costs. The minimum distribution
23 system is intended to represent a hypothetical distribution system based on minimum size
24 components which have little or no demand-carrying capability. The customer

⁶ Note that this includes the corrected WPP version (as opposed the WPP filed version).

1 classification percentages are very sensitive to the proper selection of minimum size
2 facilities in the minimum distribution system. OCA's principal recommendation is to
3 classify the jointly used distribution facilities on a demand basis. OCA's alternative
4 recommendation adjusts the cost of minimum size components used in the minimum
5 distribution study because the companies' studies are based on facilities with significant
6 demand carrying capability. The appropriate direction of revenue allocation for the
7 residential class (above or below system average increase) is highly dependent on the
8 resulting customer classification percentages.

9 **Q. DID ANY OF THE OTHER WITNESSES' REVENUE INCREASE**
10 **RECOMMENDATIONS TAKE INTO ACCOUNT THE DEFICIENCIES IN THE**
11 **CCOS STUDY MINIMUM DISTRIBUTION SYSTEM CUSTOMER**
12 **CLASSIFICATION?**

13 A. Not really. OSBA witness Knecht conducted a comparative review of the Companies'
14 minimum distribution method and resulting customer classification. His conclusion is
15 consistent with my testimony to some extent, finding that the Companies' method utilizes
16 components which are not minimum-sized and produces a relatively high customer
17 classification. Although his testimony indicates some skepticism of the Companies'
18 methodology, Mr. Knecht accepted the Companies' customer classification and utilized
19 the Companies' CCOS study in developing a recommended class revenue distribution.
20 None of the other witnesses addressed the minimum distribution method. This is a
21 weakness in their revenue increase allocation recommendations, since the CCOS study
22 result is very sensitive to the chosen customer classification percentage.

1 **Q. EVEN IF THE COMPANY'S CCOS STUDY IS NOT MODIFIED, IS IT**
2 **NECESSARY TO INCREASE THE COMPANY'S REVENUE ALLOCATION TO**
3 **THE RESIDENTIAL CLASS, AS ADVOCATED BY THE PREVIOUSLY CITED**
4 **WITNESSES?**

5 A. No. All of the witnesses recognize that gradualism is an accepted regulatory tool in
6 allocating revenue increases among the rate classes. The methodologies for applying
7 gradualism are subjective and rely on the analyst's judgment. The Companies' method of
8 tempering the residential class revenue increase is based on setting the class' percent of
9 total revenues at the mid-point between the percentage of present revenues and the class
10 percentage of total revenues at equalized class rates of return (based on the Companies'
11 CCOS study). While I disagree with the Companies' revenue allocation because of the
12 flaws in the CCOS study, using the mid-point in this manner is not unreasonable.

13 The proposals to increase the residential class revenue increase reflect gradualism
14 goals which are unnecessarily rapid. Class cost of service studies are a static snapshot of
15 the dynamic relationship between supply and demand. Both costs and class usage
16 characteristics will change over various long-run time periods. A class's relationship to
17 cost can vacillate up or down in the future. As a result, attempting to target a precise rate
18 of return result may end up over shooting the target. Therefore, the transition toward
19 cost-based rates can prudently be directed toward a reasonable band around the CCOS
20 results, without contravening cost of service principles. To the extent that the witnesses
21 recommend gradualism constraints on smaller classes' revenue increases, this can be
22 accomplished by utilizing a more narrow range of above and below average class
23 increases, instead of shifting a larger part of the revenue increase to the residential class.

1 For example, contrary to Mr. Baudino's proposed revenue distribution, all classes should
2 receive some level of revenue increase; classes which are paying an excessive relative
3 rate of return should be assigned percentage increases below system average, but not
4 exempted from sharing in the system revenue increase.

5 **Q. HOW DO WITNESSES PROPOSE TO APPLY ANY COMMISSION ORDERED**
6 **REDUCTIONS IN THE COMPANIES' REQUESTED INCREASE TO THE**
7 **CLASS REVENUE DISTRIBUTION?**

8 A. My direct testimony recommended a proportionate scale back in each class's share of the
9 revenue increase. Mr. Baudino, Mr. Kalcic, and Mr. Knecht recommend a proportionate
10 scale back in their recommended class increases which reflects the percent reduction in
11 the overall system increase. Mr. Pollock recommends a proportionate scale back based
12 on a compliance cost of service study⁷. However, I&E witness Mr. Apetoh recommends
13 a non-uniform scale back of the revenue reduction among the classes. In particular, he
14 identifies certain customer classes with a relative rate of return below 100% which should
15 not receive any benefit from the Commission's revenue requirement reductions. Under
16 his proposal, the scale back of the revenue increase is proportionate for the remaining
17 classes. Mr. Chriss does not specifically endorse a non-uniform scale back method, but
18 he suggests that the Commission should consider using reductions in the system revenue
19 increase to reduce class subsidies.

⁷ A compliance cost of service study is a CCOS study which incorporates the Commission's decisions regarding revenue requirement and CCOS methodology.

1 **Q. DO YOU AGREE WITH A NON-UNIFORM OR NON-PROPORTIONATE**
2 **SCALE BACK OF CLASS REVENUE INCREASES IF THE COMPANIES'**
3 **REQUESTED RATE RELIEF IS REDUCED?**

4 A. No. The notion that only certain classes will be permitted to benefit from Commission
5 findings that reduce system required revenues is unfounded. The sources of revenue
6 requirement reduction (such as reduction in the allowed rate of return) usually are broad
7 based and reduce the required revenues for each class. Furthermore, the results of a non-
8 uniform scale back will be inconsistent with the gradualism constraints which were
9 determined to be reasonable. For example, if a 150% of system average percent cap is
10 found to be reasonable, a non-uniform scale back is likely to result in class percentage
11 increases which exceed that cap. In the absence of a compliance cost of service study
12 that demonstrates a material change in the underlying class relationships, it is difficult to
13 justify a scale back method which is not uniform.

14 **IV. CUSTOMER CHARGE**

15 **Q. DO YOU AGREE WITH INVESTIGATION AND ENFORCEMENT'S (I&E)**
16 **WITNESS APETOH REGARDING RESIDENTIAL CUSTOMER CHARGE**
17 **LEVELS?**

18 A. No. Mr. Apetoh's testimony recommends the following percentage increases in the
19 residential customer charge: MetEd, 33.2%; Penelec, 21.2%; Pennsylvania Power,
20 16.1%; West Penn, 40%.⁸ My testimony recommended reductions in all of the present
21 customer charges, except for a 5% increase in the West Penn customer charge. In
22 addition, subsequent to filing his initial testimony, Mr. Apetoh corrected errors (related to

⁸ See page 18 of this Rebuttal Testimony for a full chart of the parties' customer charge proposals.

1 customer deposits, advances, and liberalized depreciation) which produce a calculated
2 customer charge lower than his recommendation for Penelec and Penn Power.⁹ I&E
3 states in discovery that he will continue to recommend his initially filed recommendation,
4 even though the corrected calculation justifies a lower customer charge.¹⁰ I do not agree
5 with that position, which is unfair to low use residential customers.

6 **Q. HAVE YOU IDENTIFIED ANY ADDITIONAL ERRORS IN MR. APETOH'S**
7 **EXHIBITS WHICH RESULT IN AN EXCESSIVE CUSTOMER COST**
8 **CALCULATION?**

9 A. Yes. After reviewing the spreadsheet analysis underlying Mr. Apetoh's exhibits, I
10 identified three errors which, if corrected, result in a customer charge significantly lower
11 than the I&E recommendations. The errors are: (1) double counting labor expenses; (2)
12 failing to subtract depreciation reserve from rate base; and (3) double counting smart
13 meter amortization. Each of these errors is repeated in the calculation for each
14 FirstEnergy distribution company.

15 **Q. PLEASE DESCRIBE THE THREE ERRORS.**

16 A. The I&E calculation includes O&M expenses for services, meters, and customer
17 accounting (lines 4 and lines 12 of "expenses" sheets), and then adds the labor expenses
18 (lines 21 of "expenses" sheets) associated with those accounts. However, the labor
19 expenses are already included in the O&M expense accounts for services, meters, and

⁹ I&E Customer Cost Analyses-Corrected 12-2-14 [Customer Cost Analyses-ME-PE-PP-WP - Corrected 12-2-2014 - Apetoh.xlsx]. I&E corrected their Penn Power customer charge calculation to \$9.62 but still recommended \$10.32 (as filed in Mr. Apetoh's Direct Testimony and subsequently revised by I&E Response to FE Interrogatory I-1). I&E corrected their Penelec customer charge calculation to \$9.16 but still recommended \$9.67 (as filed in Mr. Apetoh's Direct Testimony subsequently revised by I&E Response to FE Interrogatory I -1).

¹⁰ I&E Response to FE Interrogatory I -1..

customer accounting.¹¹ Therefore, the I&E calculation double counts the labor expenses. Next, line 16 of the I&E “Sum” spreadsheet adds, instead of subtracting, depreciation reserve in order to calculate customer-related rate base. Rate making determines net plant by deducting depreciation reserve from gross plant, and the I&E spreadsheet erroneously used the wrong sign for this calculation. Finally, smart meter amortization (line 29 of “expenses” sheets) is mistakenly included in the Total O&M sum twice, resulting in a double counting of this expense.¹²

Q. HAVE YOU RECOMPUTED THE I&E CUSTOMER CHARGES WITH THESE THREE ERRORS CORRECTED?

A. Yes. Correcting the I&E customer cost spreadsheet results in much lower proposed customer charges, which are closer to my recommendation. For each Company, the table below shows the current residential customer charge direct testimony recommendations, compared to the I&E calculation with errors corrected.

Residential Customer Charge

	Current	Company	OCA	I & E Filed	I & E Corrected
MetEd	\$8.11	\$13.29	\$6.25	\$10.80	\$6.77
PN	\$7.98	\$11.92	\$4.81	\$9.67	\$5.69
PP	\$8.89	\$12.71	\$6.75	\$10.32	\$6.37
WP	\$5.00	\$7.35	\$5.21	\$7.00	\$5.61

¹¹ The services, meters, and customer accounting expenses in the I&E spreadsheet [Customer Cost Analyses-ME-PE-PP-WP - Corrected 12-2-2014 - Apetoh.xlsx] are the same as the “O&M Expense” sheet in the FirstEnergy CCOS models. The labor expenses in the I&E spreadsheet are the same as the “Labor” sheet in the FirstEnergy CCOS models, but this sheet in the CCOS is provided for display purposes, and does not affect the model results. I confirmed with FirstEnergy witness Stewart that the expenses in the labor sheet of the FirstEnergy CCOS model are included in the account totals in the O&M Expense sheet.

¹² Smart meter amortization is included in the sums for both Customer Expense (line 22) and Depreciation Expense (line 30), which are added together in line 31, Total O&M Expense.

1 The corrected I&E customer cost calculation substantiates my recommendation to
2 *reduce* the current customer charges for MetEd, Penelec, and Penn Power, and increase
3 the West Penn customer charge by only a *modest* amount. Schedule CJ-R-1 shows
4 details regarding the changes made to the spreadsheets to correct the errors.

5 **Q. DO YOU DISAGREE WITH OTHER CUSTOMER COST ISSUES RAISED IN**
6 **MR. APETOH'S TESTIMONY?**

7 A. Yes. Mr. Apetoh states that his customer charge analysis includes "certain indirect costs"
8 which he defines as costs which "do not change with the addition or subtraction of
9 customers." As discussed in my direct testimony, the appropriate benchmark for
10 customer charge recovery consists of costs which vary directly with the number of
11 customers.

12 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?**

13 A. Yes.

14
15 00199114

**Corrections Made to I&E Exhibit 4 “Customer Cost Analysis”
EXPENSE SHEET CORRECTIONS¹**

1. Remove line 21 (labor expense) from summation formula in line 22 (total customer expense).
2. Remove line 29 (amortization smart meters) from summation formula in line 22 (total customer expense). Note that line 29 is included in line 30 (total depreciation expense).

SUM SHEET CORRECTIONS

3. Negative sign inserted for line 10 amount (total depreciation reserve) in summation formula for line 16 (total rate base).

¹ Line numbers refer to exhibit line numbers rather than excel line numbers. The actual formula correction is based on excel line numbers.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-2014-2428743
Pennsylvania Electric Company :
:

VERIFICATION

I, Clarence L. Johnson, hereby state that the facts above set forth in my Rebuttal Testimony, OCA Statement No. 3R, are 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:



Clarence L. Johnson

Consultant Address: 3707 Robinson, Austin TX 78722

DATED: 12/17/14

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