



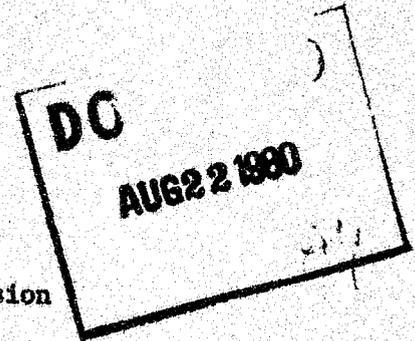
COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P. O. BOX 3265, HARRISBURG, Pa. 17120

August 19, 1980

IN REPLY PLEASE
REFER TO OUR FILE

R-79060865

Edward J. Riehl, Esquire
Henry R. MacNicholas, Esquire
McNees, Wallace & Nurick
100 Pine Street, P.O. Box 1166
Harrisburg, Pennsylvania 17108



Pennsylvania Public Utility Commission
v.
Philadelphia Electric Company

Dear Mr. Riehl:

Please be advised that on August 14, 1980, the Commission acted upon your petitions to intervene on behalf of Scott Paper Company and B.F. Goodrich Company. Said petitions were denied.

Sincerely,

William P. Thierfelder
Secretary

DUPLICATE RECORD.
ORIGINAL CERTIFIED
TO COMMONWEALTH COURT.

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held October 9, 1980

Commissioners Present:

Susan M. Shanaman, Chairman
Michael Johnson
James H. Cawley
Linda C. Taliaferro

EXTRA COPY

Pennsylvania Public Utility Commission
v.
Philadelphia Electric Company

Docket No.
R-79060865

OPINION AND ORDER

BY THE COMMISSION:

On May 30, 1980, Lukens Steel Company, Celotex Corporation, and Union Carbide Corporation (hereinafter Industrials) filed a Petition For Reconsideration of part of the Commission's Order adopted and entered May 9, 1980, in the Philadelphia Electric Company rate proceeding at R-79060865. A statement requesting reconsideration was filed by the Commission's Trial Staff on June 4, 1980. In pertinent part, our Order excluded any rate increase to the first 500 KWH of residential consumption.

Petitions to Intervene were filed after June 4, 1980, by: (1) Pennwalt Corporation, (2) Sun Petroleum Products (a division of Sun Oil Company), (3) The Budd Company, (4) Scott Paper Company, and (5) B. F. Goodrich Company. We denied each of these Petitions because none of these Petitioners were parties to the rate proceeding captioned above, and their interests were adequately represented by Industrial Complainants. We are pleased to note the interest of various industrial Petitioners. However, we are of the opinion that participation by these parties at an earlier stage of the proceeding would have better served their interest.

On June 5, 1980, we granted reconsideration of that part of our Order adopted May 9, 1980, which excluded any rate increase to the first 500 KWH of residential usage. Subsequently, we afforded all parties of record the opportunity to file briefs and reply briefs relevant to the matters before us for reconsideration.

Briefs were filed by or on behalf of: (1) Philadelphia Electric Company (hereinafter Respondent), (2) Industrials, (3) the Commission's Trial Staff (hereinafter Staff), (4) The Office of Consumer Advocate (hereinafter OCA), (5) Mayor William J. Green and the City of Philadelphia (hereinafter City), (6) Consumer Education and Protective Association International, Inc. (hereinafter CEPA), Association of Community Organi-

DUPLICATE RECORD.
ORIGINAL CERTIFIED
TO COMMONWEALTH COURT.

zations for Reform Now (hereinafter ACORN), and Action Alliance of Senior Citizens of Greater Philadelphia and William Holiday (hereinafter AASC), (7) United States Steel Corporation (hereinafter U.S.S.), and (8) Jack J. Aloff (hereinafter ALOFF).

Reply briefs were filed by or on behalf of: (1) Respondent, (2) Industrial, (3) OCA, (4) City, (5) CEPA, ACORN, and AASC, and, (6) USS.

We have reviewed the briefs and reply briefs which were filed pursuant to our action of June 5, 1980. As a result of our review, we conclude that our Order which excluded any rate increase to the first 500 KWH of residential usage was appropriate. As stated in our Order, adopted May 9, 1980:

This modification [500 KWH exemption] continues a concept first instituted in a prior case involving Respondent at R.I.D. 129, Order entered [sic] April 17, 1975, further applied in R.I.D. 295, Order entered April 21, 1977, and subsequently affirmed by Commonwealth Court. U. S. Steel Corporation v. Pa. P.U.C., 37 Commonwealth Ct. 173, 390 A.2d 865 (1978).

Clarification and further explanation of our reasoning which resulted in our decision to exclude any rate increase to the first 500 KWH of residential consumption follows.

We stated in our Order adopted May 9, 1980:

The portion of the increase in rates for consumption above 500 Kwh resulting from not increasing the first 500 Kwh, will serve as a price signal to decrease consumption, thereby stimulating conservation efforts.

Residential consumption below 500 KWH per month excludes all but a minor air conditioning load. Regarding the conservation of electricity related to the air conditioning load, CEPA, ACORN and AASC in their Reply Brief properly recognize:

A review of the monthly rate table for rate R shows that there is an inverted rate during the summer months, but that during the winter the rate is virtually flat (5.53¢ per KWH for the first 500 KWH and 5.57¢ per KWH for additional KWH, see, Supplement No. 15 to Electric Tariff No. 25, 2nd Revised Page, No. 31).

* * *

The 500 Kwh exemption creates an inverted rate during the summer which has the effect of promoting conservation by sending the correct price signal.

We have not limited the responsibility for conservation of electricity related to air conditioning in the residential class, in that we directed that the amount of the increase that would have been recovered from the first 500 KWH of monthly residential consumption be allocated to all classes of customers.

Regarding the residential exclusion, we stated in our Order adopted May 9, 1980:

At R.I.D. 295, we exempted the first 500 Kwh of monthly usage by the residential customers from any effect of the increase, on the basis that high consumption customers would receive greater benefit from new generating capacity than low use customers. We also concluded that the cost of newer generating plant, allocated on a coincident peak responsibility basis, does not afford adequate recognition of the benefits that accrue to high consumption customers as a result of decreased operating expenses associated with added new generating capacity. In the instant proceeding, the same rationale is still appropriate, because the Company will be able to utilize the newer plant (which has been included in rate base in this case) during the period when the rates will be in effect.

It is further noted that Respondent's vice-president of finance testified that one of the reasons for the rate increase is to have earnings and an interest coverage ratio that will allow Respondent to continue to finance its construction program, thereby providing additional generating capacity. Certainly, those residential customers utilizing 500 Kwh per month are not causing the need for the additional generating capacity. OCA properly recognizes in its brief that:

To the extent that PECO's rates reflect an average energy cost cost subsidies are occurring through the energy clause. More importantly, to the extent that the industrial customers are using large volumes of energy in their tail block rate which is lower than the incremental energy cost to the Company, i.e., the PJM system lambda cost, then other customers (through the energy clause) are subsidizing this lower than cost energy rate to industrial customers.

USS alleges that the 500 KWH residential exemption requires it to pay more than a reasonable rate for electricity; therefore, it contends that its rates are unreasonably discriminatory and contrary to the Public Utility Code. USS contends that because we have adopted Respondent's cost of service study, and because the 500 KWH exemption requires deviation

from that study, its rates therefore are unreasonable. USS bases its contention that we have adopted Respondent's cost of service study by citing pages 2, 43, 47, and 51 of our Order. Apparently USS is referring to:

Page of our Order

Statement

1-2	For the sake of order and simplicity, we will address only those issues wherein we <u>disagree</u> with the conclusion or reasoning of the ALJ; in all other respects, we adopt the reasoning and conclusions expressed by the ALJ as our findings.
43	We disagree with only two of his [the ALJ's] recommendations.
47	As in other portions of this Order we will address only those issues wherein we disagree with the conclusion or reasoning of the ALJ.
51	That except as <u>modified</u> herein, the findings and conclusions contained in the Recommended Decision are adopted as the Commission's decision. [Emphasis added]

We have not "adopted" Respondent's cost of service study. As evidenced by our holding on page 51 of our Order cited above, we have modified the finding of the ALJ that the cost of service study be adopted, to the extent that we excluded a rate increase to the first 500 KWH of residential consumption and allocated that increase to all classes, including the segment of the residential class consuming over 500 KWH monthly. In conclusion, USS's contention, that the 500 KWH exclusion is in violation of the Public Utility Code, is without merit.

Although USS argues that Respondent's cost of service study is the proper basis for allocating revenue responsibility by customer class, points of view contrary to this position are also present. For example, in its Reply Brief the OCA states regarding Respondent's cost of service study:

The Company's cost-of-service allocation is improper in that the common costs associated with the minimum distribution grid are allocated too heavily on a customer basis rather than on a demand basis. This allocation results in a overstatement of residential revenue responsibility. Secondly, the Company's cost-of-service study utilizes an average energy expense without allocating to the various customer classes energy costs in a manner that reflects the Company's energy cost variation over the hours of the year. Finally, the Company has failed to recognize in its cost of service study the purchased power energy cost savings that result from the Company's excess reserve margins.

Likewise, regarding Respondent's cost of service study the City contends in its Brief that:

. . . coincident peak methods of cost allocation do not recognize the disproportionate benefit that accrues to large volume customers resulting from decreased running costs.

Because the construction of a cost of service study is not an exact science, and because there are no precisely right or wrong cost allocation methodologies, it is too simplistic an exercise to adopt or reject a particular cost of service study. Furthermore, a cost of service study is merely one tool that may be used in determining an appropriate rate design. We have consistently recognized this principle regarding rate design determinations; for example, in the prior Philadelphia Electric Company rate proceeding at R.I.D. 438, we stated:

While we recognize that cost of service is always an important and normally the primary basis of pricing, it is not the only consideration. In the first place, even though the cost of service studies may be done in a craftsman-like manner, this does not mean that they can be blindly relied upon. Judgment and some assumptions must be made in cost of service studies; cost of service studies are not perfect or precise. In addition, cost-based principles of rate making may be tempered by social considerations and the desire to avoid abrupt changes in existing rate patterns and cost levels. Non-cost factors such as the ability of various customer classes to pay, ability to pass on the utility costs, and value of service, should be taken into consideration.

The Pennsylvania Commonwealth Court recognizes also that factors other than a cost of service study may be considered when determining the allocation of a rate increase. In United States Steel Corporation v. Pennsylvania Public Utility Commission, 37 Pa. Commonwealth Ct. 173, 186, 390 A.2d 865, 871 (1978) the Court stated:

We see no reason why in times of stringency a utility might not propose, and the commission might not approve, rates for residential users less than the rates which an allocation of large increases in necessary revenues by a strict application of cost of service studies would suggest.

While recognizing there are many infirmities inherent in a cost of service study, in particular, we agree with the OCA's contention that Respondent's cost of service study excessively classifies common costs associated with the minimum distribution grid as customer costs, rather than demand costs. Consequently, Respondent's cost of service study overstates the revenue requirement responsibility of the residential class. We have recognized this shortcoming of Respondent's cost of

service study by requiring a portion of the revenue foregone due to the 500 KWH excluded from increase in the residential class, to be recovered, in part, from the non-residential classes of service.

Industrials state:

. . . if rates are to be "structured" so as to "move class returns closer to system average return", then the residential class must incur a greater than average percentage increase while industrial and commercial classes must incur a lesser than average percentage increase.

Our Order adopted May 9, 1980, does not direct Respondent to structure rates in the manner suggested by the preceding quotation. Our Order is quite specific on this matter; we adopted as a starting point a compromise approach which, according to Respondent, moves class returns closer to the system average, and then we modified that approach with the condition that, ". . . the first five hundred (500) Kwh of consumption for Rate R and Rate R-H be excluded from any increase." Although in certain instances it may be desirable to move class rates of return closer to the system average rate of return, it is not this Commission's position that all customer classifications ultimately contribute identical rates of return.

Industrials contend that residential service up to 200 KWH per month is provided below cost and that only at consumptions levels of 1250 KWH per month does the residential customer provide a return equal to the system return.^{1/} After consideration of the imprecise nature of cost of service studies discussed previously, coupled with the record evidence in this proceeding, we are not convinced either of these contentions are accurate. Even if the contentions are accurate, and one segment of the residential class is subsidizing another segment of the residential class, such intra-class subsidy should be of no concern to the non-residential class of service.

Based upon the foregoing, our decision to exclude any rate increase to the first 500 Kwh of residential consumption was appropriate; THEREFORE,

^{1/} We note that because a class of customer contributes a return below system average, it is not necessarily paying rates which are below cost. That is, return is the difference between cost and revenue.

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^{1/} We note that because a class of customer contributes a return below system average, it is not necessarily paying rates which are below cost. That is, return is the difference between cost and revenue.

IT IS ORDERED: That our Order adopted and entered May 9, 1980, at R-79060865 is affirmed.

BY THE COMMISSION,

William P. Thierfelder
Secretary

(SEAL)

ORDER ADOPTED: October 9, 1980

ORDER ENTERED: October 14, 1980