Hawke McKeon & Sniscak LLP
ATTORNEYS AT LAW

Thomas J. Sniscak
(717) 703-0800
tjsniscak@hmslegal.com

Whitney E. Snyder
(717) 703-0807
wesnyder@hmslegal.com

Kevin J. McKeon
(717) 703-0801
kjmckeon@hmslegal.com

Bryce R. Beard
(717) 703-0808
brbeard@hmslegal.com

100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.hmslegal.com

April 5, 2021

Via Electronic Filing

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street – Second Floor North
Harrisburg, PA 17120

Re: Pike County Light & Power Company 2020 General Base Rate Increase (Electric) Filing; Docket No. R-2020-3022135; **PCLP MAIN BRIEF ON RATE STRUCTURE AND DESIGN**

Dear Judge Long:

Enclosed you will find Pike County Light & Power Company's (PCLP) Main Brief on Rate Structure and Design in the above-referenced proceeding.

Copies have been served in accordance with the attached Certificate of Service. Should you have any questions, please feel free to contact me directly.

Respectfully submitted,

/s/ Thomas J. Sniscak

Thomas J. Sniscak, Esq.
Whitney E. Snyder, Esq.
Kevin J. McKeon, Esq.
Bryce R. Beard, Esq.

Counsel for Pike County Light and Power Company

BRB/das
Enclosures
cc: Honorable Mary D. Long (malong@pa.gov)
Per Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2020-3022135
	:	
Pike County Light and Power Company (Electric)	:	
	:	

MAIN BRIEF OF
PIKE COUNTY LIGHT AND POWER COMPANY
ON RATE STRUCTURE AND DESIGN

Before Administrative Law Judge
Mary D. Long

Respectfully submitted,

/s/ Thomas J. Sniscak

Thomas J. Sniscak, Esq
Whitney E. Snyder, Esq.
Kevin J. McKeon, Esq.
Bryce R. Beard, Esq.
Hawke, McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Tel: (717) 236-1300
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
kjmckeon@hmslegal.com
brbeard@hmslegal.com

Dated: April 5, 2021

Counsel for Pike County Light and Power Company

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I. INTRODUCTION

Pike County Light and Power Company ("Pike"), the Commission's Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA") have agreed to a black box settlement on a revenue requirement increase of $1,400,000, as well as other provisions on Rate Base, Revenues, Expenses, Taxes, Rate of Return, and other issues to be more fully described in the Joint Partial Petition for Settlement to be filed on April 9, 2021. The purpose of this brief is to address the remaining unsettled issue regarding rate structure, and as described herein, the Company's proposed revenue allocation, adjusted to the settlement revenue increase of $1,400,000 is reasonable and should be adopted.

II. SUMMARY OF ARGUMENT

Pike's proposed allocation of the settlement revenue requirement of $1,400,000 reflects the company's cost of service study prepared in its direct testimony and adjusted in this proceeding responsive to discovery and as presented in a revised format in rebuttal testimony. As described herein, Pike's proposed allocation of the settlement revenue requirement of $1,400,000 is fair and equitable to all of the intervenors in this case and to Pike's customers who they represent. Pike's proposed rate design is guided by principles of cost causation and reflects a balanced approach of increases to customer charges based on Pike's study and necessary judgments consistent with the settled revenue requirement. Pike's cost of service study provides an important reference point or guide as to the reasonableness of the company's allocation of the settled revenue increase.

IX. RATE STRUCTURE

Pike's proposed allocation of the settled revenue requirement is based on the Company's electric cost of service study described herein as well as adjustments and revisions that occurred

in rebuttal responsive to discovery requests from both I&E and the OSBA. In designing rates to recover the proposed revenue increase, Pike's primary objective was to create a rate design that is fair to all of its customers and affords Pike the opportunity to recover the cost of providing service. Costs of service studies are imperfect guidelines for allocating revenue and there is no single methodology for performing the study and arriving at a perfect result. Pike's cost of service study, with the adjustments raised in discovery and presented in rebuttal, produce a fair and reasonable allocation of the agreed to revenue requirement.

a. Cost of Service

i. Cost of service principles

Pike's proposed allocation of revenue among the rate classes is primarily driven by the cost to serve each class, as the cost of service is the "polestar" of utility rates. *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006) *appeal denied*, 591 Pa. 676, 916 A.2d 1104 (2007) ("*Lloyd*"). While the Commission may consider other factors, such as gradualism, cost of service remains the primary basis for allocating a revenue increase. *Id.* at 1020-1021. A proposed revenue allocation will only be found reasonable where it moves rates for each class closer to the full cost of providing service. *Pa. Publ. Util. Comm'n, et al. v. PPL Electric Utilities Corporation*, Docket No. R-00049255, et al. (Order on Remand entered July 25, 2007).

Although cost of service studies may appear to have great precision, the Commission has repeatedly recognized that the cost of service study is a guide to designing rates and is only one factor, albeit an important one, to be considered in the rate setting process. *See, e.g., Pa. P.U.C. v. Aqua Pa. Inc.,* Docket No. R-00072711, 2008 Pa. PUC LEXIS 50 (Order dated July 17, 2008); *Pa. P.U.C. v. West Penn Power Co.,* Docket Nos. R-901609, et al., 1990 Pa. PUC LEXIS 142, 73 Pa. PUC 454, 119 P.U.R.4th 110 (Order dated Dec. 13, 1990); *Pa. P.U.C. v. Pennsylvania Power*

& Light Co., 55 PUR 4th 185, 249 (Order dated Aug. 19, 1983). Cost allocation studies require a considerable amount of judgment and are described as more of an accounting/engineering art rather than science. *Application of Metropolitan Edison Co.,* R- 00974008 (Order dated June 30, 1998); *Pa. P.U.C. v. Pennsylvania Power & Light Co.,* 55 PUR 4th 185 (Order dated Aug. 19, 1983). There is no single methodology for performing a cost of service study, and such studies are imperfect guidelines for allocating revenue requirements:

> While the Commission recognizes 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; costs-of-service studies are not perfect or precise.

Pa. P.U.C. v. Philadelphia Elec. Co., 31 PUR 4th 15, 84 (1978)

ii. Pike's cost of service study

The development of the electric cost of service (COS) study prepared by the Company was described by its Electric Rate Panel. See PCLP Statement No. 1 at 6-15; PCLP Statement No. 1-R at 1-7. Detailed COS results were provided with the Company's base rate filing as Exhibits E-6 (Historical test year 12 months ended June 30, 2020) and Exhibit E-7 (Future test year 12 months ended June 30, 2021). Through discovery (OSBA-I-14 and OSBS-I-15), the Company made adjustments to the COS. PCLP Statement No. 1-R at 2. The Electric Rate Panel filed the revised Exhibit E-6 (Exhibit E-6 Rev) and Exhibit E-7 (Exhibit E-7 Rev) with their rebuttal testimony. The Company in response to discovery I&E-RS-11-D, prepared an additional adjusted COS study for Exhibit E-7 replicating the level of detail as was provided for Exhibit E-6. See PCLP Statement No. 1-R at 2.

The primary principle that guided Pike's COS process is that of cost causation, the

underlying drivers of costs. PCLP Statement No. 1 at 7. Each step in the development of the COS study is consistent with the factors that drive or contribute to the incurrence of costs on the Pike system. The cost of service study follows the general guidelines of the National Association of Regulatory Commissioners (NARUC) as well as standardized industry practices. See PCLP Statement No. 1-R at 1-2.

The purpose of a COS study is to directly assign fixed costs based on Company records or to allocate each relevant and identifiable component of cost on an appropriate basis in order to determine the proper cost to serve the respective classes under study. PCLP Statement No. 1 at 7-9; PCLP Statement No. 1-R at 1-2. The COS was developed in such a manner as to ensure that costs are allocated among customer classes in a fair and equitable methodology. Costs can vary significantly between customer classes depending upon the nature of their demands (load) upon the system and the facilities required to serve them. PCLP Statement No. 1 at 7. These distribution costs are fixed in nature and have no relationship to volumetric consumption, contrary to the other parties' understanding. PCLP Statement No. 1-R at 2. Any attempt to justify volumetric cost allocation is simply a means to an end with the results increasing existing subsidies resulting in poor customer cost recovery as shown by the COS analysis. *Id*.

As discussed in Pike Statement No. 1, a customer component minimum system approach was included in the COS for two main reasons. PCLP Statement No. 1 at 12-14. The first reason is to provide continuity with the Company's last COS filing and the second reason is to recognize that the smaller sized secondary lines are influenced considerably by population density as opposed to the larger primary lines. *Id.* Primary circuits consist of both three phase and single phase facilities. *Id.* A large portion of primary is single phase and many of the SC2 customers that are three-phase cannot be served by single phase facilities. *Id.*

The COS study provides a benchmark to compare existing rates and revenue levels by class with respect to their underlying costs. It is a point estimate in time and not intended to exactly mirror the pricing in rate design proposals but simply to be used as a guide or direction for the proposed rate proposals. As a result, Pike's COS study provides an important reference point or guide as to the reasonableness of the Company's existing approved rates and should be considered along with other generally recognized factors such as customer impacts in the final design of new base rates in this proceeding.

b. Revenue Allocation

The base sales revenue deficiency by class utilized for rate design was derived from the COS Test Year 12 Months Ended June 30, 2021 and corrected for technical errors as described above. The Unitized Claimed ROR was adjusted from 7.09% ($1,927,893 Increase) to 5.67% ($1,400,000 Settlement Increase) to calculate the class base revenue requirement target increases.

The results from the COS are presented below in Table ER1 from the Test Year 12 Months Ended June 30, 2021 COS which simply indicates the rate class comparison band on the existing pricing levels:

Table ER1

COS Results – ROR Present Rates (12 Months Ended June 30, 2021)

	ROR (%)	ROR Index
Total Electric Company	1.92	1.00
Residential (SC1)	1.05	0.55
Residential Space/Water Heating (SC1)	2.63	1.37
Small C & I – Secondary (SC2-S)	2.27	1.18
Large C & I – Primary (SC2-P)	4.69	2.44
Municipal Street Lighting (SC3)	2.01	1.05
Private Lighting (SC4)	3.12	1.63

The results from the COS are presented below in Table ER2 from COS Test Year 12 Months Ended June 30, 2021 shows the increase target base revenue increase at a unitized claimed rate of return:

Table ER2

COS Results – Unitized Claimed ROR (12 Mos. Ended June 30, 2021)

	Revenue Deficiency	% Increase on Base
Total Electric Company	$1,400,000	26.9%
Residential (SC1)	$ 733,946	34.2%
Residential Space/Water Heating (SC1)	$ 111,530	19.9%
Small C & I – Secondary (SC2-S)	$ 495,211	24.3%
Large C & I – Primary (SC2-P)	$ 20,317	05.8%
Municipal Street Lighting (SC3)	$ 31,219	39.2%
Private Lighting (SC4)	$ 7,777	22.6%

The $1,400,000 represents a base revenue increase of 26.9%. As shown in Table ER1, rate classes SC-2 Primary and Private Area Lighting are providing a more than adequate return. As a result, these two rate classes were capped at 90% of their total base revenue increase (24.2%) with the difference spread to the remaining classes based on their current base sales revenue levels as shown in Table ER3:

Table ER3

Proposed Base Revenue Increase at Settlement Revenue Requirement

	Pike	% Incr on Base
Total Electric Company	$1,400,000	26.9%
Residential (SC1)	$ 581,775	27.1%

Residential Space/Water Heating (SC1)	$	152,150	27.1%
Small C & I – Secondary (SC2-S)	$	551,309	27.1%
Large C & I – Primary (SC2-P)	$	84,844	24.2%
Municipal Street Lighting (SC3)	$	21,595	27.1%
Private Lighting (SC4)	$	8,328	24.2%

As shown in Table ER3, Pike's revenue allocation based on the corrections made to the COS provided in its direct and rebuttal testimony, when adjusted to the settled and agreed to revenue requirement, provides a fair, a reasonable revenue allocation that fairly assigns the revenue increase to the various rate classes.

c. Tariff Structure

The cost of service study provided the basis or starting point for all of the proposed rate designs. Pike Statement No. 1 at 19-20. The rate design efforts were performed in three discrete steps as described in Pike Statement No. 1. PCLP Statement No. 1 at 19-20. First, Pike determined the total costs incurred to serve each customer class using the future test year June 20, 2021. *Id.* Next, Pike examined the embedded cost of service study at the Company's uniform ROR (equalized annual increase) and compared these results to the revenues currently produced by each customer class. *Id.* Finally, Pike performed the proposed class revenue targets and rate designs utilizing these results and adjusted present rate charges to all rates. *Id.*

In summary, Pike's rate design followed a reasoned approach which provides a basis for the proposed rate designs under the $1,400,000 settlement revenue requirement, and leads to a fair and reasonable tariff structure.

d. Summary and Alternatives

In summary, the Company's COS provided in its direct testimony was adjusted to reflect inputs from all parties as discussed above. With this final COS model, the existing rate of return level was adjusted to achieve a target settlement revenue increase of $1,400,000 (See Table ER2).

With these results showing very large revenue deficiencies for most classes, the Company proposed that the class revenue targets be moderated by limiting the increase to SC-2 Primary and Private Area Lighting to 90% of the calculated total percent of 26.9% (24.2%). (See Table ER3). This produced a fair allocation of the settlement revenue increase among the customer classes considering the range of outcomes that varying methodologies in revenue allocation can produce. Finally, Pike's rate design followed a reasoned approach under the $1,400,000 settlement revenue requirement and leads to a tariff structure which is fair and reasonable.

X. CONCLUSION

For the foregoing reasons, Pike County Light and Power Company respectfully requests that Administrative Law Judge Mary Long and the Pennsylvania Public Utility Commission approve the above describe revenue allocation at the settlement revenue requirement of $1,400,000 in conjunction with the Joint Petition for Partial Settlement to be filed with the Commission on April 9, 2021 on all remaining issues.

Respectfully submitted,

/s/ Thomas J. Sniscak

Thomas J. Sniscak, Esq
Whitney E. Snyder, Esq.
Kevin J. McKeon, Esq.
Bryce R. Beard, Esq.
Hawke, McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Tel: (717) 236-1300
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
kjmckeon@hmslegal.com
brbeard@hmslegal.com

Dated: April 5, 2021

Counsel for Pike County Light and Power Company

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the forgoing document upon the parties, listed below, in accordance with the requirements of § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL ONLY

Aron J. Beatty, Esquire
Santo G. Spataro, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101
abeatty@paoca.org
sspataro@paoca.org
ocapike2020@paoca.org

Sharon Webb, Esquire
Office of Small Business Advocate
555 Walnut Street
1st Floor Forum Place
Harrisburg, PA 17101
swebb@pa.gov

Carrie B. Wright, Esquire
Erika L. McLain, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street 2nd Floor
Harrisburg, PA 17120
carwright@pa.gov
ermclain@pa.gov

Mr. Robert D. Knecht
Industrial Economics Incorporated
2067 Massachusetts Avenue
Cambridge, MA 02140
rdk@indecon.com

/s/ Thomas J. Sniscak
Thomas J. Sniscak, Esq.
Whitney E. Snyder, Esq.
Kevin J. McKeon, Esq.
Bryce R. Beard, Esq.

Dated: April 5, 2021