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April 9, 2021

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

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

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Reply Brief in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

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Certificate of Service
*306707

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Reply Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 9th day of April 2021.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF
OF THE
OFFICE OF CONSUMER ADVOCATE

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I. INTRODUCTION

The Office of Consumer Advocate (OCA) submits this Reply Brief primarily in response to the Main Brief of the Office of Small Business Advocate (OSBA). The OCA also addresses certain arguments from other parties. The OCA's Main Brief contains a discussion of the evidence and its position the revenue allocation approved in this proceeding. The OCA will respond only to those matters raised by other parties that were not previously addressed or require further clarification. Nevertheless, the OCA does not waive its opposition on contested issues because it does not repeat arguments here. Accordingly, the OCA incorporates the arguments and analysis contained in its Main Brief herein by reference.

As discussed in the OCA's Main Brief, a settlement in principle was reached between the statutory advocates and the Company regarding all issues except the revenue allocation of increased electric distribution revenues. In accordance with the ALJ's guidance, the parties will submit the settlement materials including the proposed revenue increase on April 9, 2021. The OCA continues to support the allocation methodology of the revenue requirement increase approved in this proceeding as detailed in its Main Brief.

II. SUMMARY OF ARGUMENT

As modified, the OCA recommends that the electric revenue allocation of the approved increase be based on the OCA's COSS results, which should be used as a guide for setting rates in this proceeding based on this COSS as well as the principles of gradualism and basic fairness during this economically challenging period. OCA witness Pavlovic proposed a reasonable allocation of the revenue increase that should be adopted by the Commission. Dr. Pavlovic's proposed distribution of the revenue increase is consistent with traditional rate making principles and cost causations. The OCA submits that the Commission should adopt the OCA's proposed revenue allocation proposal, proportionally adjusted to the revenue increase approved in this proceeding.

If the Commission, however, does not favor utilization of the OCA's Cost of Service Study (COSS) methodology, the detailed COSS in the Commission's Bureau of Investigation and Enforcement's (I&E) Main Brief (at pages 5-8), is the most reasonable alternative on the record. The I&E allocation is based on the Company's initial filing, and represents a reasonable alternative if the Commission does not accept the OCA's position on allocation of joint-use facilities on a demand-only basis. The I&E allocation, scaled to the approved revenue increase, also provides the additional benefit of avoiding rate shock above the level of increase that was included in the Company's filing and its public notices. As we saw from the Public Input testimony, customers are deeply concerned with increases at the as filed level, and increases beyond that (as proposed by OSBA) would be entirely unjustified based on the cost of service analyses contained in the record.

III. ARGUMENT

A. Legal Standard

The OCA analyzed the legal standard for this proceeding in its Main Brief. See, OCA M.B. at 4-5.

B. Cost of Service Study

1. Introduction

In this proceeding, Pike County Electric proposed to allocate the revenue increase in a manner that the Company alleges is consistent with cost causation. Pike St. 1 at 7. The Company relied on the COSS presented by the Company Electric Rate Panel to make this determination. See, Pike St. 1 at 8-11. As discussed in its Main Brief, OCA witness Pavlovic evaluated Pikes' COSS for analysis of the proposed revenue allocation. OCA M.B. at 5. Upon conducting his review, OCA witness Pavlovic testified that modifications to the study should be made. OCA M.B. at 5-6. Upon correcting the classification errors presented by the Company, Dr. Pavlovic presented his results for use in guiding the allocation of revenues in this case. OCA M.B. at 5-6; OCA St. 2 at 21, Exh. KRP-10. Essentially, the issue identified by OCA's witness Mr. Pavlovic was whether FERC Accounts 364-368 should be allocated on a demand basis, or on a part demand, part customer basis. As Dr. Pavlovic explained, the costs in those accounts do not vary with the number of customers. OCA M.B. at 6-7; OCA St. 2 at 14-15. Mr. Pavlovic instead recommends that PCLP's FERC Accounts 364-368 be classified as wholly demand-related with no customer-related component. OCA M.B. at 6; OCA St. 2 at 13-17.

OSBA witness Robert Knecht rejected the OCA's cost of service methodology, and made modifications to the Company's COSS based on perceived technical errors and critiques of the Company's methodology in computing the COSS. OSBA M.B. at 3-6. OSBA instead, developed two alternative versions of the cost allocation study. OSBA M.B. at 6; OSBA St. 1 at 2. Specifically, OSBA proposed two separate Electric Cost of Service Studies. OSBA M.B. at 3. COSS I, which modified perceived technical errors in the Company's COSS, and COSS II, which increased the number Pike facilities allocated on a part customer, part demand basis. OSBA M.B. at 3.

OCA witness Pavlovic explained that these joint-use facilities should be allocated based on the demand that customers place on the system. In determining that demand allocator, the OCA further recommended that such demand be measured on a coincident peak (CP) basis, rather than the non-coincident peak (NCP) basis used by the Company. This is particularly the case in Pike's small service territory, where the Company has only one substation, thus rendering the diversity benefits of using an NCP allocator invalid. See, OCA MB at 10. The OCA respectfully submits that the Commission should consider the OCA's alternative study as a guide when setting rates in this proceeding.

2. OSBA's Cost of Service Studies are Flawed and Should Not Guide the Allocation of Revenue in this Proceeding

While OSBA criticizes the OCA of employing improper methodology in building its COSS, it is clear that the materially altered COSS presented by the OSBA only exacerbates any issues found in the Company's study. The OCA submits that Dr. Pavlovic's modified COSS, as detailed below, more closely adheres to cost causation. See, OCA M.B. 6-7.

OSBA witness Mr. Knecht argues that a customer component of distribution plant for electricity utility cost allocation is consistent with cost causation. OSBA M.B. at 10; see also, OCA M.B. at 13. The OSBA further argues that classifying distribution plant into customer and demand components is the appropriate course of action. OSBA M.B. at 13.

OCA Witness Pavlovic established, however, that customer-related costs are those costs that vary with the number of customers. See, OCA M.B. at 8; OCA St. 2 at 14 (citing Bonbright et al, Principles of Public Utility Rates, 1988). Demand-related costs are "those costs that vary directly with maximum demand measured by peak load or demand." OCA. St. 2-SR at 4. Mr. Pavlovic testifies:

> **Q. WHAT IS YOUR RESPONSE TO OSBA REGARDING CUSTOMER-RELATED CLASSIFICATION OF JOINT-USE DISTRIBUTION EQUIPMENT COSTS?**

> **A.** As preliminary observations (a) the costs recorded in FERC Accounts 364-368 are what OSBA refers to here as "joint-use distribution equipment costs;" and (b) while the quotation to which OSBA cites is from my direct testimony in PCLP's gas proceeding, it applies equally in this electric proceeding.
>
> Regarding the extension of an electrical system now and in the past, the design and construction of an extension will vary with regard to the number of poles and the length of the lines required. As I explained above, however, the design capacity of the extension will be determined by the expected maximum demand of the customers on the extension, irrespective of the number of customers, the length of the lines, or the number of poles and transformers. The fact that electrical systems grow over time does not demonstrate that there is a measurable customer-related component to the joint-use distribution equipment costs or that number of customers is a basis for quantified allocation of those costs.

OCA St 2-SR at 11-12. Because it is theoretically impossible for the capital costs in Accounts 364-368 to vary with the number of customers connected to those facilities, these Accounts are properly classified as demand-related. OCA St. 2 at 15. Specifically, Dr. Pavlovic testified that:

> Since the cost of the distribution system in accounts 360-368 do not and cannot vary with the number of customers connected to the distribution system, for the purposes of embedded cost analysis, the costs in FERC Accounts 360-368 are properly classified as demand-related, because those costs vary continuously (and, perhaps, even more or less directly) with the maximum demand imposed on this system as measured by peak load.

OCA St. 2 at 15 (internal quotation marks omitted). The Company correctly classified FERC Accounts 360-362 as demand-related. Dr. Pavlovic testified, "Only the costs in FERC Accounts 364-368 are erroneously classified as both demand-related and customer-related." OCA St. 2 at 16.

The OSBA argued in rebuttal that the classification of FERC Accounts 364-368 as exclusively demand-related is wrong because "it does not recognize (a) that the distribution system expands to new areas to service new customers; and (b) that it is less costly to service large commercial and industrial customers that are located in narrow geographic zones than to service geographically dispersed residential customers." OCA St. 2SR at 11; See Also OSBA St. 1R at 4.

In response to the OSBA's density argument, OCA witness Pavlovic testified:

> Regarding the local density of customers and joint-use distribution equipment costs, the design capacity of the joint use distribution equipment is here also determined by the maximum demand on the equipment, irrespective of the number of customers that produce that maximum demand. Again, the fact that there are variations in both the local density of and number of customers on and electric system does not demonstrate that there is a measureable customer-related component to the joint-use distribution equipment costs or that the number of customers is a basis for quantified allocation of those costs.

OCA St. 2-SR at 12. As Dr. Pavlovic explained, "the fact that electrical systems grow over time does not demonstrate that there is a measureable customer-related component to the join-use distribution equipment costs or that number of customers is a basis for quantified allocations of those costs." OCA St. 2SR as 12.

Dr. Pavlovic testified that Pike had "erroneously classified as both demand-related and customer-related" the costs in FERC Accounts 364-368. OCA St. 2 at 16. Because classifying FERC Accounts 364-368 as customer-related "contradicts the fundamental basic cost-causation definitions about which there is no dispute" these accounts should not be classified as customer-related. OCA St. 2-SR at 4. OSBA further exacerbates this problem by providing an alternative COSS which expands the customer/demand allocation methodology to additional FERC accounts. See OSBA M.B. at 6-12.

The OSBA argues that the OCA's cost of service study methodology is not consistent with Commission precedent. OSBA M.B. at 13-14. The OCA submits that OCA witness Pavlovic's COSS most accurately reflects cost causation and should be considered at this time. As Dr. Pavlovic correctly explains:

> **Q. WHAT IS YOUR RESPONSE TO OSBA'S ASSERTIONS REGARDING COMMISSION ACCEPTANCE OF MINIMUM SYSTEM CUSTOMER-RELATED CLASSIFICATION OF OTHER PENNSYLVANIA UTILITIES?**
>
> **A.** Those are points of fact that have no evidentiary bearing on the issue of the proper cost analysis of PCLP's system that is consistent with the principle of cost causation.

OCA St. 2-SR at 12. As a result, the OCA recommends that Pike's demand-related costs (FERC accounts 360-368) be allocated on the basis of coincident peak demands. The OCA submits that the classification of FERC Accounts 364-368 as demand-related better reflects cost causation than the approach offered by OSBA, and should therefore be used to guide the allocation of the rate increase.

C. Revenue Allocation

1. The Commission Should Adopt the OCA's Revenue Allocation.

As the OCA and the Company agree, cost studies are a guide for the allocation or revenue requirement, among other factors. Cost studies provide a guide for setting rates, but do not establish with precision an appropriate allocation of an approved revenue increases. On this point, the OCA agrees with the Company's witnesses, where they explain that it is necessary to apply expert judgment reflecting numerous factors when developing rates. Pike St. 1-R at 7. The OCA submits that the Commission must consider the reasonable bounds of increases for residential customers, particularly at the present time as the Covid-19 pandemic has impacted residential customers. See, OCA St. 2 at 2-13.

In this proceeding, OCA witness Pavlovic found PCLP's *method* of distributing the revenue increase to the tariff rate classes to be generally consistent with traditional rate making principles and cost causations, provided that the corrected cost study presented by the OCA is utilized in this proceeding. OSBA, however, proposes two class revenue allocations: one under the presumption that the Commission approves PCLP's ECOS as corrected for purported technical errors in RDK WP2, and another under the presumption that the Commission accepts all of OSBA's corrections of purported classification/allocation errors as incorporated into RDK WP3. As explained in the OCA's Main Brief, both of OSBA's revenue increase allocations are based on cost studies that incorporate Minimum-Size classification/allocation of distribution accounts, which is inconsistent with the principle of cost causation. See, OCA M.B. at 12-13. Additionally, the OSBA alternative allocations place massive increases on Pike's residential customers, in some cases substantially more than the increases contained in the Company initial filing and public notices.

OCA witness Pavlovic explained that the OSBA's proposed revenue allocation is based entirely on flawed cost studies, as follows:

> **Q. DO YOU HAVE PRELIMINARY COMMENTS CONCERNING OSBA'S COST ANALYSES?**
>
> A. Yes. OSBA developed an alternative version of the PCLP ECOS that replicates PCLP's ECOS results, which it refers to as RDK WP1. OSBA then developed a second version, which it refers to as RDK WP2, that corrects purported technical errors in PCLP's ECOS. Finally, OSBA developed a third version, which it refers to as RDK WP3, that corrects purported errors in PCLP's Minimum-Size classification/allocation of FERC Accounts 364-367 and 369 and purported classification and/or allocation errors in various other plant and expense accounts. My testimony below addresses only OSBA's purported minimum-size errors in FERC Accounts 364-367 and 369 and OSBA's proposed modifications of those purported errors in RDK WP3.

OCA M.B. at 16-17; OCA St. 2-R at 3. OSBA opposed the OCA proposed revenue allocation in its Main Brief, and in the alternative places increases for the residential class of 55.3% at the as-filed revenue request. See, OSBA M.B. at 15; OCA St. 2-R at 9-10; OCA M.B. at 17-18. As detailed above by OCA witness Mr. Pavlovic, OSBA's proposals are flawed in that both revenue increase allocations are based on cost studies that incorporate Minimum-Size classification/allocation of distribution accounts, which demonstrated in Karl Pavlovic's direct testimony, is inconsistent with the principle of cost causation. OCA St. 2-R at 10.

If the Commission does not support utilizing the OCA cost of service study as a guide for revenue allocation in this proceeding, it should consider the allocation supported by I&E. See, I&E M.B. at 5-8. The I&E allocation is based on the Company's initially filed allocation. The OCA submits that the I&E allocation represents a reasonable alternative if the Commission does not accept the OCA's position on allocation of joint-use facilities on a demand-only basis. The I&E allocation, scaled to the approved revenue increase, also provides the additional benefit of avoiding rate shock above the level of increase that was included in the Company's filing and its public notices.

The OCA submits that while cost of service should guide the Commission when setting rates in this proceeding, other ratemaking principles such as gradualism, avoidance of rate shock and basic fairness must not be abandoned. The OCA submits that the revenue allocation proposed by the OCA meets the legal requirements for determination of revenue allocation.

IV. CONCLUSION

For the reasons set forth herein and in the OCA's Main Brief, the OCA submits that the Commission should reject the OSBA's COSS and adopt Dr. Pavlovic's COSS. The Commission should also reject the OSBA's proposed revenue allocation and adopt the OCA's modified revenue allocation. The OCA's revenue allocation provides reasonable progress toward moving classes to the cost of service, applies the principles of gradualism, and reflects basic fairness. Additionally, the OCA submits that if the Commission does not agree with OCA's modifications to the COSS, the Commission should adopt the company's initial allocation, as supported by I&E in its Main Brief.

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