

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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April 22, 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 Responsive Comments in Support of Non-Unanimous Revenue Allocation Petition in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Aron J. Beatty  
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Enclosures:

cc: The Honorable Mary D. Long (**email only**)  
Certificate of Service

\*307547

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 Responsive Comments in Support of Non-Unanimous Revenue Allocation Petition, 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 22<sup>nd</sup> day of April 2021.

**SERVICE BY E-MAIL ONLY**

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Dated: April 22, 2021  
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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**RESPONSIVE COMMENTS IN SUPPORT  
OF NON-UNANIMOUS REVENUE ALLOCATION PETITION  
OF THE OFFICE OF CONSUMER ADVOCATE**

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On April 16, 2021, the Office of Consumer Advocate (OCA) joined the Joint Petition for Settlement on Rate Structure and Rate Design by Pike County Light & Power Company, the Bureau of Investigation and Enforcement, and the Office of Consumer Advocate (Revenue Allocation Petition or Petition). For the reasons identified in its Supplemental Statement in Support of the Revenue Allocation Petition, the OCA respectfully submits that the terms and conditions of the Petition are in the public interest and should be approved.

On April 20, 2021, the Office of Small Business Advocate (OSBA) filed Comments in Opposition to the Revenue Allocation Petition (Comments). The OSBA's position is that its litigation position submitted in briefs should be adopted. The OCA submits that the OSBA litigation position is unreasonable for those reasons contained in the Main and Reply Briefs submitted in this proceeding. The OCA submits these responsive comments to the OSBA's April 20, 2021 filing.

1. Contrary to OSBA's Assertions, The Record Supports the Revenue Allocation Petition.

The proposed Revenue Allocation Petition provides for an allocation of an increase in annual revenues of approximately \$1.4 million among the rate classes. Of the \$1.4 million overall increase in rates, residential customers would be allocated \$580,394. Revenue Allocation Petition at ¶10. Contrary to the assertions contained in the OSBA's Comments, the revenue allocation proposals *on the record* in this proceeding support the Revenue Allocation Petition.

Based on the testimony admitted into the record in this proceeding, the revenue allocation positions for residential customers ranged from a low of 26% of the increase (OCA), to a high of 76% of the increase (OSBA). Pike Exh. E-8 at 2; I&E St. 3 at 31; I&E Exh. No. 3, sch. 7; OSBA St. 1 at 26-27; OCA St. 2 at 24. Under the Revenue Allocation Petition, residential customers would be allocated \$580,394 of the \$1.4 million revenue requirement increase contained in the April 9 Settlement, or 41.5% of the increase. Revenue Allocation Petition at ¶10.

The OSBA argues that there is no credible testimony in this proceeding that would allow the Commission to allocate costs differently than proposed by OSBA's witness, Robert Knecht. OSBA Comments at 3-10. Respectfully, the OCA submits that this argument is in error. OCA witness Karl Pavlovic detailed the basis upon which the Commission should not accept the OSBA's preferred cost of service study through Direct, Rebuttal and Surrebuttal testimony. In Rebuttal testimony, Dr. Pavlovic rejected the two proposed allocations of OSBA witness Knecht, stating:

Both revenue increase allocations are based on cost studies that incorporate Minimum-Size classification/allocation of distribution accounts, which I demonstrated in my direct testimony is inconsistent with the principle of cost causation.

In the case of the RDK WP2 revenue increase allocation, Minimum-Size classification/allocation is erroneously applied to the secondary line costs in FERC Accounts 364-367 and the line transformer costs in FERC Account 368.

In the case of RDK WP3 revenue increase allocation, the Minimum-Size classification/allocation error is compounded by extending the error to the primary line costs in FERC Accounts 364-367 and the service costs in FERC Account 369.

OCA St. 2-R at 10. Dr. Pavlovic based this recommendation on his analysis of the cost of service studies presented by the Company and OSBA that is explained in his direct and rebuttal testimony. See, OCA St. 1 at 13-22; see also, OCA St. 2 at 2-8.

OSBA further argues that the Company accepted certain modifications to its Cost of Service Study (COSS) methodology identified by the OSBA, and that OSBA has the only allocation supported by an error-free COSS. OSBA Comments at 3. Critically, the Company did not accept the modifications to revenue allocation that the OSBA proposed in its direct testimony based on those changes to COSS results. The OSBA argues that the OCA has “at least implicitly” recognized that the Company erred in not changing its proposed allocation. OSBA Comments at 10. This is unequivocally incorrect. The OSBA assumes that the Company would have filed the OSBA preferred allocation had it filed the “corrected” study that is contained in the OSBA’s testimony. That is an assertion and assumption that has no factual basis.

The OCA submits that mechanically tying revenue allocation to a specific study would not be reasonable in this case. As the Company explained, its COSS was “simply to be used as a guide or direction for the proposed rate proposals.” Pike St. 1R at 3. As the OCA explained in its Main Brief, the Commonwealth Court of Pennsylvania provided that the “polestar” for determining the level of revenue for the different rate cases should be the cost of providing service to those different rate classes. Lloyd v. Pa. PUC, 904 A.2d 1010, at 1020 (Pa. Commw. Ct. 2004) (Lloyd). “Polestar”

is a literary reference meaning “directing principle” or a “guide.”<sup>1</sup> It is axiomatic that COSS, while providing guidance, do not capture cost causation with absolute precision. Applying the OSBA’s mechanical allocation, particularly during the pandemic, would result in unreasonable residential rate shock.

2. The OCA’s Cost of Service Study Reflects the Uniqueness of Pike’s Delivery System.

In its Comments, OSBA argues that the Cost of Service study approaches utilized by Columbia Gas and UGI Electric support the adoption of its preferred COSS in this proceeding. OSBA Comments at 7-8. As the OCA’s witness Dr. Karl Pavlovic testified, however, Pike’s electric delivery system is supplied by a single substation. OCA St. 2 at 19. As a result, the accepted theoretical basis for conducting a Cost of Service Study in the manner conducted for Pennsylvania’s large distribution system is lacking in this case. See, OCA St. 2 at 12-20. Specifically in relation to the uniqueness of Pike, OCA witness Pavlovic explained that demand-related costs should be allocated on a Coincident Peak (CP) rather than Non-Coincident Peak (NCP) basis.

In its rebuttal testimony, OSBA argued that the fact that Pike’s distribution system was unlike other systems did not alter the need to adopt its preferred cost study – specifically that Non-NCP allocators should be used to allocate demand-related costs. OSBA St 1-R at 6-7. OCA witness Pavlovic rebutted the OSBA position point by point. See, OCA St. 1-SR at 13-15. Regarding OSBA’s testimony that because PCLP’s customers are served by both PCLP’s single substation and an Orange and Rockland substation, the benefits of diversity are overstated by CP demand allocation, Dr. Pavlovic responded, “OSBA is simply wrong. Because PCLP’s substation is serving only PCLP customers, the diversity impact on PCLP’s substation will be exactly the

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<sup>1</sup> The American Heritage Dictionary, Houghton Mifflin Co. (1985).

same whether or not the Orange and Rockland substation is connected to PCLP's system." OCA St. 1-SR at 14.

Regarding OSBA's assertion that CP demand is not the cost driver of demand-related facilities downstream of PCLP's substation, OCA witness Pavlovic testified that the OSBA was incorrect because, "the cost driver of demand-related facilities at every level is the CP demand on those facilities and CP demand is therefore the allocation method that is consistent with the principle of cost causation." OCA St. 1-SR at 14. In addition, Dr. Pavlovic testified that OSBA's assertion that his analysis assumed no diversity of demand on Pike's system was incorrect, as his analysis assumed that there are, "no significant differences in diversity in PCLP's system, not that there is no diversity." OCA St. 1-SR at 15.

The OCA submits that basing the allocation of the revenue increase in this case on either of the two Cost of Service Studies preferred by OSBA is inappropriate, as those studies do not reflect the unique realities of Pike's distribution system.

3. The Revenue Allocation Petition Appropriately Applies Principles of Gradualism and Rate Stability.

The Commission recently acknowledged the impact that the Covid-19 pandemic may have on applying principles of gradualism and rate stability in allocating revenue increases in a base rate proceeding. Pa. PUC v. Columbia Gas of Pennsylvania, Docket No. R-2020-3018835, Opinion and Order at 233-234 (Feb. 19, 2021). The OSBA argues against the application of gradualism as a factor supporting the Revenue Allocation Petition. OSBA Comments at 5.

Given the public input testimony in this case and the ongoing pandemic and associated economic hardship (See, OCA St. 2 at 4-12), however, the OCA respectfully submits that allocating residential customers a substantially greater percentage of the increase than was initially

proposed by the Company would not be prudent. The Commission recently acknowledged the impact that the Covid-19 pandemic may have on applying principles of gradualism and rate stability in allocating revenue increases in a base rate proceeding. Pa. PUC v. Columbia Gas of Pennsylvania, Docket No. R-2020-3018835, Opinion and Order at 233-234 (Feb. 19, 2021).

The Revenue Allocation Petition increase is approximately consistent with Company's initial filing. That is, the amount of increase given to residential customers would approximate the increase initially proposed by the Company (scaled down to the \$1.4 increase). As a result, the increase would be in line with the amounts proposed by the Company and contained in the public notices that went to consumers and upon which public input testimony was provided.

4. Conclusion.

The terms and conditions of the proposed revenue allocation contained in the Revenue Allocation Petition, when viewed in conjunction with the April 9 Settlement, represents a fair and reasonable resolution of the issues and claims arising in this proceeding. Despite OSBA's objections, the allocation proposal is supported by the record. The resulting rates are within the range of anticipated outcomes in this proceeding, the first rate case the Company has filed since 2014, and properly apply ratemaking principles during the Covid-19 pandemic.

WHEREFORE, for the foregoing reasons, the Office of Consumer Advocate submits that the proposed Revenue Allocation Petition and the April 9 Settlement are in the interest of Pike's ratepayers and the public interest, and should be approved.

Respectfully Submitted,

/s/Aron J. Beatty

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