

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Verizon Pennsylvania LLC and Verizon North LLC

v.

**Metropolitan Edison Company, Pennsylvania Electric Company, and
Pennsylvania Power Company
Docket No. C-2020-3019347**

**Rebuttal Testimony
of**

Joanne M. Savage

List of Topics Addressed

Joint Use Revenues Are Credited to Customers in Base Rate Cases

NON-PROPRIETARY VERSION

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1 **Q. What is your educational and professional background?**

2 A. I received a Bachelor of Science degree in Accounting and Finance from Albright College
3 and a Master of Business Administration degree in Corporate Finance from Alvernia
4 University. I have been employed by FirstEnergy Service Company since 2005 and have
5 held various positions of increasing responsibility in the Rates and Regulatory Affairs
6 Department since that time. In March 2019, I was named to my current position. My work
7 experience is more fully described in Attachment A attached to my testimony.

8

9 **Q. Have you previously testified as a witness before the Commission or any other**
10 **regulatory body?**

11 A. Yes. I have previously testified both before the Commission and before the Public Utilities
12 Commission of Ohio in other rate-related matters.

13

14 **Q. On whose behalf are you testifying in this proceeding?**

15 A. I am testifying on behalf of Met-Ed, Penelec, and Penn Power (collectively, “FirstEnergy”
16 or the “Companies”).

17

18 **Q. What is the purpose your rebuttal testimony?**

19 A. I will respond to certain claims in the direct testimony and exhibits submitted by Dr. Calnon
20 and Dr. Tardiff on behalf of Verizon Pennsylvania LLC and Verizon North LLC
21 (collectively, “Verizon”). Specifically, I will address how joint use revenues are reflected
22 in the Companies’ base rate proceedings, the impact of a reduction in joint use revenues to
23 the Companies’ electric customers, and the financial consequences to the Companies of
24 refunding prior year joint use fees to Verizon.

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Q. Are you sponsoring any exhibits with your rebuttal testimony?

A. Yes, I am sponsoring FirstEnergy Exhibit JMS-1.

II. JOINT USE REVENUES ARE CREDITED TO ELECTRIC CUSTOMERS

Q. Can you provide us with a general overview of how electric distribution companies’ (“EDCs”) rates are established and regulated by the Commission?

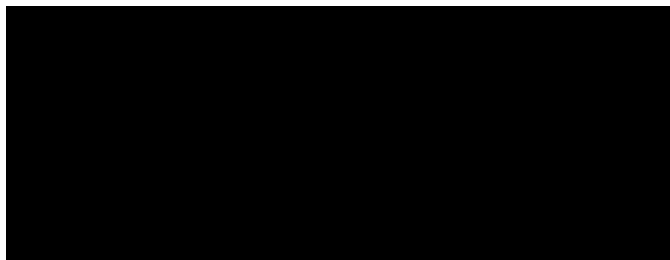
A. I have been advised by counsel that under the Pennsylvania Public Utility Code, EDCs’ rates must be just and reasonable as well as non-discriminatory (*i.e.*, not grant any person an unreasonable preference or advantage or subject any person to an unreasonable prejudice or disadvantage).¹ The Commission establishes EDCs’ electric distribution rates in Section 1308(d) base rate proceedings.² In those cases, the Commission uses rate base and a rate of return to establish an EDC’s revenue requirement. The revenue requirement is then allocated among the EDC’s customer classes based upon a fully allocated class cost of service study. Lastly, customer classes’ rates are designed and established to provide the EDC with a fair opportunity to recover the revenue requirement.

Q. Within this overall construct, how are joint use revenues reflected in the Companies’ base rate proceedings?

A. When the Companies file base rate proceedings, joint use and other pole attachment revenues are a credit in the calculation of the total revenue requirement. In other words, this credit acts as an offset to directly reduce the amount of revenues required from the

¹ See 66 Pa.C.S. §§ 1301, 1304.
² See 66 Pa.C.S. § 1308(d).

1 Companies' electric customers. The Companies' rates are designed so the Companies do
2 not profit from providing pole attachment services to Verizon and other third parties as one
3 hundred percent of the joint use revenues offset the rates to be paid by electric customers.
4 In addition, the pole attachment credit set in a base rate case does not change between rate
5 cases. To offer an order of magnitude, the following table shows 2019 revenues associated
6 with joint use contracts with incumbent local exchange carriers ("ILECs"), as well as the
7 amount of 2019 revenue attributed specifically to Verizon: **[BEGIN CONFIDENTIAL]**



8 **[END CONFIDENTIAL]**

9 **Q. If the Commission reduces the joint use fees that Verizon pays to FirstEnergy, will**
10 **that impact electric customers?**

11 A. Yes. A reduction in joint use fees paid by Verizon will result in lower joint use revenues
12 and therefore a smaller credit to electric ratepayers when the Companies calculate the
13 revenue requirement in their next base rate cases, resulting in higher base distribution rates
14 than would otherwise be the case absent the reduction in joint use fees. This will cause the
15 Companies' electric ratepayers to pay more as a result of any joint use fee reduction. A
16 change in the revenues received from Verizon now would create a disconnect between joint
17 use revenues collected and joint use revenues returned to customers in the Companies'
18 Commission-approved rates.

19

1 **Q. If the Commission reduces the joint use fees that Verizon pays to FirstEnergy, what**
2 **is your position as to whether the Commission should require the Companies to pay**
3 **any refunds to Verizon?**

4 A. I am not a lawyer and understand that the Companies will address the legal issues
5 associated with refunds in briefing. However, I note that the Companies filed base rate
6 proceedings in both 2014 and 2016.³ If Verizon had litigated these issues prior to the
7 Companies filing these base rate cases, FirstEnergy could have reflected any reduction in
8 joint use revenues in the Companies' proposed revenue requirements in those cases. It is
9 unreasonable for Verizon to wait eight years with a negotiated contract in place to file a
10 Complaint and then ask for changes to the joint use fees to be applied retroactively. The
11 Commission has already incorporated joint use fees in the rates that electric customers pay.
12 As explained in the rebuttal testimony of FirstEnergy witness Stephen F. Schafer
13 (FirstEnergy Statement No. 1-R), the Companies do not agree that there should be any
14 reduction in joint use fees based on the longstanding joint use agreements. However, if the
15 Commission determines that Verizon's joint use payments should be reduced, it should
16 only be on a prospective basis, and this rate change should be reflected when new base
17 rates are established for the Companies.

18
19 **Q. If the Commission decides to reduce the joint use fees or award Verizon refunds for**
20 **prior years, what relief should FirstEnergy receive?**

21 A. Because any change in these revenues will be the direct result of a Commission action, the
22 Companies should be permitted to defer, on an ongoing basis with carrying costs, any

³ See Docket Nos. R-2014-2428745 (Met-Ed 2014), R-2014-2428743 (Penelec 2014), R-2014-2428744 (Penn Power 2014), R-2016-2537349 (Met-Ed 2016), R-2016-2537352 (Penelec 2016) and R-2016-2537355 (Penn Power 2016).

1 annual reductions in joint use revenues received and be permitted to seek recovery of these
2 lost revenues in the Companies' next base rate proceedings. If joint use fees were reduced
3 at any time other than when new base rates are set, the Companies' electric customers
4 would continue paying less than they otherwise would have to pay because the existing
5 offset to the revenue requirement would be higher than the joint use revenues received,
6 thus creating a revenue shortfall for the Companies. If a refund is ordered, the Companies
7 also should be permitted to defer the refund on its books for accounting purposes with
8 carrying costs for recovery in their next base rate proceedings.

9
10 **Q. What may be the impact to other Pennsylvania EDCs if Verizon's requested relief**
11 **were granted by the Commission?**

12 A. I expect that the increase in electric rates would extend beyond the Companies and the
13 amounts involved in this proceeding. This is the first joint use agreement rate dispute
14 before the Commission, and I have been advised by counsel that the Commission's
15 decision in this case likely will set precedent for resolution of any future such rate disputes.
16 Verizon is not the only ILEC with whom the Companies have joint use agreements at
17 negotiated cost-sharing rates. The other major EDCs in Pennsylvania (*i.e.*, PPL Electric
18 Utilities Corporation ("PPL Electric"), PECO Energy Company ("PECO"), Duquesne
19 Light Company ("Duquesne Light"), and West Penn) also have joint use agreements with
20 Verizon and other ILECs. Notably, Verizon's own Exhibit C-5 attached to its Formal
21 Complaint and Dr. Calnon's direct testimony (Verizon Statement No. 2.0) shows in excess
22 of \$28 million in annual "pole rental expenses" in Pennsylvania in 2017, and that is just

1 for Verizon.⁴ A reduction in electric utility offsets to revenue requirements will result in
2 the EDCs' proposed revenue requirements in base rate cases to increase for Pennsylvania
3 customers, even though Verizon acknowledges that a reduction in the rates FirstEnergy
4 charges Verizon is irrelevant to enhancing broadband services or deployment in
5 Pennsylvania.⁵

6
7 **Q. If the Commission were to find that the existing joint use rates are unjust and**
8 **unreasonable, what do you recommend that the Commission order in this case?**

9 A. For the reasons outlined in other FirstEnergy witnesses' rebuttal testimony, the
10 Commission should leave existing joint use agreements in effect that predate changes in
11 Federal Communications Commission ("FCC") or Commission oversight of the rates,
12 terms, and conditions of pole attachment agreements. However, to the extent that the
13 Commission were to find the existing joint use rates are unjust and unreasonable, I
14 recommend that from a ratemaking perspective, the Commission only apply any changes
15 to the joint use rates prospectively at the time of the next base rate proceeding. Further, if
16 the Commission decides to modify the fees retroactively or prior to the next base rate
17 proceeding, FirstEnergy must be allowed to defer for future recovery the full amount of
18 the differences with carrying charges between such modifications and the joint use revenue
19 amounts embedded in the Companies' electric rates. After all, the Companies' electric

⁴ FirstEnergy requested in discovery that Verizon identify joint use payments to PPL Electric, PECO, and Duquesne Light, but Verizon refused to produce the information. Currently, FirstEnergy has a pending Motion to Compel that seeks this information. I reserve the right to supplement my rebuttal testimony with this information if that Motion is ultimately granted by the presiding Administrative Law Judge.

⁵ See Exhibit JMS-1 (Verizon's Answer to FE to Verizon Set II, No. 8).

1 rates were reduced based on the good-faith inclusion of joint use revenues to offset the cost
2 of providing electric service.

3

4 **III. CONCLUSION**

5 **Q. Does this conclude your rebuttal testimony?**

6 A. Yes, it does at this time.