

**I&E Statement No. 1**  
**Witness: Lisa A. Gumby**

2/29/16  
1KG  
Jan

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**METROPOLITAN EDISON COMPANY**  
**PENNSYLVANIA ELECTRIC COMPANY**  
**MID-ATLANTIC INTERSTATE TRANSMISSION, LLC**

**Docket No. A-2015-2488903**  
**Docket No. A-2015-2488904**  
**Docket No. A-2015-2488905**

**Direct Testimony**

**of**

**Lisa A. Gumby**

**Bureau of Investigation & Enforcement**

**Concerning:**

**Application for Certificate of Public Convenience**  
**Transfer of Certain Transmission Assets**

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Lisa A. Gumby. My business address is Pennsylvania Public Utility  
3 Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

4  
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Pennsylvania Public Utility Commission in the Bureau of  
7 Investigation & Enforcement (I&E) as a Fixed Utility Valuation Engineer.

8  
9 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

10 A. An outline of my education and employment experience is attached as  
11 Appendix A.

12  
13 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

14 A. I&E is responsible for protecting the public interest in rate proceedings. The I&E  
15 analysis in this proceeding is based on its responsibility to represent the public  
16 interest. This responsibility requires the balancing of the interests of ratepayers  
17 and the Company.

18  
19 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

20 A. The purpose of my direct testimony is to address the FirstEnergy (FE or  
21 Company) filing of a joint application on behalf of Mid-Atlantic Interstate  
22 Transmission, LLC (MAIT), Metropolitan Edison Company (Met-Ed), and

1 Pennsylvania Electric Company (Penelec) (together, operating companies) seeking  
2 conferral of public utility status upon MAIT, seeking approval for transfer of  
3 certain transmission assets from Met-Ed and Penelec to MAIT, and seeking  
4 approval of certain affiliated interest agreements.

5  
6 **COMPANY APPLICATION**

7 **Q. SUMMARIZE THE COMPANY'S APPLICATION.**

8 A. The Company proposes to establish a newly-formed limited liability company  
9 (MAIT) to be jointly owned by FirstEnergy Transmission, LLC (FET), Met-Ed,  
10 Penelec, and Jersey Central Power & Light Company (JCP&L). Met-Ed, Penelec,  
11 and JCP&L are currently combined transmission and distribution companies  
12 owned by FE. The Company has simultaneously made this application with the  
13 New Jersey Board of Public Utilities (NJBPU) regarding the transfer of JCP&L  
14 transmission assets to MAIT. The Company is seeking a certificate of public  
15 convenience conferring public utility status to MAIT (Joint Application, pp. 1-2).

16  
17 **Q. WHY IS THE COMPANY PROPOSING THE RESTRUCTURING?**

18 A. The Company opines that the creation of a stand-alone transmission entity will  
19 have better credit metrics than that of the combined, individual operating  
20 companies (Joint Application, p. 2). Based on a projected \$2.5 to \$3.0 billion in  
21 additional transmission system capital investments over the next five- to ten-years,

1 the Company opines that the better credit metrics will result in debt cost savings of  
2 approximately \$135 million over the thirty-year life (Joint Application, pp. 2-3).

3  
4 **Q. DOES THE COMPANY OPINE THAT THE RESTRUCTURING IS**  
5 **BENEFICIAL TO THE EXISTING OPERATING COMPANIES, MET-ED**  
6 **AND PENELEC?**

7 A. Yes. The Company opines that without the need to issue debt to finance  
8 transmission investments, the operating companies will be better able to finance  
9 distribution system investments (Joint Application, p. 3).

10  
11 **MAIT COMPANY STRUCTURE**

12 **Q. HOW IS MAIT STRUCTURED?**

13 A. MAIT is a limited liability company that will be a consolidated subsidiary of FET.  
14 It will be an affiliate of FirstEnergy Service Company (FESC), which will provide  
15 various administrative and management services (Joint Application, pp. 6-7).

16  
17 **Q. WHAT IS THE COMPANY'S STATED CAPITAL STRUCTURE OF**  
18 **MAIT?**

19 A. MAIT will initially have a 100% equity capital structure generated from the  
20 contribution of transmission assets from the operating companies and a cash  
21 contribution from FET to establish its ownership share. Further, the operating  
22 companies will record Class B membership interests in MAIT in exchange for the

1 transmission assets, which will result in a tax-free exchange of assets and no  
2 change in the operating companies' capital structures (Joint Application, pp. 5-8).

3  
4 **Q. DOES THE TRANSFER OF ASSETS INCLUDE THE LAND**  
5 **ASSOCIATED WITH THE TRANSMISSION ASSETS?**

6 A. No. The operating companies will not transfer an interest in land or real estate to  
7 MAIT in connection with the contribution of transmission assets. MAIT will enter  
8 into ground leases with each of the operating companies to secure the real estate  
9 interests and access rights to operate and maintain the transmission facilities (Joint  
10 Application, p. 8).

11  
12 **Q. WILL THE REVENUE FROM THE GROUND LEASES BE INCLUDED**  
13 **WHEN DETERMINING THE DISTRIBUTION COMPANY REVENUE**  
14 **REQUIREMENT IN FUTURE BASE RATE CASES?**

15 A. No. The Company proposes that the revenue received by the operating companies  
16 for ground leases would be excluded in determining the distribution revenue  
17 requirement in future distribution base rate cases (Joint Application, p. 8).

1 **Q. HOW DID THE COMPANY DETERMINE THE GROUND LEASE RATE?**

2 A. The annual base rent amount is calculated to be equivalent to the revenue  
3 requirement that was associated with the net book value of land and land rights  
4 previously included in transmission rate base (Joint Applicants' Statement No. 4,  
5 p. 7).

6

7 **OPERATING COMPANY ACCOUNTING**

8 **Q. IS THE CAPITAL STRUCTURE OF THE OPERATING COMPANIES,**  
9 **MET-ED AND PENELEC, AFFECTED BY THE TRANSFER OF**  
10 **TRANSMISSION ASSETS TO MAIT?**

11 A. The Company states that the capital structure of the operating companies will not  
12 be affected by the transaction. The Companies will replace transmission assets  
13 with Class B membership in MAIT (stock), which will maintain the existing  
14 capital structure. The operating companies' investment in assets will shift from  
15 plant accounts to an asset account, FERC Account 123.1 *Investment in Subsidiary*  
16 *Companies* (Joint Applicants' Statement No. 1, p. 9).

17

18 **Q. WILL THE COMPANY TRANSFER DEBT ASSOCIATED WITH**  
19 **TRANSMISSION ASSETS FROM THE OPERATING COMPANIES TO**  
20 **MAIT?**

21 A. No. The operating companies do not attribute debt to specific assets, so no  
22 transfer of existing debt will occur (Joint Applicants' Statement No. 3, p. 7).

1 **Q. WILL OPERATING COMPANY EMPLOYEES CURRENTLY**  
2 **PERFORMING TRANSMISSION DUTIES BE TRANSFERRED TO**  
3 **MAIT?**

4 A. No. MAIT will have a Board of Managers and Officers; it will not have  
5 employees of its own. MAIT will be a party to the revised Mutual Assistance  
6 Agreement (MAA), which will permit employees of the operating companies to  
7 provide services to MAIT (Company Statement No. 3, p. 7).

8

9 **I&E POSITION**

10 **Q. WHAT CONCERNS DO YOU HAVE WITH THE COMPANY'S**  
11 **PROPOSAL?**

12 A. I have concerns that the Company's proposal will increase costs for the  
13 distribution ratepayers while simultaneously increasing the operating companies'  
14 revenues that are not considered above the line for future base rate cases'  
15 distribution revenue requirement, which also affects ratepayers.

16

17 **Q. HOW MAY THE COMPANY'S PROPOSAL INCREASE COSTS TO**  
18 **DISTRIBUTION RATEPAYERS?**

19 A. MAIT will have no employees, other than officers. Thus the salaries, benefits, and  
20 overhead associated with employees previously performing transmission work will  
21 become part of distribution operating and maintenance (O&M) expenses.

22 Additionally, costs that were originally shared with transmission operations based



1 on a cost of service study (COSS) allocation may be impacted by either changes in  
2 employee count or occupied floor space (utilities, building maintenance  
3 operations, depreciation, etc.). Administrative and general expenses allocated to  
4 the operating companies from FESC may increase as well due to the same COSS  
5 allocation issues.

6  
7 **Q. HOW COULD THE ALLOCATED EXPENSES INCREASE FOR THE**  
8 **OPERATING COMPANIES?**

9 A. Allocated expenses for the operating companies could increase because expenses  
10 are frequently allocated based on employee count or occupied floor space, the  
11 proposed transaction has minimized these items for MAIT and stranded these  
12 items at the operating companies. The proposed transaction minimizes the number  
13 of employees at MAIT, leaving them instead at the operating companies.  
14 Additionally the proposed transaction minimizes the occupied floor space of  
15 MAIT.

16  
17 **Q. THE MAA ALLOWS MAIT TO CONTRACT WITH THE OPERATING**  
18 **COMPANIES FOR TRANSMISSION SYSTEM SERVICES SO**  
19 **WOULDN'T THE OPERATING COMPANIES BE REIMBURSED FOR**  
20 **THESE COST INCREASES THROUGH REVENUES RECEIVED FOR**  
21 **SERVICES CONTRACTED TO MAIT?**

1 A. No. While MAIT has the *option* of contracting necessary transmission system  
2 services from the operating companies via the MAA, it is *not* contractually  
3 obligated to do so. Particularly in consideration of the increased capital  
4 investments projected for the transmission operations, it is unlikely that the  
5 operating companies would have sufficient available staff to support the increased  
6 capital projects. It is reasonable to expect that MAIT will use competitive bidding  
7 that will include outside vendors when it needs transmission system services.  
8 Additionally, the other allocated operating company costs that are not salary  
9 related (utilities, building maintenance operations, depreciation, etc.) would not be  
10 reimbursed.

11

12 **Q. WILL RETAINING ALL OF THE DEBT AT THE OPERATING**  
13 **COMPANIES IMPACT DISTRIBUTION COSTS?**

14 A. Not immediately. The interest expense assessed to distribution operations will not  
15 be affected by retention of all debt, since the interest expense is calculated based  
16 on the weighted debt rate multiplied by the distribution rate base. However, it is  
17 impossible to predict what impact retention of the total transmission and  
18 distribution debt may have on future debt rates available to the operating  
19 companies, so there may be a future impact to interest expense.

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING FIRSTENERGY'S**  
2 **PROPOSAL TO SEPARATE TRANSMISSION AND DISTRIBUTION**  
3 **OPERATING FUNCTIONS THROUGH THE FORMATION OF THE**  
4 **STAND-ALONE TRANSMISSION COMPANY, MAIT?**

5 A. I recommend that the Commission approve the FirstEnergy application to establish  
6 a stand-alone transmission entity through the transfer of transmission assets from  
7 the operating companies to MAIT, with conditions to protect distribution  
8 ratepayers in the ensuing transition period.

9  
10 **Q. WHAT CONDITIONS DO YOU RECOMMEND?**

11 A. I recommend that the distribution O&M expenses that were previously allocated  
12 between distribution and transmission, including FESC costs, be subject to an  
13 adjustment factor, as needed, if the Company files a new distribution base rate  
14 case within five-years of the separation of the transmission system assets.

15  
16 **Q. WHY DO YOU RECOMMEND AN ADJUSTMENT FACTOR UNDER**  
17 **THOSE CIRCUMSTANCES?**

18 A. With the projected acceleration in transmission system investments, it is uncertain  
19 whether MAIT will utilize any or all of the services of operating company  
20 employees previously serving transmission functions. Since it will take a few  
21 years for employee levels and costs to stabilize following the separation of the  
22 transmission assets, distribution ratepayers should receive some certainty that

1 distribution rates will not increase in response to stranded transmission system  
2 costs.

3  
4 **Q. HOW WOULD YOU RECOMMEND AN ADJUSTMENT FACTOR BE**  
5 **STRUCTURED?**

6 A. I recommend that the allocation factors used in the last base rate case for each  
7 operating company's transmission/distribution allocated costs be applied as a  
8 reduction factor to those cost items in determining a distribution revenue  
9 requirement. Any income received for services provided to MAIT would reduce  
10 the adjustment to operating company costs.

11 For example, if salaries totaled \$100,000 in the new base rate case historic  
12 test year (HTY) and 10% was allocated to transmission operations in the 2014  
13 base rate case, only \$90,000 ( $(\$100,000 - (.10 \times \$100,000))$ ) would be allowed for  
14 the revenue requirement for distribution rate payers. However, if MAIT paid  
15 \$5,000 in MAA fees to the operating company in the HTY, then \$95,000 in  
16 salaries would be allowed in establishing the revenue requirement as the \$5,000  
17 would be offset by the MAA fees from MAIT.

1 **Q. HOW WOULD THE OPERATING COMPANIES FUND THE**  
2 **ADJUSTMENTS TO THE DISTRIBUTION REVENUE REQUIREMENT?**

3 A. I recommend that the operating companies be required to utilize the ground lease  
4 and dividend revenues received from MAIT that are excluded from distribution  
5 revenues to fund the adjustments to the distribution revenue requirement.

6  
7 **Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS REGARDING THE**  
8 **REVENUE PROVIDED BY MAIT TO THE OPERATING COMPANIES**  
9 **FOR THE GROUND LEASES AND DIVIDEND PAYMENTS?**

10 A. Yes. If the Company is unwilling to compensate distribution ratepayers for the  
11 stranded transmission system costs based on the last base rate case COSS  
12 allocations, I recommend that all ground lease revenues and dividend payments be  
13 considered above the line as a part of distribution revenue in determining the  
14 revenue requirement for ratemaking purposes.

15  
16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes.

**LISA A. GUMBY**

**PROFESSIONAL EXPERIENCE AND EDUCATION**

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**EDUCATION & TRAINING:**

National Association of Regulatory Utility Commissioners Utility Rate School  
October 29-November 2, 2012.

Harrisburg Area Community College, Harrisburg, Pennsylvania  
Accounting & Finance Course Work, 20 credits, 2008-2011

Pennsylvania State University, Harrisburg, Pennsylvania  
Bachelor of Science; Major in Electrical Engineering Technology, 1984

**EXPERIENCE:**

12/2012 - Present  
Fixed Utility Valuation Engineer  
Pennsylvania Public Utility Commission, Bureau of Investigation & Enforcement

12/2011 – 12/2012  
Fixed Utility Financial Analyst  
Pennsylvania Public Utility Commission, Bureau of Investigation & Enforcement

01/2010 – 12/2011  
Accountant I  
Pennsylvania Department of Revenue, Gaming Division

03/2006 – 01/2010  
Unemployment Compensation Tax Technician  
Pennsylvania Department of Labor & Industry, UC Tax Services

10/2004 – 12/2005  
Front Office Manager  
Country Inn & Suites, Mechanicsburg, PA

01/1989 – 02/2004  
General Manager  
J&L Autoworks, Mechanicsburg, PA

07/1984 – 11/1993  
High Reliability Program Manager/Design Engineer  
McCoy Electronics Company, Mt. Holly Springs, PA

LISA A. GUMBY

**PROFESSIONAL EXPERIENCE AND EDUCATION**

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**TESTIMONY SUBMITTED:**

I have testified and/or participated in the following proceedings:

- Equitable Gas Company LLC, Docket Nos. R-2012-2304727, R-2012-2304731, R-2012-2304735
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2012-2321748
- PGW, 1307(f), Docket No. R-2013-2346376
- UGI Utilities Inc., 1307(f), Docket No. R-2013-2361771
- UGI Utilities Inc., UGI Penn Natural Gas, Inc., UGI Central Penn Gas, Inc., Docket No. P-2013-2356232
- PPL Electric Utilities Corporation, Docket No. R-2012-2290597
- Pennsylvania American Water Company, Docket No. R-2013-2355276
- Cooperstown Water Company, Docket No. R-2013-2367125
- City of Bethlehem – Bureau of Water, Docket No. R-2013-2390244
- Pike County Light & Power Company (Electric), Docket No. R-2013-2397237
- Columbia Gas of Pennsylvania, Inc., Docket No. R-2014-2407345
- UGI Utilities Inc., 1307(f), Docket No. R-2014-2420276
- City of Lancaster – Bureau of Water, Docket No. R-2014-2418872
- Citizens' Electric Company of Lewisburg, PA, Docket No. R-2014-2419776
- Peoples Natural Gas Company LLC, Docket No. R-2014-2429610
- FirstEnergy Companies, Docket Nos. R-2014-2428742, R-2014-2428743, R-2014-2428744, R-2014-2428745
- PECO Energy Company, Docket No. P-2014-2451772
- United Water PA, Docket No. R-2015-2462723
- PGW, 1307(f), Docket No. R-2015-2465656
- PPL Electric Utilities Corporation, Docket No. R-2015-2469275
- UGI Utilities Inc., 1307(f), Docket No. R-2015-2480950

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>Pennsylvania Public Utility Commission</b>	:	
<b>v.</b>	:	Docket Nos. A-2015-2488903
<b>Metropolitan Edison Company</b>	:	A-2015-2488904
<b>Pennsylvania Electric Company</b>	:	A-2015-2488905
<b>Mid-Atlantic Interstate Transmission, LLC</b>	:	

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**VERIFICATION OF LISA GUMBY**


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I, **Lisa Gumby**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that **I&E Statement No. 1** was prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Harrisburg, Pennsylvania, this 29<sup>th</sup> day of February, 2016.

  
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Lisa Gumby