



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

October 13, 2022

Via Electronic Filing

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

Re: Pennsylvania Public Utility Commission v.
Citizens' Electric Company of Lewisburg, PA
Docket No.: R-2022-3032369
I&E Pre-Served Testimony, Exhibits, and Verification Statements

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the **Pre-Served Testimony, Exhibits, and Verification Statements** of the Bureau of Investigation & Enforcement's (I&E) witnesses in the above-captioned proceeding. The following documents were admitted into the record by Administrative Law Judges Vero's and Collins's Order Granting Joint Stipulation for Admission of Evidence dated October 11, 2022:

Zachari Walker	I&E Statement No. 1 I&E Exhibit No. 1 I&E Statement No. 1-SR
Anthony Spadaccio	I&E Statement No. 2 I&E Exhibit No. 2 I&E Statement No. 2-SR
Esyan Sakaya	I&E Statement No. 3 I&E Exhibit No. 3 (Revised) I&E Statement No 3-SR I&E Exhibit No. 3-SR

Witness Verification Statements

Copies of this letter are being served on parties of record per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Scott B. Granger".

Scott B. Granger
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney ID No. 63641
(717) 425-7593
sgranger@pa.gov

SBG/ac
Enclosure

cc: Honorable Eranda Vero (*Cover Letter and Certificate of Service only - via email*)
Honorable Charece Z. Collins (*Cover Letter and Certificate of Service only - via email*)
Per Certificate of Service (*Cover Letter and Certificate of Service only - via email*)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : Docket No.: R-2022-3032369
 :
 Citizens' Electric Company of Lewisburg, PA :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony, Exhibits, and Verification Statements** dated October 13, 2022, in the manner and upon the persons listed below:

Served via Electronic Mail Only

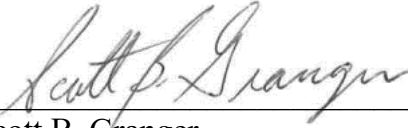
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I&E Statement No. 1
Witness: Zachari Walker

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

Direct Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

STATE INCOME TAX EXPENSE

CASH WORKING CAPITAL

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1 **INTRODUCTION**

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

3 A. My name is Zachari Walker, and my business address is Pennsylvania Public
4 Utility Commission, 400 North Street, Harrisburg, PA 17120.

5

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

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9 Analyst.

10

11 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

12 A. My education and employment background is attached as Appendix A.

13

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

15 A. I&E is responsible for representing the public interest in rate and other
16 proceedings before the Commission. I&E's analysis in this proceeding is based on
17 its responsibility to represent the public interest. This responsibility requires
18 balancing the interests of ratepayers, the regulated utility, and the regulated
19 community as a whole.

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

2 A. The purpose of my direct testimony is to review the base rate filing of Citizens'
3 Electric Company of Lewisburg, PA (Citizens' or Company), and recommend
4 adjustments to the Company's proposed operating and maintenance (O&M)
5 expenses, taxes, and cash working capital (CWC) claims for the fully projected
6 future test year (FPFTY) ending December 31, 2023.

7

8 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

9 A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

10

11 **Q. PLEASE SUMMARIZE THE COMPANY'S REQUESTED REVENUE**
12 **INCREASE.**

13 A. Citizens' base rate case was filed on April 29, 2022, with a requested increase of
14 \$999,270¹ to claimed present rate revenues of \$5,129,820 resulting in an overall
15 revenue requirement of \$6,129,090.² It should be noted that the Company states it
16 can justify a \$1,225,678 increase to claimed present rate revenues.³

¹ Citizens' Statement No. 1 (CU), p. 2.

² Citizens' Exhibit HSG-1, Schedule C1 (CU).

³ Citizens' Statement No. 1 (CU), p. 2.

1 **Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.**

2 A. The following table summarizes my recommended adjustments:

	<u>Company Claim</u>	<u>I&E Recommended Allowance</u>	<u>I&E Adjustment</u>
O&M Expenses:			
Charitable Contributions	\$28,050	\$0	(\$28,050)
Total O&M Expense Adjustments			<u>(\$28,050)</u>
Taxes:			
State Income Tax Expense	\$111,610	\$98,967	(\$12,643)
Total Tax Adjustments			<u>(\$12,643)</u>
Rate Base Adjustments:			
Cash Working Capital	\$401,916	\$398,410	(\$3,506)
Total Rate Base Adjustments			<u>(\$3,506)</u>

3

4

5 **SUMMARY OF I&E OVERALL POSITION**

6 **Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT?**

7 A. I&E's total recommended revenue requirement for the Company is \$6,147,633.

8 This recommended revenue requirement represents an increase of \$930,452 to the

9 present rate revenues of \$5,217,181. This total recommended allowance

10 incorporates my adjustments made in this testimony and those made in the

11 testimony of I&E witness Anthony Spadaccio.⁴

⁴ I&E Statement No. 2.

1 A calculation of the I&E recommended revenue requirement is shown in the
 2 table below:

Citizens' Electric Company of Lewisburg, PA		TABLE I			
R-2022-3032369		INCOME		SUMMARY	
	12/31/23	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	5,217,181	0	5,217,181	930,452	6,147,633
Deductions:					
O&M Expenses	3,294,915	-28,050	3,266,865	0	3,266,865
Depreciation	1,234,398	0	1,234,398		1,234,398
Taxes, Other	381,871	0	381,871	54,897	436,768
Income Taxes:					
Current State	17,676	2,579	20,255	78,712	98,967
Current Federal	56,521	5,481	62,002	167,337	229,339
Deferred Taxes	-5,827	0	-5,827		-5,827
ITC	0	0	0		0
Total Deductions	4,979,554	-19,990	4,959,564	300,946	5,260,510
Income Available	237,627	19,990	257,617	629,506	887,123
Measure of Value	13,630,593	-3,506	13,627,087	0	13,627,087
Rate of Return	1.74%		1.89%		6.51%

3
 4

5 **CHARITABLE CONTRIBUTIONS**

6 **Q. WHAT ARE CHARITABLE CONTRIBUTIONS?**

7 A. Charitable contributions are elective donations made to organizations without any
 8 consideration or exchange in return expected.

9
 10 **Q. WHAT IS THE COMPANY'S CLAIM FOR CHARITABLE**
 11 **CONTRIBUTIONS?**

12 A. In response to I&E-RE-32, the Company neither provided the FPFTY expense

1 amount claimed for charitable contributions, nor stated no charitable contributions
2 were claimed in the FPPTY, as requested.⁵ Therefore, it must be assumed that the
3 FPPTY claim for charitable contributions matches the HTY amount of \$28,050.⁶
4

5 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

6 A. The Company claims that the charitable contributions reflect Citizens' support of
7 important initiatives which improve the community and the lives of its customers
8 and employees.⁷
9

10 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM FOR CHARITABLE**
11 **CONTRIBUTIONS?**

12 A. No.
13

14 **Q. WHAT IS YOUR RECOMMENDATION?**

15 A. I recommend disallowance of the \$28,050 charitable contributions claim in its
16 entirety.
17

18 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

19 A. Charitable contributions are not necessary to provide safe and reliable service to
20 ratepayers. In addition, these payments provide no direct benefit to ratepayers.

⁵ I&E Exhibit No. 1, Schedule 1, p. 2.

⁶ I&E Exhibit No. 1, Schedule 1, p. 1.

⁷ I&E Exhibit No. 1, Schedule 1, p. 2.

1 Furthermore, ratepayers should not be required to finance the Company’s decision
2 to contribute to various charitable organizations. My recommendation is not an
3 attempt to dictate whether the Company makes such contributions. In contrast, it
4 is an assertion that ratepayers should not be required to fund such contributions.

5
6 **COVID-19 RELATED EXTRAORDINARY COSTS**

7 **Q. WHAT EXPENSES ARE INCLUDED IN THE COMPANY’S CLAIM FOR**
8 **COVID-19 RELATED EXTRAORDINARY COSTS?**

9 A. The Company’s claim for COVID-19 related extraordinary costs includes carrying
10 costs on higher-than-normal uncollectible accounts expense, out-of-pocket costs
11 directly related to the pandemic, and waived late fees for protected customers plus
12 carrying costs on these fees.⁸

13
14 **Q. WHAT IS UNCOLLECTIBLE ACCOUNTS EXPENSE?**

15 A. Uncollectible accounts expense consists of specific receivables that are determined
16 to be uncollectible, in whole or in part, either because the debtors do not pay or
17 because the creditor finds it impracticable to enforce payment. Those accounts
18 deemed uncollectible are charged against income as uncollectible accounts
19 expense.

⁸ Citizens’ Statement No. 1, pp. 10-11.

1 **Q. HOW DO UTILITIES RECOGNIZE UNCOLLECTIBLE EXPENSE FOR**
2 **RATEMAKING PURPOSES?**

3 A. Generally, for ratemaking purposes, utilities compute uncollectible expense on an
4 annual prospective basis. While the uncollectible expense is a prospective claim,
5 the proper calculation begins with a historic analysis of actual net write-offs to
6 gross revenues to develop a historic write-off ratio. Thus, net write-offs are gross
7 write-offs less recoveries of amounts previously written off. This ratio is applied
8 to projected revenues to determine the proper prospective allowance. Normally,
9 the historic analysis is based on several years of data.

10

11 **Q. WHAT CLAIM ARE YOU ADDRESSING HEREIN?**

12 A. I am addressing the recovery of the COVID-19 related extraordinary costs
13 associated with uncollectible accounts expense and other COVID-19 related
14 expense deferrals.

15

16 **Q. WHAT IS THE COMPANY'S CLAIM FOR COVID-19**
17 **EXTRAORDINARY COSTS?**

18 A. The Company's total claim for COVID-19 related extraordinary cost recovery is
19 \$43,734 (\$14,578⁹ x 3 years). The Company is also proposing regulatory asset

⁹ Citizens' Exhibit HSG-1, Schedule C1-7 (CU), line 7.

1 treatment going forward for incremental uncollectible costs above what is included
2 in this proceeding to be recovered in the next base rate proceeding.¹⁰

3
4 **Q. WHAT IS THE BASIS FOR THE COMPANY'S COVID-19 RELATED**
5 **UNCOLLECTIBLE ACCOUNTS EXPENSE CLAIM?**

6 A. The Company followed the Commission's guidance in the May 13, 2020
7 Secretarial Letter regarding *COVID-19 Cost Tracking and Creation of Regulatory*
8 *Asset, Docket No. M-2020-3019775* (May 13, 2020 Secretarial Letter), taking the
9 difference between the amount of uncollectible expense experienced in the fiscal
10 year ended December 31, 2019 and the average amount experienced in the fiscal
11 years ended December 31, 2020 and December 31, 2021.¹¹ Additionally, the
12 Company does not agree that the accumulation of COVID-19 related uncollectible
13 deferrals should cease upon the effective date of new rates in the instant
14 proceeding.¹² In this regard, the Company states it should be able to continue to
15 accumulate and defer costs above the normalized level as approved within the
16 Company's new rates as a regulatory asset citing higher than normal accounts
17 receivable balances.¹³

¹⁰ I&E Exhibit No. 1, Schedule 2, p. 2, Response Part D.

¹¹ Citizens' Exhibit HSG-1, Schedule C1-7 (CU).

¹² I&E Exhibit No. 1, Schedule 2, p. 2, Response Part D.

¹³ I&E Exhibit No. 1, Schedule 2, p. 2, Response Part D.

1 **Q. WHAT IS THE BASIS FOR THE COMPANY'S OTHER COVID-19**
2 **RELATED DEFERRALS?**

3 A. This portion of the claim relates to the purchase of masks, hand sanitizer, etc.¹⁴

4

5 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

6 A. No.

7

8 **Q. WHAT IS YOUR RECOMMENDATION FOR THE CONTINUED**
9 **DEFERRAL OF COVID-19 RELATED EXTRAORDINARY COSTS?**

10 A. I accept the Company's total deferral claim of \$43,734 for the 2020 and 2021
11 COVID-19 related extraordinary costs, as well as the three-year amortization
12 period proposed by the Company resulting in an annual recovery amount of
13 \$14,578.¹⁵ However, I disagree that the Company should be allowed to continue
14 recording a regulatory asset for ongoing COVID-19 related incremental
15 uncollectible accounts costs and for other COVID-19 related expenses after the
16 effective date of new rates for the instant proceeding. Upon the effective date of
17 new rates for this proceeding, the Company will have a new uncollectible accounts
18 expense percentage built into rates that accounts for the increased delinquency
19 rates and higher customer balances. Additionally, any other COVID-19 related

¹⁴ I&E Exhibit No. 1, Schedule 2, p. 3.

¹⁵ Citizens' Exhibit HSG-1, Schedule C1-7 (CU).

1 expenses such as masks, hand sanitizer, etc. should be built into routine expenses
2 and are likely not material in nature.

3
4 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

5 A. While the Commission did not specify when utilities should discontinue tracking
6 COVID-19 related expenses, the May 13, 2020 Secretarial Letter states, “[the
7 creation of] a regulatory asset [is] for any incremental expenses incurred above
8 those embedded in rates...”.¹⁶ In my opinion, the regulatory asset is intended so
9 that utilities can defer extraordinary costs, not previously embedded in rates at the
10 time of the March 13 Emergency Order, so that those extraordinary costs could be
11 recovered in the next proceeding following the March 13 Emergency Order and
12 the regulatory asset should only be tracked until the rate case is filed. The future
13 rates in the instant proceeding will allow for recovery of the incremental COVID-
14 19 related extraordinary expenses incurred since the issuance of the March 13
15 Emergency Order. Therefore, upon the effective date of new rates for this
16 proceeding, the Company will have a new uncollectible accounts expense
17 percentage built into rates that accounts for the increased delinquency rates and
18 higher customer balances. Furthermore, as stated above, any other COVID-19
19 related expenses should already be included in routine expense accounts and likely
20 immaterial in nature thus not requiring continued deferral treatment.

¹⁶ May 13, 2020 Secretarial Letter, p. 2.

1 Additionally, in the current inflationary environment, many ratepayers will
2 likely struggle to pay utility bills for reasons unrelated to the COVID-19
3 pandemic. To include future uncollectible accounts that exceed a now stale
4 historic factor in the COVID-19 regulatory asset would be inappropriate and not
5 reflective of how historic uncollectible accounts are routinely recovered. It is
6 unreasonable to expect that all future uncollectible accounts that exceed a rate
7 established in 2019 are related to the COVID-19 pandemic and, therefore, should
8 be afforded regulatory asset treatment.

9
10 **STATE INCOME TAX EXPENSE**

11 **Q. WHAT IS THE COMPANY’S CLAIM FOR STATE INCOME TAX**
12 **EXPENSE?**

13 A. The Company’s claim for state income tax expense is \$111,610.¹⁷

14
15 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

16 A. The Company’s state income tax expense claim is based on the existing
17 Pennsylvania corporate net income tax rate of 9.99%.¹⁸

18
19 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIM?**

20 A. No.

¹⁷ Citizens’ Exhibit HSG-1, Schedule C1-4 (CU).

¹⁸ Citizens’ Exhibit HSG-1, Schedule C1-4 (CU).

1 **Q. WHAT DO YOU RECOMMEND FOR STATE INCOME TAX EXPENSE?**

2 A. I recommend an allowance of \$98,967 or a reduction of \$12,643 (\$111,610 -
3 \$98,967) to the Company's claim.

4
5 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

6 A. On July 8, 2022, Pennsylvania House Bill 1342 was signed into law as Act 53 of
7 2022. Act 53 will lower the current 9.99% corporate net income tax rate to 8.99%
8 in 2023 (the Company's claimed FPFTY) and will decrease the tax rate by 0.5%
9 each year until 2031, when the tax rate will be 4.99%.¹⁹ Therefore, I recommend a
10 Pennsylvania income tax rate of 8.99% to reflect the Pennsylvania corporate
11 income tax rate that will be in effect for the FPFTY. This change is reflected in
12 my recommended revenue requirement in Table I above²⁰ and incorporates the
13 state income tax effect of my other recommended adjustments and those of I&E
14 witness Anthony Spadaccio.²¹

15
16 **CASH WORKING CAPITAL**

17 **Q. WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE FOR**
18 **RATEMAKING PURPOSES?**

19 A. CWC is defined as the amount of funds necessary to operate a utility during the

¹⁹ I&E Exhibit No. 1, Schedule 3, p. 1.

²⁰ I&E Statement No. 1, p. 4.

²¹ I&E Statement No. 2.

1 interim between the rendition of service, including the payment of related
2 expenses and the receipt of revenues in payment of services rendered.

3
4 **Q. WHAT IS THE COMPANY'S CWC CLAIM?**

5 A. The Company's claim for CWC is \$401,916.²²

6
7 **Q. HOW DID THE COMPANY CALCULATE ITS CWC CLAIM?**

8 A. The Company used the 1/8 Method, which is also known as the 45-Day Method.

9 The Company's claim was determined by adding all of cash based operating
10 expenses to arrive at a total of \$3,215,324.²³ The resulting figure was multiplied
11 by 1/8 to arrive at a CWC amount of \$401,916 [$\$3,215,324 \times (1/8)$].²⁴

12
13 **Q. DO YOU ACCEPT THE COMPANY'S USE OF THE ONE-EIGHTH
14 METHOD?**

15 A. Yes. I accept the Company's use of the 1/8 Method since the requested increase in
16 rates is less than \$1,000,000 in this proceeding.

17
18 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

19 A. No. I disagree with the Company's CWC claim as this amount needs to be

²² Citizens' Exhibit HSG-1, Schedule C1-6 (CU).

²³ Citizens' Exhibit HSG-1, Schedule C1-6 (CU).

²⁴ Citizens' Exhibit HSG-1, Schedule C1-6 (CU).

1 adjusted to reflect my O&M adjustment for charitable contributions as discussed
2 above.

3
4 **Q. WHAT IS YOUR RECOMMENDED ALLOWANCE FOR CWC?**

5 A. I recommend an allowance of \$398,410 or a reduction of \$3,506 (\$401,916 -
6 \$398,410) to the Company's claim.

7
8 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

9 A. My recommendation is based on the reflection of all my O&M adjustments to the
10 O&M expenses as discussed above. My recommendation is calculated as follows:

Company's CWC Claim		\$401,916
I&E Recommended O&M Adjustments:		
Total O&M Adjustments (Charitable Contributions)	<u>(\$28,050)</u>	
1/8 of Total O&M Adjustments		<u>(\$3,506)</u>
I&E Recommended CWC Allowance		<u>\$398,410</u>

11
12
13 **Q. IS YOUR RECOMMENDED CWC ALLOWANCE A FINAL**
14 **RECOMMENDATION?**

15 A. No. All adjustments to the Company's claims for revenues, expenses, taxes, and
16 rate base must be consistently brought together in the Administrative Law Judge's
17 Recommended Decision and again in the Commission's Final Order. This
18 process, which is known as iteration, effectively prevents the determination of a

1 precise calculation until such time as all adjustments have been made to the
2 Company's claim.

3

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes.

Zachari Walker

Professional and Educational Background

Experience:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

March 2021 to Present:

Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement

Bridgestone Retail Operations, LLC, Nashville, Tennessee

December 2014 to July 2020:

Business Manager

Evaluated and validated accounting entry postings. Monitored, reconciled, and corrected daily transactions and accounts. Ensured accuracy of daily reports of business and researched inaccuracies. Utilized data analysis to determine key performance indicators and corresponding trends.

Education/Professional Development:

Bridging the Gap, Holly Ridge, North Carolina, 2021

Business Analyst Blueprint Training Program, 36 PD hours earned

Stevenson University, Stevenson, Maryland, 2014

Bachelor of Science, *magna cum laude*, Business Administration

Concentration in Finance

Professional Affiliations:

International Institute of Business Analysis (IIBA), Pickering, Ontario, Canada

Active Member 2021

Utility-Related Trainings & Other Courses/Webinars:

Pennsylvania Public Utility Commission Rate School 2022, January 18-February 8, 2022

Michigan State University IPU Accounting and Ratemaking Course 2021, September 14-16, 2021

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 Virtual Conference, April 6-8, 2021

Testimony Submitted:

R-2021-3030218	UGI Utilities, Inc. – Gas Division
R-2021-3026682	City of Lancaster – Bureau of Water
R-2021-3026116	Borough of Hanover – Hanover Municipal Water Works
R-2021-3025206	Community Utilities of Pennsylvania Inc. – Water Division
R-2021-3025207	Community Utilities of Pennsylvania Inc. – Wastewater Division

Casework Not Requiring Testimony:

R-2022-3032250	PECO Energy Co. – Gas Operations 1307(f)
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I&E Exhibit No. 1
Witness: Zachari Walker

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

Exhibit to Accompany

the

Direct Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

STATE INCOME TAX EXPENSE

CASH WORKING CAPITAL

**CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA RESPONSE TO
BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUEST
DOCKET NO. R-2022-3032369**

I&E-RE-32-D Reference Company Exhibit HSG-1, Schedule C1-1. Provide details by year identifying the account name/number, the payee(s) and the expense amount claimed in the HTY, FTY, and the FPFTY for the following, and basis for inclusion of each expense for ratemaking:

- A. Fines and penalties;
- B. Bank charges;
- C. Membership dues and subscriptions;
- D. Lobbying expenses;
- E. Advertisements;
- F. Charitable contributions; and
- G. Employee entertainment.

Response:

A through G. See the table below.

Description	Acct.	2019	2020	2021
Fines and penalties	N/A	0	0	0
Bank charges	921.0	661	649	152
Membership dues and subscriptions;	921 930.2	3,885	1,880	2,596
Lobbying expenses	N/A	0	0	0
Advertisements.	930.1	465	373	433
Charitable contributions	426.1	27,450	25,950	28,050
Employee benefits-other	926.0	453	(5,422)	1,756

The basis for including each expense for ratemaking is:

- A, D, G – No expenses were claimed in Company Exhibit HSG-1, Schedule C1-1.
- B. Bank fees are included as they are monthly fees the company incurs for bank services provided for checking account. They are a normal and recurring cost of the Company’s operations.
- C. The Dues and Subscriptions are detailed in Attachment C to IE-RE-32-D, and include professional certification organizations, reoccurring fees for operational software

**CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA RESPONSE TO
BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUEST
DOCKET NO. R-2022-3032369**

- programs, industry and business entities to stay abreast of industry advances and initiatives. Citizens' membership in the Energy Association of PA also provides access by Citizens' employees to important educational opportunities.
- E. Citizens' places ads in various publications and guides to remind customers of the Company's availability, services and contact information. It is a normal and recurring cost of operations for all businesses.
- F. Charitable contributions reflect the Company's support of important initiatives that improve the community and the lives of our customers and employees. Attachment F to IE-RE-32 lists the contributions that are included.
- G. Citizens' does not include employee entertainment; however, Citizens' includes various employee recognition events that are a normal part of the employee benefits provided by businesses. Recognizing employees for their accomplishments and service supports a good working culture that minimizes turnover, which can cause disruptions and additional recruitment/training costs for our business. The previously provided Attachment A to IE-RE-27-D provides details regarding the expenses.

**Response Provided by: Kathy Stauder, Chief Financial Officer
Citizens' Electric Company of Lewisburg, PA**

Date: July 6, 2022

CITIZENS' ELECTRIC

DUES & SUBSCRIPTIONS
MISC. GENERAL EXPENSES

ACCOUNT 921
ACCOUNT 930.2

YEAR ENDING DECEMBER 31, 2019

<u>VENDOR</u>	<u>AMOUNT</u>	<u>TOTAL</u>
Apogee Interactive	\$ 850	\$ 850
Netrix	\$ 1,222	\$ 2,072
Adobe Acrobat Editor	\$ 16	\$ 2,088
Susquehanna Valley Visitor Bureau	\$ 250	\$ 2,338
Milton Standard Journal	\$ 25	\$ 2,363
Adobe Acrobat Editor	\$ 16	\$ 2,379
Adobe Acrobat Editor	\$ 16	\$ 2,395
Adobe Acrobat Editor	\$ 32	\$ 2,426
Milton Standard Journal	\$ 25	\$ 2,451
Bureau of Professional Occup. Affairs (PE fee)	\$ 100	\$ 2,551
Bureau of Professional Occup. Affairs (PE fee)	\$ 100	\$ 2,651
PA Chamber of Business Industry	\$ 286	\$ 2,937
Energy Association of PA	\$ 948	\$ 3,885

YEAR ENDING DECEMBER 31, 2020

<u>VENDOR</u>	<u>AMOUNT</u>	<u>TOTAL</u>
Susquehanna Valley Visitor Bureau	\$ 250	\$ 250
Institute of Management Accounts	\$ 230	\$ 480
Zoom Subscription	\$ 16	\$ 496
Zoom Subscription	\$ 16	\$ 512
Zoom Subscription	\$ 16	\$ 528
Zoom Subscription	\$ 16	\$ 544
Zoom Subscription	\$ 16	\$ 559
Zoom Subscription	\$ 16	\$ 575
Zoom Subscription	\$ 16	\$ 591
Zoom Subscription	\$ 16	\$ 607
Zoom Subscription	\$ 16	\$ 623
PA Chamber of Business Industry	\$ 286	\$ 909
Energy Association of PA	\$ 971	\$ 1,880

YEAR ENDING DECEMBER 31, 2021

<u>VENDOR</u>	<u>AMOUNT</u>	<u>TOTAL</u>
Zoom Subscription	\$ 16	\$ 16
Institute of Management Accounts	\$ 230	\$ 246
Apogee Interactive	\$ 901	\$ 1,147
Zoom Subscription	\$ 16	\$ 1,163
Zoom Subscription	\$ 16	\$ 1,179
Zoom Subscription	\$ 16	\$ 1,195
Zoom Subscription	\$ 16	\$ 1,210
Zoom Subscription	\$ 16	\$ 1,226
Bureau of Professional Occup. Affairs (PE fee)	\$ 100	\$ 1,326
PA Chamber of Business Industry	\$ 286	\$ 1,612
Energy Association of PA	\$ 984	\$ 2,596

**CITIZENS' ELECTRIC COMPANY
 OTHER INCOME DEDUCTIONS - DONATIONS
 YEAR ENDING DECEMBER 31, 2019**

**Attachent F
 I&E-RE-32
 Page 1 of 3**

ACCOUNT 426.1

DATE	CHECK NUMBER	PAYEE	AMOUNT	BALANCE
03/19/19	26534	Sun Tech Foundation	\$ 100.00	\$ 100.00
04/01/19	26613	William Cammeron Engine Co	\$ 500.00	\$ 600.00
04/01/19	26618	Union Count Historical Society	\$ 100.00	\$ 700.00
04/01/19	26619	Susquehanna Council BSA	\$ 500.00	\$ 1,200.00
04/01/19	26611	Mifflinburg Hose Company #1	\$ 200.00	\$ 1,400.00
04/01/19	26621	Lewisburg Arts Council	\$ 300.00	\$ 1,700.00
04/01/19	26625	Lewisburg Cemetery Assoc.	\$ 500.00	\$ 2,200.00
04/24/19	26635	Union Co Veterns 4th of July Parade	\$ 750.00	\$ 2,950.00
05/03/19	26643	Packwood House Museum	\$ 100.00	\$ 3,050.00
06/13/19	26753	William Cammeron Engine Co Ambulance	\$ 100.00	\$ 3,150.00
08/15/19	26907	Susquehanna Valley Chorale	\$ 100.00	\$ 3,250.00
09/06/19	26939	Lewisburg Listing Post	\$ 200.00	\$ 3,450.00
09/06/19	26944	The Salvation Army	\$ 1,000.00	\$ 4,450.00
09/06/19	26950	Girl Scouts in the Heart of PA	\$ 500.00	\$ 4,950.00
09/06/19	26962	Lewisburg Children's Museum	\$ 500.00	\$ 5,450.00
09/06/19	26958	The Green Dragon Foundation	\$ 250.00	\$ 5,700.00
09/06/19	26961	American Red Cross	\$ 1,250.00	\$ 6,950.00
09/06/19	26956	Susquehanna Greenway Partnership	\$ 500.00	\$ 7,450.00
10/14/19	27027	Wysox Volunteer Fire Company	\$ 500.00	\$ 7,950.00
10/30/19	27077	American Legion Post 182	\$ 100.00	\$ 8,050.00
11/01/19	27104	Linn Conservance	\$ 100.00	\$ 8,150.00
11/08/19	27122	Lewisburg Borough	\$ 1,000.00	\$ 9,150.00
11/15/19	27134	Focus Central Pennsylvania	\$ 500.00	\$ 9,650.00
11/21/19	27132	Greater Susquehanna Valley United Way	\$ 1,000.00	\$ 10,650.00
12/17/19	27218	Union-Snyder Agency on Aging	\$ 250.00	\$ 10,900.00
12/17/19	27205	Public Library for Union County	\$ 200.00	\$ 11,100.00
12/17/19	27222	Susquehanna Valley CASA	\$ 500.00	\$ 11,600.00
12/17/19	27213	Mifflinburg Community Ambulance	\$ 100.00	\$ 11,700.00
12/17/19	27203	Slifer House Museum	\$ 100.00	\$ 11,800.00
12/17/19	27221	Lewisburg Neighborhood	\$ 250.00	\$ 12,050.00
12/17/19	27196	Lewisburg Area School District	\$ 250.00	\$ 12,300.00
12/17/19	27194	LAHS Alumni Association	\$ 250.00	\$ 12,550.00
12/17/19	27209	Greater Susquehanna Valley Chamber	\$ 100.00	\$ 12,650.00
12/17/19	27192	Donald L. Heiter Community Center	\$ 500.00	\$ 13,150.00
12/17/19	27199	Mifflinburg Area High School	\$ 500.00	\$ 13,650.00
12/17/19	27220	Buffalo Valley Recreational Authority	\$ 250.00	\$ 13,900.00
12/17/19	27189	Central Susquehanna Sight Services	\$ 100.00	\$ 14,000.00
12/17/19	27195	Lewisburg Area High School (Engineer)	\$ 1,500.00	\$ 15,500.00
12/17/19	27197	Lewisburg Downtown Partnership	\$ 750.00	\$ 16,250.00
12/17/19	27210	Evangelical Community Hospital (PRIME)	\$ 10,000.00	\$ 26,250.00
12/18/19	27225	Evangelical Community Hospital (General Fund)	\$ 1,000.00	\$ 27,250.00
12/18/19	27225	Paramedics	\$ 100.00	\$ 27,350.00
12/18/19	27225	Hospice	\$ 100.00	\$ 27,450.00

**CITIZENS' ELECTRIC COMPANY
 OTHER INCOME DEDUCTIONS - DONATIONS
 YEAR ENDING DECEMBER 31, 2020**

Attachent F
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ACCOUNT 426.1

DATE	CHECK NUMBER	PAYEE	AMOUNT	BALANCE
01/30/20	27299	LHS Green Dragon Music in the Park	\$ 300.00	\$ 300.00
02/12/20	27373	Sun Tech - Awards Ceremony	\$ 100.00	\$ 400.00
05/29/20	27567	Eastern Union County Supplemental Food Program	\$ 500.00	\$ 900.00
06/15/20	27593	Union County Historical Society	\$ 100.00	\$ 1,000.00
07/29/20	27670	Harford Fire Company (Brandon Kingston)	\$ 250.00	\$ 1,250.00
10/08/20	27830	Lewisburg Cemetery Assoc.	\$ 500.00	\$ 1,750.00
10/08/20	27824	Boy Scouts	\$ 500.00	\$ 2,250.00
10/08/20	27819	Mifflinburg Hose Company	\$ 200.00	\$ 2,450.00
10/08/20	27820	Packwood Hour Museum	\$ 100.00	\$ 2,550.00
10/08/20	27835	William Cameron Engine Co Ambulance	\$ 100.00	\$ 2,650.00
10/08/20	27865	Lewisburg Downtown Partnership	\$ 750.00	\$ 3,400.00
11/01/20	27892	Linn Conservancy	\$ 100.00	\$ 3,500.00
11/01/20	27904	Greater Susquehann United Way	\$ 1,000.00	\$ 4,500.00
11/04/20	27878	Evangelical Hospice	\$ 100.00	\$ 4,600.00
11/04/20	27884	Focue Central PA	\$ 500.00	\$ 5,100.00
11/16/20	27913	William Cameron Engine Co	\$ 500.00	\$ 5,600.00
11/16/20	27922	Evangelical Community Hospital	\$ 10,000.00	\$ 15,600.00
11/19/20	27925	Susquehanna Greenway Partnership	\$ 500.00	\$ 16,100.00
11/23/20	27927	The Green Dragon Foundation	\$ 250.00	\$ 16,350.00
12/10/20	27948	Central Susquehanna Sight Services	\$ 100.00	\$ 16,450.00
12/10/20	27949	Donald Heiter Community Center	\$ 500.00	\$ 16,950.00
12/10/20	27974	Susquehanna Valley CASA	\$ 500.00	\$ 17,450.00
12/10/20	27972	Lewisburg Neighborhoods Corporation	\$ 250.00	\$ 17,700.00
12/10/20	27971	Lewisburg Children's Museum	\$ 500.00	\$ 18,200.00
12/10/20	27970	Buffalo Valley Recreation Authority	\$ 250.00	\$ 18,450.00
12/10/20	27968	Union-Snyder Agency on Aging	\$ 250.00	\$ 18,700.00
12/10/20	27950	LAHS Alumni Association	\$ 250.00	\$ 18,950.00
12/10/20	27952	Lewisburg Area School District	\$ 250.00	\$ 19,200.00
12/10/20	27953	Lewisburg Listening Post	\$ 200.00	\$ 19,400.00
12/10/20	27955	Mifflinburg Area High School	\$ 500.00	\$ 19,900.00
12/10/20	27985	Slifer House	100.00	\$ 20,000.00
12/10/20	27959	The Salvation Army	\$ 1,000.00	\$ 21,000.00
12/10/20	27961	Greater Susquehann Chamber of Commerce	\$ 100.00	\$ 21,100.00
12/10/20	27963	Susquehanna Valley Chorale	\$ 100.00	\$ 21,200.00
12/10/20	27964	Mifflinburg Community Ambulance	\$ 100.00	\$ 21,300.00
12/10/20	27951	Lewisburg Area High School	\$ 1,500.00	\$ 22,800.00
12/10/20	27962	Evangelical Community Hospital	\$ 1,100.00	\$ 23,900.00
12/10/20	27987	American Red Cross	\$ 1,250.00	\$ 25,150.00
12/10/20	27986	Public Library for Union Co.	\$ 300.00	\$ 25,450.00
12/10/20	374	Girls Scouts in the Heart of Pa	\$ 500.00	\$ 25,950.00

**CITIZENS' ELECTRIC COMPANY
 OTHER INCOME DEDUCTIONS - DONATIONS
 YEAR ENDING DECEMBER 31, 2021**

Attachent F
 I&E-RE-32
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ACCOUNT 426.1

<u>DATE</u>	<u>CHECK NUMBER</u>	<u>PAYEE</u>	<u>AMOUNT</u>	<u>BALANCE</u>
01/13/21	28058	Union Co Veterans Foundation	\$ 100.00	\$ 100.00
03/01/21	28142	Sun Tech Foundation	\$ 100.00	\$ 200.00
03/02/21	28143	Buffalo Valley Recreation Authority	\$ 250.00	\$ 450.00
03/12/21	28185	Lewisburg Cemetery Assoc	\$ 500.00	\$ 950.00
03/22/21	28195	Public Library for Union County	\$ 750.00	\$ 1,700.00
04/06/21	28221	Boy Scouts fo America	\$ 500.00	\$ 2,200.00
05/11/21	28284	Mifflinburg Hose Company	\$ 200.00	\$ 2,400.00
05/11/21	28291	Girl Scouts in the Heart of PA	\$ 500.00	\$ 2,900.00
05/26/21	28337	Wm Cameron Engine Co	\$ 100.00	\$ 3,000.00
06/07/21	28360	Union County Historical Society	\$ 100.00	\$ 3,100.00
06/07/21	28356	Donald Heiter Community Center	\$ 750.00	\$ 3,850.00
06/22/21	28393	The Green Dragon Foundation	\$ 250.00	\$ 4,100.00
06/22/21	28396	Union Co Veterans Foundation	\$ 500.00	\$ 4,600.00
06/28/21	28403	Lewisburg Children's Museum	\$ 500.00	\$ 5,100.00
08/31/21	28515	Central Susquehanna Sight Services	\$ 100.00	\$ 5,200.00
10/05/21	28592	Focus Central Pennsylvania	\$ 500.00	\$ 5,700.00
10/26/21	28625	Linn Conversvancy	\$ 100.00	\$ 5,800.00
11/30/21	28636	William Cameron Engine Co	\$ 500.00	\$ 6,300.00
11/30/21	28657	Greater Susquehanna Valley United Way	\$ 2,750.00	\$ 9,050.00
11/30/21	28667	Evangelical Community Hospital	\$ 100.00	\$ 9,150.00
11/30/21	28683	Evangelical Community Hospital	\$ 10,000.00	\$ 19,150.00
11/30/21	28684	Lewisburg Arts Council	\$ 300.00	\$ 19,450.00
11/30/21	28696	Evangelical Community Hospital	\$ 1,000.00	\$ 20,450.00
11/30/21	28696	Evangelical Community Hospital	\$ 100.00	\$ 20,550.00
11/30/21	28697	Susquehanna Valley Chorale	\$ 100.00	\$ 20,650.00
11/30/21	28692	Lewisburg Listening Post	\$ 200.00	\$ 20,850.00
11/30/21	28704	Susquehanna Valley Casa	\$ 500.00	\$ 21,350.00
11/30/21	28691	Lewisburg Area High School	\$ 250.00	\$ 21,600.00
11/30/21	28689	LAHS Alumni Assoc	\$ 250.00	\$ 21,850.00
11/30/21	28694	Mifflinburg High School Award	\$ 500.00	\$ 22,350.00
11/30/21	28690	Lewisburg High School Award	\$ 1,500.00	\$ 23,850.00
12/02/21	28727	Lewisburg Neighborhoods	\$ 250.00	\$ 24,100.00
12/02/21	28721	Greater Susquehanna Valley Chamber	\$ 100.00	\$ 24,200.00
12/02/21	28722	Mifflinburg Community Ambulance	\$ 100.00	\$ 24,300.00
12/02/21	580	Susquehanna Valley Greenway	\$ 500.00	\$ 24,800.00
12/02/21	28715	Lewisburg Downtown Partnership	\$ 750.00	\$ 25,550.00
12/02/21	28726	American Red Cross	\$ 1,250.00	\$ 26,800.00
12/02/21	28718	The Salvation Army	\$ 1,000.00	\$ 27,800.00
12/02/21	28725	Union-Snyder Area on Aging	\$ 250.00	\$ 28,050.00

**CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA RESPONSE TO
BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUEST
DOCKET NO. R-2022-3032369**

I&E-RE-45-D Reference Company Statement No. 1, pp. 10-11 concerning extraordinary costs associated with the Coronavirus pandemic included in regulatory commission expense. Provide the following:

- A. Accounts receivable balances by month for 2018;
- B. Supporting documentation for the \$9,838 costs the Company identified directly related to the pandemic;
- C. A detailed explanation with supporting documentation for the basis of the 35% estimate of late fees applicable to protected customers; and
- D. State whether the Company agrees that the accumulation of COVID-19 related uncollectible deferrals should cease upon the effective date of new rates in this proceeding.

Response:

A. Please see the table below.

	2018
January	1,268,937
February	1,296,403
March	1,008,096
April	958,407
May	706,305
June	702,127
July	746,327
August	739,174
September	857,512
October	553,206
November	684,565
December	906,886

B. Please see Attachment B to IE-RE-45-D.

C. This was an estimate developed by the Company based on our knowledge of the circumstances for the various accounts. Late fees of \$19,019 X 35% for protected customers.

**CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA RESPONSE TO
BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUEST
DOCKET NO. R-2022-3032369**

- D. The Company believes that accumulation of these deferrals should cease when AR balances have returned to more typical levels.

**Response Provided by: Howard S. Gorman, President
HSG Group, Inc.**

**Kathy Stauder, Chief Financial Officer
Citizens' Electric Company of Lewisburg, PA**

Date: June 15, 2022

Citizens Electric Company
Covid - 19 Expenses
Account 923.4
Jan 2020 - December 2021

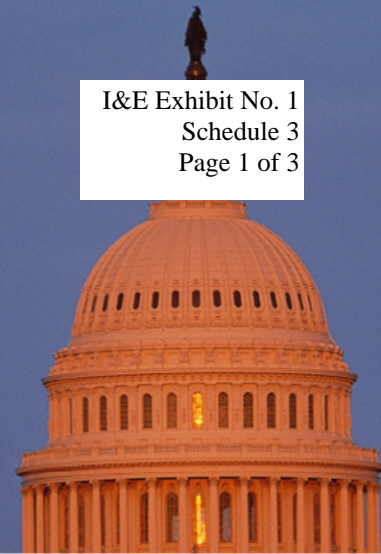
ATTACHMENT B
 IE-RE-45-D

I&E Exhibit No. 1
 Schedule 2
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Account	Date	Journal	Mod	Reference	Vendor	
923.4	04/02/2020	66255	AP	Covid-19 Safety Disposable Gloves	Northern	28.59
923.4	04/03/2020	66399	AP	Tyvek Suits & Face Masks	Wellsboro	99.68
923.4	04/03/2020	66399	AP	Face Masks (Covid-19)	Kelchner	180.56
923.4	04/15/2020	66537	AP	Face Mask - Covid-19	MedEx	701.28
923.4	04/17/2020	66537	AP	Hand Sanitizer - Covid-19	Tri-County	126.85
923.4	04/09/2020	66571	AP	Bottles for Hand Sanitizer - Covid-19	WalMart	44.49
923.4	04/23/2020	66600	AP	Face Mask - Covid-19	MedEx	650.95
923.4	04/24/2020	66643	AP	100 Reusable Face Mask - Covid-19	Invisibled	870.58
923.4	04/24/2020	66643	AP	Alcohol Cleaning Wipes - Covid-19	Pranano	63.53
923.4	04/01/2020	66651	AP	Hand Cleaner - Covid-19	Amazon	57.12
923.4	04/30/2020	66751	AP	Netrix-RemoteDesktopSvc-COVID-19	C&T	1,595.15
923.4	04/30/2020	66751	AP	Netrix-RemoteDeviceMgmtLicensing-COVID	C&T	621.21
923.4	05/01/2020	66751	AP	Bottles for Hand Sanitizer - Covid-19	WalMart	37.59
923.4	05/07/2020	66808	AP	Gloves - Covid-19	MedEx	317.98
921.00	03/13/2020	Reclassified to 923.4		Laptop KAS & BJB	WalMart	737.26
921.00	03/18/2020	Reclassified to 923.4		Chromebook Accessories	WalMart	109.82
921.00	03/18/2020	Reclassified to 923.4		Chromebook for Remote Access	WalMart	526.82
921.00	03/21/2020	Reclassified to 923.4		Computer Mice	WalMart	37.66
923.4	05/31/2020	67055	GL	To Reclass to COVID-19 expense		1,411.56
923.4	05/21/2020	67140	AP	Plexiglass for Front Counter - Covid-19	Mifflinburg	116.59
923.4	06/16/2020	67541		Face Masks (Covid-19)	Moritz	1,720.78
923.4	06/25/2020	67675		Bottles for Hand Sanitizer - Covid-19 (credit)	WalMart	-44.49
923.4	07/13/2020	67993		Disinfecting Wipes	J Klechner	46.62
923.4	08/19/2020	68682		Hand Sanitizer - Covid-19	Amazon	11.99
	10/19/2020			Termination letter mailing costs	USPS	201.50
923.4	11/02/2020	69956		Clorox Wipes	Public Safety Store	59.35
923.4	11/12/2020	70190		Forehead Thermometer	Amazon	62.93
923.4	11/13/2020	70190		Tablecloth - Lunch room	Amazon	42.38
923.4	11/19/2020	70310		Touchless Hand Sanitizer	MedEx Supply	134.34
923.4	11/20/2020	70326		Sanitizer	MedEx Supply	103.58
923.4	11/20/2020	70351		Hand Free Sanitizer Bottle	TrafficVentures	103.58
923.4	12/08/2020	70614		Acer Chromebook		249.99
923.4	04/26/2021	73081		Hand Free Sanitizer Bottle	TrafficVentures	-103.58
923.4	12/17/2021	77477		Disinfecting Wipes	J Klechner	33.06
165.4	04/09/2020	66399		Phone Hot Spot	Contrast	53.00
921	2020/2021	numerous		Conference software	Zoom/Credit card	238.95
Total						\$ 9,837.69

TaxNewsFlash

United States



No. 2022-193
July 11, 2022

Pennsylvania: Changes to corporate net income tax laws, other tax changes

House Bill 1342 was signed into law in Pennsylvania on July 8, 2022. The bill makes significant changes to the Commonwealth's corporate net income tax laws, as discussed below.

Corporate net income tax rate reduction

The Commonwealth's current corporate net income tax rate is 9.99%, which is one of the highest in the country. House Bill 1342 reduces that rate incrementally to 4.99%. These rate reductions are scheduled to occur automatically and are not contingent on state tax revenues meeting or exceeding specific thresholds.

The rate is first reduced to 8.99% for the 2023 tax year—the tax year beginning on or after January 1, 2023 through December 31, 2023. The rate is further reduced as follows:

- 8.49% for tax year 2024
- 7.99% for tax year 2025
- 7.49% for tax year 2026
- 6.99% for tax year 2027
- 6.49% for tax year 2028
- 5.99% for tax year 2029
- 5.49% for tax year 2030
- 4.99% for tax years beginning January 1, 2031 and thereafter

KPMG observation

Previous corporate net income rate reductions were included in bills that would also have adopted unitary combined reporting. However, unitary combined reporting is not included in this legislation.

Sales factor changes

Under current law, specific sourcing rules apply to receipts from sales of services and receipts from sales of tangible personal property. All other receipts are sourced under the statutory income-producing activity test and

are included in the Pennsylvania sales factor numerator if the income-producing activity is performed in Pennsylvania, or if a greater proportion of the income-producing activity is performed in Pennsylvania, based on costs of performance. House Bill 1342 adopts comprehensive customer-based sourcing rules for a number of “other” types of receipts, including:

- Gross receipts from the lease or license of intangible property
- Gross receipts from sales of intangibles
- Gross receipts from the sale, redemption, maturity or exchange of securities held by a taxpayer primarily for sale to customers
- Gross receipts related to lending activities involving real property and tangible personal property
- Gross receipts received from interest, fees, and penalties from credit card holders
- Gross receipts received from interest not otherwise addressed in the revised law

Any gross receipts associated with intangible property that are not specifically addressed will be excluded from both the numerator and denominator of the sales factor. The state tax authority is directed to promulgate rules and regulations to implement the new sourcing rules, which are effective for tax years beginning after December 31, 2022.

KPMG observation

There is ongoing litigation in Pennsylvania over the application of the income-producing activity test as applied to service receipts. The *Synthes* case, currently pending before the Pennsylvania Supreme Court, involves the interpretation of the statutory income-producing activity test in years prior to 2014 before the legislature revised the law to provide that service receipts are sourced to the location where the services are delivered. In *Synthes*, the state tax authority and the taxpayer were on the same side and argued that the tax authority’s market-based interpretation of the income-producing activity test, which resulted in a refund for Pennsylvania-based taxpayer, was entitled to deference. The Attorney General, however, disagreed that the tax authority’s interpretation was entitled to deference. The Commonwealth Court held in favor of the taxpayer and the tax authority, the Attorney General appealed to the Pennsylvania Supreme Court, and oral arguments were held in March 2022. Although *Synthes* involves service receipts, the outcome may be instructive as to application of the income-producing activity test to other types of receipts for years prior to 2023.

Codification of economic nexus standards

House Bill 1342 codifies Corporation Tax Bulletin 2019-04, issued post-*Wayfair*, in which the state tax authority announced that for tax years beginning on or after January 1, 2020, corporations meeting an economic nexus standard would be required to file corporate net income tax returns (unless protected under Public Law 86-272). The bulletin set forth a rebuttable presumption that a corporate taxpayer without a physical presence in Pennsylvania that had \$500,000 or more of direct or indirect gross receipts sourced to Pennsylvania from any combination of (1) gross receipts from the sale, rental, lease, or licensing of tangible personal property; (2) gross receipts from the sale of services; or (3) gross receipts from the sale or licensing of intangibles, including franchise agreements, would have a filing responsibility.

Effective for tax years beginning after December 31, 2022, House Bill 1342 codifies the rebuttable presumption that a corporation with \$500,000 or more of receipts sourced to Pennsylvania will have substantial nexus with the Commonwealth, despite the lack of a physical presence. However, an exception applies to affiliated entities domiciled in foreign nations that have entered into comprehensive income tax treaties with the United States. The treaties must provide “for the allocation of all categories of income subject to taxation, or the withholding of tax, on royalties, licenses, fees and interest for the prevention of double taxation of the respective nations’ residents and the sharing of information.”

KPMG observation

It is important to consider the economic nexus standard in conjunction with the revised sourcing rules that apply beginning with the 2023 tax year. A taxpayer that previously sourced receipts under the income-producing

activity test may not have had the requisite level of receipts sourced to the Commonwealth. However, that may no longer be the case when those receipts are sourced using the new customer-based rules.

Sales and use tax and other tax changes

Effective January 1, 2023, House Bill 1342 requires peer-to-peer car sharing marketplace facilitators (as defined) to collect sales and use tax on facilitated shared vehicle rentals. The up-to-\$2 per day fee that applies to vehicle rentals is extended to vehicles rented as part of a peer-to-peer car sharing program. However, the Commonwealth's 2% vehicle rental tax does not apply to a shared vehicle that is rented through a peer-to-peer car sharing program. The bill also extends the computer data center sales tax exemption qualification period from 15 years to 25 years for qualified purchases of equipment installed in the computer data center.

For individual (personal) income tax purposes, effective for tax years beginning after December 31, 2022, the bill conforms the Commonwealth to the section 179 expensing provisions and the section 1031 deferral provisions. A new refundable tax credit is adopted for eligible taxpayers who receive the federal child and dependent care tax credit. Finally, the bill increases the annual cap for the research and development and film production tax credits and makes certain changes to the keystone opportunity zone provisions.

For more information, contact a KPMG State and Local Tax professional:

Mark Balistrieri | mbalistrieri@kpmg.com

Mark Achord | marchord@kpmg.com

kpmg.com/socialmedia



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I&E Statement No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

Direct Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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1 **INTRODUCTION**

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

3 A. My name is Anthony Spadaccio. My business address is Pennsylvania Public
4 Utility Commission, Commonwealth Keystone Building, 400 North Street,
5 Harrisburg, PA 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11

12 **Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL EXPERIENCE?**

13 A. My educational and professional experience is set forth in Appendix A, which is
14 attached.

15

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

17 A. I&E is responsible for representing the public interest in rate and other
18 proceedings before the Commission. I&E's analysis in this proceeding is based on
19 its responsibility to represent the public interest. This responsibility requires
20 balancing the interests of ratepayers, the utility company, and the regulated
21 community as a whole.

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

2 A. The purpose of my testimony is to address the rate of return, including capital
3 structure, cost of long-term debt, the cost of equity, and the overall fair rate of
4 return for Citizens' Electric Company of Lewisburg, PA (Citizens' or Company)
5 for the fully projected future test year (FPFTY) ending December 31, 2023.

6
7 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

8 A. Yes. I&E Exhibit No. 2 contains schedules that support my direct testimony.

9

10 **BACKGROUND**

11 **Q. WHAT IS THE GENERAL DEFINITION OF RATE OF RETURN IN THE**
12 **CONTEXT OF A RATE CASE?**

13 A. Rate of return is one of the components of the revenue requirement formula. Rate
14 of return is the amount of revenue an investment generates in the form of net
15 income and is usually expressed as a percentage of the amount of capital invested
16 over a given period of time.

17

18 **Q. WHAT IS THE REVENUE REQUIREMENT FORMULA?**

19 A. The revenue requirement formula used in base rate cases is as follows:

20
$$RR = E + D + T + (RB \times ROR)$$

21 Where:

22 RR = Revenue Requirement

23 E = Operating Expenses

1 D = Depreciation Expense
2 T = Taxes
3 RB = Rate Base
4 ROR = Overall Rate of Return

5 In the above formula, the rate of return is expressed as a percentage. The
6 calculation of that percentage is independent of the determination of the
7 appropriate rate base value for ratemaking purposes. As such, the appropriate total
8 dollar return is dependent upon the proper computation of the rate of return and
9 the proper valuation of the Company's rate base.

10

11 **Q. WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL RATE**
12 **OF RETURN?**

13 A. A fair and reasonable overall rate of return is one that will allow the utility an
14 opportunity to recover those costs prudently incurred by all classes of capital used
15 to finance the rate base during the prospective period in which its rates will be in
16 effect.

17 *The Bluefield Water Works & Improvements Co. v. Public Service Comm.*
18 *of West Virginia*, 262 U.S. 679, 692-93 (1923), and the *Federal Power*
19 *Commission et al v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) cases set
20 forth the principles that are generally accepted by regulators throughout the
21 country as the appropriate criteria for measuring a fair rate of return:

- 1 1. A utility is entitled to a return similar to that being earned by other
- 2 enterprises with corresponding risks and uncertainties, but not as high as
- 3 those earned by highly profitable or speculative ventures.
- 4 2. A utility is entitled to a return level reasonably sufficient to assure financial
- 5 soundness.
- 6 3. A utility is entitled to a return sufficient to maintain and support its credit
- 7 and raise necessary capital.
- 8 4. A fair return can change (increase or decrease) along with economic
- 9 conditions and capital markets.

10

11 **Q. EXPLAIN HOW THE OVERALL RATE OF RETURN IS**

12 **TRADITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.**

13 A. In base rate proceedings, the overall rate of return is traditionally calculated using

14 the weighted average cost of capital method. To calculate the weighted average

15 cost of capital, a company's capital structure must first be determined by

16 comparing the percentage of each capitalization component, which has financed

17 rate base, to total capital. Next, the effective cost rate of each capital structure

18 component must be determined. The historical component of the cost rate of debt

19 can be computed accurately, and any future debt issuances are based on estimates.

20 The cost rate of common equity is not fixed and is more difficult to measure.

21 Because of this difficulty, a proxy group is used as discussed later in this

22 testimony. Then, each capital structure component percentage is multiplied by its

1 corresponding effective cost rate to determine the weighted capital component cost
2 rate. The table in the “*I&E Position*” section below demonstrates the interaction
3 of each capital structure component and its corresponding effective cost rate.
4 Finally, the sum of the weighted cost rates produces the overall rate of return.
5 This overall rate of return is multiplied by the rate base to determine the return
6 portion of a company’s revenue requirement.
7

8 **COMPANY’S RATE OF RETURN CLAIM**

9 **Q. WHO IS THE COMPANY’S RATE OF RETURN WITNESS?**

10 A. Dylan W. D’Ascendis, Partner at ScottMadden, Inc., is the primary witness
11 addressing rate of return. Throughout his direct testimony (Citizens’ Statement
12 No. 2), Mr. D’Ascendis provides his analysis for Citizens’ claimed capital
13 structure, long-term debt, and cost of common equity.
14

15 **Q. PLEASE SUMMARIZE MR. D’ASCENDIS’ RECOMMENDATIONS FOR** 16 **THE COMPANY’S RATE OF RETURN CLAIM.**

17 A. Although the Company claims it can justify a higher rate of return, it is requesting
18 a lower 6.65% rate of return (corrected and updated position as of July 11, 2022)¹
19 to keep its requested revenue increase under \$1,000,000 to “mitigate the effect” on

¹ Citizens’ Statement No. 1 (CU) and Exhibit HSG-1, Schedule C1 (CU).

1 customers.² However, Mr. D'Ascendis recommends the following rate of return
 2 for the Company based on its FPFTY ending December 31, 2023:³

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Citizens' Electric Company of Lewisburg, PA			
Long-Term Debt	50.47%	4.09%	2.06%
Common Equity	49.53%	11.50%	5.70%
Total	100.00%		7.76%

3
4

5 **I&E POSITION**

6 **Q. PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATION**
 7 **FOR THE COMPANY.**

8 A. I recommend the following rate of return for the Company:⁴

I&E			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Citizens' Electric Company of Lewisburg, PA			
Long-Term Debt	50.47%	4.09%	2.06%
Common Equity	49.53%	8.98%	4.45%
Total	100.00%		6.51%

9

² Citizens' Statement No. 1, p. 4, lines 11-17.
³ Citizens' Statement No. 2, p. 4, ln. 4 and Exhibit DWD-1, Schedule DWD-1, p. 1.
⁴ I&E Exhibit No. 2, Schedule 1.

1 **PROXY GROUP**

2 **Q. WHAT IS A PROXY GROUP AS USED IN BASE RATE CASES?**

3 A. A proxy group is a set of companies that have similar traits as compared to the
4 subject utility. This group of companies acts as a benchmark for determining the
5 subject utility's rate of return in a base rate case.

6
7 **Q. WHAT ARE THE REASONS FOR USING A PROXY GROUP?**

8 A. A proxy group's cost of equity is used as a benchmark to satisfy the long-
9 established guideline of utility regulation that seeks to provide the subject utility
10 with the opportunity to earn a return similar to that of enterprises with
11 corresponding risks and uncertainties.

12 A proxy group is typically utilized since the use of data exclusively from
13 one company may be less reliable. The lower reliability occurs because the data
14 for one company may be subject to events that can cause short-term anomalies in
15 the marketplace. The rate of return on common equity for a single company could
16 become distorted in these circumstances and would therefore not be representative
17 of similarly situated companies. Therefore, a proxy group has the effect of
18 smoothing out potential anomalies associated with a single company.

19

20 **Q. WHAT CRITERIA DID YOU USE IN SELECTING YOUR ELECTRIC**
21 **UTILITY PROXY GROUP?**

22 A. The criteria for my proxy group was designed to select companies that are
23 representative of Citizens'. I applied the following criteria to Value Line's East,

1 Central, and West “Electric Utility” company groups:

- 2 1. Fifty percent or more of the company’s revenues must be generated from
3 the regulated electric utility industry.
- 4 2. The company’s stock must be publicly traded.
- 5 3. Investment information for the company must be available from more than
6 one source, which includes Value Line.
- 7 4. The company must not be currently involved in an announced merger or the
8 target of an acquisition.
- 9 5. The company must have four consecutive years of historic earnings data.
- 10 6. The company must be operating in a state that has a deregulated electric
11 utility market.

12
13 **Q. WHAT CRITERIA DID MR. D’ASCENDIS USE IN SELECTING THE**
14 **COMPANIES THAT FORMULATE HIS ELECTRIC GROUP?**

15 A. Mr. D’Ascendis employed the following criteria to determine his “Electric Utility
16 Proxy Group”:⁵

- 17 1. They were included in the Eastern, Central, or Western Electric Utility
18 Group of *Value Line* (March 11, 2022, February 11, 2022; January 21,
19 2022).
- 20 2. They have 70% or greater of fiscal year 2021 total operating income
21 derived from, and 70% or greater fiscal year 2021 total assets attributable

⁵ Citizens’ Statement No. 2, p. 15, ln. 12 through p. 16, ln. 8.

1 to, regulated electric distribution operations.

- 2 3. At the time of preparation of this testimony, they had not publicly
3 announced that they were involved in any major merger or acquisition
4 activity (*i.e.*, one publicly traded utility merging with or acquiring another)
5 or any other major development.
- 6 4. They have not cut or omitted their common dividends during the five years
7 ended 2021 or through the time of preparation of this testimony.
- 8 5. They have *Value Line* and Bloomberg adjusted betas.
- 9 6. They have positive *Value Line* five-year DPS growth rate projections.
- 10 7. They have *Value Line*, Reuters, Zacks, or Yahoo! Finance consensus five
11 EPS growth rate projections.

12

13 **Q. WHAT PROXY GROUP DID YOU USE IN YOUR ANALYSIS?**

14 A. I included the following thirteen companies in my proxy group:

Ameren Corp.	AEE
American Electric Power Company Inc.	AEP
CMS Energy Corp.	CMS
Consolidated Edison Inc.	ED
Dominion Energy	D
Duke Energy Corp.	DUK
Entergy Corp.	ETR
Eversource Energy	ES
FirstEnergy Corp.	FE
IDACORP Inc.	IDA
Portland General Electric Company	POR
Public Service Enterprise Group Inc.	PEG
Xcel Energy Inc.	XEL

15

1 **Q. WHAT PROXY GROUP DID MR. D’ASCENDIS USE IN HIS ANALYSIS?**

2 A. Mr. D’Ascendis’ Electric Utility Proxy Group consists of the following fourteen
3 companies:⁶

Alliant Energy Corp.	LNT
Ameren Corp.	AEE
American Electric Power Company Inc.	AEP
Duke Energy Corp.	DUK
Edison International	EIX
Entergy Corp.	ETR
Evergy Inc.	EVRG
Eversource Energy	ES
IDACORP Inc.	IDA
NorthWestern Corporation	NWE
OGE Energy Corp.	OGE
Portland General Electric Company	POR
Southern Co.	SO
Xcel Energy Inc.	XEL

4

5

6 **Q. DO YOU AGREE WITH MR. D’ASCENDIS’ PROXY GROUP?**

7 A. Not entirely. While Mr. D’Ascendis and I have eight companies we agree on in
8 our proxy groups, he uses six companies that I exclude, and I employ five
9 companies that he excludes.

10

11 **Q. PLEASE IDENTIFY THE SIX COMPANIES MR. D’ASCENDIS’ HAS**
12 **INCLUDED THAT YOU DO NOT AND EXPLAIN WHY YOU HAVE**
13 **EXCLUDED THEM FROM YOUR PROXY GROUP.**

14 A. All six of the companies Mr. D’Ascendis included in his proxy group that I have
15 excluded from my proxy group violate my sixth criterion that dictates the

⁶ Citizens’ Statement No. 2, p. 16, lines 9-13.

1 company must operate in a state that has a deregulated electric utility market.
2 These companies are Alliant Energy Corp., Edison International, Evergy Inc.,
3 NorthWestern Corp., OGE Corp., and Southern Co.
4

5 **Q. YOU EXCLUDED COMPANIES NOT OPERATING IN A STATE WITH A**
6 **DEREGULATED MARKET. EXPLAIN WHAT IS MEANT BY A**
7 **DEREGULATED ELECTRIC UTILITY MARKET.**

8 A. A deregulated electric market is a market in which the regulated utility is
9 responsible only for the distribution of electricity, not generation. Deregulation
10 permits electric suppliers to compete and sell electricity directly to consumers and
11 allows consumers the ability to seek competitive rates for generation supply.
12

13 **Q. WHY IS IT IMPORTANT TO INCLUDE THE CRITERION THAT A**
14 **COMPANY MUST OPERATE IN A STATE THAT HAS A**
15 **DEREGULATED ELECTRIC UTILITY MARKET?**

16 A. I included the criterion that a company must operate in a deregulated market, like
17 Pennsylvania, so that the companies included in my proxy group would all be of
18 similar risk to Citizens'. Unlike regulated markets, which contain largely
19 vertically integrated utilities, deregulated markets permit electricity providers to
20 compete and sell electricity directly to the consumers. This criterion helps to
21 ensure that each company in the proxy group is operating in a similar market and
22 under similar circumstances as Citizens'.

1 **Q. PLEASE IDENTIFY THE FIVE COMPANIES YOU INCLUDE THAT MR.**
2 **D’ASCENDIS DOES NOT AND EXPLAIN WHY HE HAS EXCLUDED**
3 **THEM FROM HIS ELECTRIC UTILITY PROXY GROUP.**

4 A. Mr. D’Ascendis excluded four companies, CMS Energy Corp., Consolidated
5 Edison Inc., Dominion Energy, and Public Service Enterprise Group Inc., because
6 they violate his second criterion that the company must have 70% or greater total
7 operating income derived from and 70% or greater of total assets attributed to
8 regulated electric distribution operations in fiscal year 2021.

9 He excluded the fifth company, FirstEnergy Corp., since it violates his third
10 criterion that at the time of preparation of his testimony, they had not publicly
11 announced that they were involved in any major merger or acquisition activity
12 (*i.e.*, one publicly-traded utility merging with or acquiring another) or any other
13 major development.⁷ It appears that this transaction included FirstEnergy Corp.
14 selling a minority stake in FirstEnergy Transmission LLC to Brookfield
15 Infrastructure Partners L.P. However, this transaction has been completed as of
16 May 31, 2022, which is after the submission of Mr. D’Ascendis’ direct testimony.

17

18 **CAPITAL STRUCTURE**

19 **Q. WHAT IS A CAPITAL STRUCTURE?**

20 A. A capital structure represents how a firm has financed its rate base with different
21 sources of funds. The primary sources of funding are long-term debt and common

⁷ I&E Exhibit No. 2, Schedule 2.

1 equity. A capital structure may also include preferred stock and/or short-term
2 debt, although this is not the case for Citizens’.

3
4 **Q. WHAT IS THE COMPANY’S CLAIMED CAPITAL STRUCTURE?**

5 A. The Company is proposing a hypothetical capital structure which is summarized in
6 the table below:

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA	
Hypothetical Capital Structure - December 31, 2023	
Long-Term Debt	50.47%
Common Equity	49.53%
Total	100.00%

7
8
9 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIMED**
10 **HYPOTHETICAL CAPITAL STRUCTURE?**

11 A. Mr. D’Ascendis’ recommendation is based on Citizens’ parent company, C&T
12 Enterprises capital structure. He correctly explains that Citizens’ actual equity
13 ratio of 84.56% is higher than necessary and inappropriate for ratemaking
14 purposes as it would create unwarranted higher costs for ratepayers.⁸

⁸ Citizens’ Statement No. 2, p. 17, lines 4-18.

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**
2 **CLAIMED CAPITAL STRUCTURE?**

3 A. I recommend using the Company's claimed hypothetical capital structure as
4 presented in the table above.

5

6 **Q. WHAT IS THE BASIS FOR YOUR CAPITAL STRUCTURE**
7 **RECOMMENDATION?**

8 A. I agree with Mr. D'Ascendis that Citizens' actual capital structure is unnecessarily
9 high and would cause undue harm to ratepayers. The Company's proposed
10 hypothetical capital structure is reasonable and falls within the range of my proxy
11 group's 2021 (most recently available) capital structures. The most recent five-
12 year average range contains individual company capital structure ratios from
13 43.07% to 75.67% long-term debt and 24.27% to 56.93% equity, with an overall
14 five-year average of 56.81% long-term debt and 42.90% common equity.⁹

15

16 **COST OF LONG-TERM DEBT**

17 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE**
18 **COMPANY'S COST RATE OF LONG-TERM DEBT?**

19 A. I recommend using the Company's claimed long-term debt cost rate of 4.09% for
20 the FPFTY.¹⁰

⁹ I&E Exhibit No. 2, Schedule 3.

¹⁰ Citizens' Statement No. 2, p. 18, lines 8-9.

1 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO USE THE**
2 **COMPANY’S CLAIMED COST RATE OF LONG-TERM DEBT?**

3 A. The Company’s claimed cost rate of long-term debt is reasonable, as it is
4 representative of the industry. It falls within my proxy group’s 2021 (most
5 recently available) implied long-term debt cost range of 3.18% to 5.07%, with an
6 average implied long-term debt cost of 3.94%.¹¹ Therefore, I recommend the
7 claimed cost rate of long-term debt be used.

8

9 **COST OF COMMON EQUITY**

10 **COMMON METHODS**

11 **Q. WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN**
12 **DETERMINING THE COST OF COMMON EQUITY?**

13 A. Four methods commonly presented to estimate the cost of common equity are the
14 Discounted Cash Flow (DCF), the Capital Asset Pricing Model (CAPM), the Risk
15 Premium (RP) Method, and the Comparable Earnings (CE) Method.

16

17 **Q. WHAT IS THE THEORETICAL BASIS FOR THE DCF METHOD?**

18 A. The DCF method is the “dividend discount model” of financial theory, which
19 maintains that the value (price) of any security or commodity is the discounted
20 present value of all future cash flows. The DCF method assumes that investors
21 evaluate stocks in the traditional economic framework, which maintains that the

¹¹ I&E Exhibit No. 2, Schedule 4.

1 value of a financial asset is determined by its earning power, or its ability to
2 generate future cash flows.

3
4 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?**

5 A. The CAPM describes the relationship of a stock's investment risk and its market
6 rate of return. It identifies the rate of return investors expect so that it is
7 comparable with returns of other stocks of similar risk. This method hypothesizes
8 that the investor-required return on a company's stock is equal to the return on a
9 "risk free" asset plus an equity premium reflecting the company's investment risk.
10 In the CAPM, two types of risk are associated with a stock: (1) firm-specific risk
11 (unsystematic risk); and (2) market risk (systematic risk), which is measured by a
12 firm's beta. The CAPM allows for investors to receive a return only for bearing
13 systematic risk. Unsystematic risk is assumed to be diversified away, and
14 therefore, does not earn a return.

15
16 **Q. WHAT IS THE THEORETICAL BASIS FOR THE RP METHOD?**

17 A. The theoretical basis for the RP method is a simplified version of the CAPM. The
18 RP method's theory is that common stock is riskier than debt, thus, investors
19 require a higher expected return on stocks than bonds. In the RP approach, the
20 cost of equity is made up of the cost of debt and a risk premium. While the
21 CAPM uses the market risk premium, it also directly measures the systematic risk

1 of a company or proxy group through the use of beta. The RP method does not
2 measure the specific risk of a company.

3
4 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CE METHOD?**

5 A. The CE method utilizes the concept of opportunity cost. This means that investors
6 will likely dedicate their capital to the investment offering the highest return with
7 similar risk to alternative investments. Unlike the DCF, CAPM, and the RP
8 methods, the CE method is not market-based and relies upon historic accounting
9 data. The most problematic issue with the CE method is determining what
10 constitutes comparable companies.

11
12 **I&E RECOMMENDED METHOD TO EMPLOY**

13 **Q. WHAT METHOD DO YOU RECOMMEND USING TO DETERMINE AN**
14 **APPROPRIATE COST OF COMMON EQUITY FOR CITIZENS'?**

15 A. I recommend using the DCF method as the primary method to determine the cost
16 of common equity. Additionally, I provide a CAPM analysis to be used as a
17 comparison, not as a check, to the DCF results. This Commission has historically
18 relied mostly upon the DCF results in base rate proceedings, including as recently

1 as 2017, 2018, 2020, and 2021.¹²

2
3 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO EMPLOY THE DCF TO**
4 **DETERMINE YOUR RECOMMENDED RETURN ON EQUITY (ROE).**

5 A. I recommend using the DCF for a variety of reasons. The DCF is appealing to
6 investors since it is based upon the concept that the receipt of dividends in addition
7 to expected appreciation is the total return requirement determined by the
8 market.¹³ The use of a growth rate and expected dividend yield are also strengths
9 of the DCF, as this recognizes the time value of money and is forward-looking.
10 The use of the utilities' own, or in this case the proxy group's, stock prices and
11 growth rates directly in the calculation also causes the DCF to be industry and
12 company specific. Finally, current inflationary and economic trends are most
13 certainly reflected in a stock's price, which is used determining the dividend yield,
14 and by analysts who generate forecasted earnings growth rates. Therefore, the
15 DCF contains the most up-to-date projected information of any model and is the
16 superior method for determining the rate of return for the current economic market
17 because it measures the cost of equity directly.

¹² *Pa. PUC v. City of DuBois – Bureau of Water*; Docket No. R-2016-2554150 (Order Entered March 28, 2017). *See generally* Disposition of Cost Rate Models, pp. 96-97; *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Cost of Common Equity, p. 119; *Pa. PUC v. Wellsboro Electric Company*; Docket No. R-2019-3008208 (Order Entered April 29, 2020). *See generally* Disposition of Primary Methodology to Determine ROE, pp. 80-81; *Pa. PUC v. Citizens Electric Company of Lewisburg, PA*; Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 91-92. *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*; Docket No. R-2020-3018835 (Order Entered February 19, 2021). *See generally* Disposition of Cost of Common Equity, p. 131.

¹³ David C. Parcell, “The Cost of Capital – A Practitioner’s Guide,” 2010 Edition, p. 151.

1 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO USE THE CAPM AS A**
2 **COMPARISON TO THE DCF IN YOUR ANALYSIS.**

3 A. I have included a CAPM analysis only as a comparison and not as a basis for my
4 recommendation because both the CAPM and the DCF include inputs that allow
5 the results to be specific to the utility industry. However, the CAPM is based on
6 the performance of U.S. Treasury bonds and the performance of the market as
7 measured through the S&P 500 and is company-specific only through the use of
8 beta. Beta reflects a stock's volatility relative to the overall market, thereby
9 incorporating an industry-specific aspect to the CAPM, but only as a measure of
10 how reactive the industry is compared to the market as a whole. While I firmly
11 believe changes in the utility industry are more likely to be accurately reflected in
12 the DCF, which uses the companies' actual prices, dividends, and growth rates, I
13 have also included the results of my CAPM analysis because changes in the
14 market, whether as a whole or specific to the utility industry, affect the outcome of
15 each method in different ways. Even though I have provided the results of my
16 CAPM analysis as a comparison, and not as a check, it must be noted that CAPM
17 does have several disadvantages and should not be given comparable weight to the
18 DCF.

19
20 **Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.**

21 A. The CAPM, and the RP method by virtue of its similarities to the CAPM, give
22 results that indicate to an investor what the equity cost rate should be if current
23 economic and regulatory conditions are the same as those present during the

1 historical period in which the risk premiums were determined. This is because
2 beta, which is the only company-specific variable in the CAPM model, measures
3 the *historical* volatility of a stock compared to the *historical* overall market return.
4 Reliance on historical values is especially problematic now considering recent
5 inflation and economic conditions largely attributed to the COVID-19 pandemic.
6 Therefore, the DCF method is the superior method for determining the rate of
7 return for the current economic market and measuring the cost of equity directly.
8 The CAPM and the RP methods are less reliable indicators because they measure
9 the cost of equity indirectly and risk premiums vary depending on the debt and
10 equity being compared.

11
12 **Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE**
13 **CREDIBILITY OF THE CAPM MODEL?**

14 A. Yes. An article, “Market Place; A Study Shakes Confidence in the Volatile-Stock
15 Theory,” which appeared in the *New York Times* on February 18, 1992,
16 summarized a CAPM study conducted by professors Eugene F. Fama and
17 Kenneth R. French.¹⁴ Their study examined the importance of beta, CAPM’s risk
18 factor, in explaining returns on common stock. In CAPM theory a stock with a
19 higher beta should have a higher expected return. However, they found that the

¹⁴ Berg, Eric N. “Market Place; A Study Shakes Confidence in the Volatile-Stock Theory” *The New York Times*, 18 Feb 1992: *nytimes.com* Web. 23 Mar 2016.

1 model did not do well in predicting actual returns and suggested the use of more
2 elaborate multi-factor models.

3 A more recent article, “The Capital Asset Pricing Model: Theory and
4 Evidence,” which appeared in the *Journal of Economic Perspectives*, states that
5 while “the attraction of the CAPM is that it offers powerful and intuitively
6 pleasing predictions about how to measure risk and the relation between expected
7 return and risk. Unfortunately, the empirical record of the model is poor - poor
8 enough to invalidate the way it is used in applications.”¹⁵ As a result, I conclude
9 that the CAPM’s relevance to the investment decision making process does not
10 carry over into the regulatory rate setting process.

11
12 **Q. PLEASE EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE RP**
13 **METHOD FROM YOUR ANALYSIS.**

14 A. The RP method is excluded because it is a simplified version of the CAPM and is
15 subject to the same faults explained above. Most importantly, unlike the CAPM,
16 the RP method does not recognize company-specific risk through beta.

17
18 **Q. EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE CE METHOD**
19 **IN YOUR ANALYSIS.**

20 A. The CE method is excluded because the choice of which companies are
21 comparable is highly subjective, and it is debatable whether historic accounting

¹⁵ Fama, Eugene F. and French, Kenneth R., “The Capital Asset Pricing Model: Theory and Evidence.” *Journal of Economic Perspectives* (2004): Volume 18, Number 3, pp. 25-46.

1 values are representative of the future. Moreover, its historical usage in this
2 regulatory forum has been minimal.

3
4 **Q. ARE THERE ANY RECENT COMMISSION ORDERS THAT DEVIATE**
5 **FROM THE HISTORICAL USE OF THE DCF AS THE PRIMARY**
6 **METHOD IN DETERMINING A COMPANY’S RETURN ON EQUITY?**

7 A. Yes. The Commission indicated in the most recent Aqua Pennsylvania, Inc.
8 (Aqua) base rate case order that its method “for determining Aqua’s ROE shall
9 utilize both I&E’s DCF and CAPM methodologies”¹⁶ and that “I&E’s DCF and
10 CAPM produce a range of reasonableness for the ROE...”,¹⁷ which deviates from
11 the historical Commission practice of primarily relying on the DCF.

12
13 **Q. SHOULD THE COMMISSION’S USE OF THE CAPM AS A CEILING**
14 **FOR A “RANGE OF REASONABLENESS” APPLY IN THIS**
15 **PROCEEDING?**

16 A. No. In a report issued by Regulatory Research Associates, a group within S&P
17 Global Market Intelligence,¹⁸ Aqua’s return on equity of 10.00% is stated as being
18 above the national average for water utility base rate cases and above the

¹⁶ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154 (Order entered May 16, 2022).

¹⁷ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

¹⁸ Regulatory Research Associates, “Commission authorizes management performance bonus for Aqua Pennsylvania,” *S&P Global Market Intelligence*, May 16, 2022. [CIQ Pro: RRA Regulatory Focus: Commission authorizes management performance bonus for Aqua Pennsylvania \(spglobal.com\)](https://www.spglobal.com/regulatory-focus/commission-authorizes-management-performance-bonus-for-aqua-pennsylvania) (Accessed June 30, 2022).

1 Distribution System Improvement Charge (DSIC) authorized by the Commission
2 of 9.80%¹⁹ for water and wastewater utilities based on a period ended
3 December 31, 2021, and this DSIC rate is still in effect as the Commission has not
4 published DSIC rates since this report was made public in June 2022. The above
5 referenced report also states that the average return on equity for water utility base
6 rate cases that have been completed during the first four months of 2022 was
7 9.63% and for the last twelve months ended April 30, 2022, was 9.53% which are
8 well below the 10.00% return on equity authorized by the Commission for Aqua.
9 Although this is related to the water utility industry only, it demonstrates the
10 problem associated with using the CAPM as a ceiling for determining a utility's
11 return on equity.

12 Additionally, as explained above, the CAPM should not be used as a
13 primary method, and it should only be used as a comparison and not as a check of
14 the DCF or to establish a "reasonable range" due to my previously mentioned
15 concerns. Also, as demonstrated below, the use of the CAPM in this proceeding
16 would result in a significant burden to ratepayers during a time of increasing levels
17 of inflation and economic decline. Therefore, I disagree with providing the
18 CAPM comparable weight to the DCF method.

¹⁹ PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022 at Docket No. M-2022-3032405.

1 **SUMMARY OF THE COMPANY’S RESULTS**

2 **Q. WHAT ARE THE RESULTS OF THE COMPANY’S COST OF EQUITY**
3 **ANALYSES?**

4 A. Mr. D’Ascendis employed the DCF, CAPM, and RP methods using his Electric
5 Utility Proxy Group in analyzing the Companies’ cost of equity. Additionally, he
6 performs similar analyses using a “Domestic, Non-Price Regulated” company
7 proxy group. Further, he makes two adjustments to his results, which include
8 consideration for size and a performance factor adjustment. Ultimately, Mr.
9 D’Ascendis opines that a cost of equity of 11.50% is warranted.²⁰

10
11 **I&E RECOMMENDATION**

12 **Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR**
13 **CITIZENS’?**

14 A. Based upon my analysis, I recommend a cost of common equity of 8.98%.²¹

15
16 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

17 A. My recommendation is based on the use of the DCF method. As explained
18 elsewhere in this testimony, I used my CAPM result only to present to the
19 Commission a comparison to my DCF results. My DCF analysis uses a spot
20 dividend yield, a 52-week dividend yield, and earnings growth forecasts.

²⁰ Citizens’ Exhibit DWD-1, Schedule DWD-1, p. 2.

²¹ I&E Exhibit No. 2, Schedule 1.

1 **DISCOUNTED CASH FLOW**

2 **Q. PLEASE EXPLAIN YOUR DCF ANALYSIS.**

3 A. My analysis employs the constant growth DCF model as portrayed in the
4 following formula:

5 $K = D_1/P_0 + g$

6 Where:

7 K = Cost of equity

8 D₁ = Dividend expected during the year

9 P₀ = Current price of the stock

10 g = Expected growth rate

11 When a forecast of D₁ is not available, D₀ (the current dividend) must be adjusted
12 by one half of the expected growth rate to account for changes in the dividend paid
13 in period one. As forecasts for each company in my proxy group were available
14 from Value Line, no dividends were adjusted for the purpose of my analysis.

15
16 **Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS
17 USED IN YOUR DCF ANALYSIS.**

18 A. A representative dividend yield must be calculated over a time frame that avoids
19 the problems of both short-term anomalies and stale data series. For my DCF
20 analysis, the dividend yield calculation places equal emphasis on the most recent

1 spot and the 52-week average dividend yields. The following table summarizes
2 my dividend yield computations for the proxy group:²²

Proxy Group - Average Dividend Yields	
Spot	3.28%
52-week average	3.29%
Average	3.28%

3

4

5 **Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR**
6 **EXPECTED GROWTH RATE?**

7 A. I have used five-year projected growth rate estimates from Value Line, Yahoo!
8 Finance, Zacks, and Morningstar.

9

10 **Q. WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS**
11 **GROWTH RATES?**

12 A. The expected average growth rates for my electric proxy group ranged from
13 (6.60%) to 14.00% with an overall average of 5.60%. For the purpose of
14 determining the growth estimate, I subsequently eliminated the negative growth
15 rate estimate as well as the highest estimate to determine a new adjusted average
16 of 5.70%. The eliminations include Yahoo! Finance's estimate for FirstEnergy
17 Corp. as well as Value Line's estimate for Dominion Energy.²³

²² I&E Exhibit No. 2, Schedule 5.

²³ I&E Exhibit No. 2, Schedule 6.

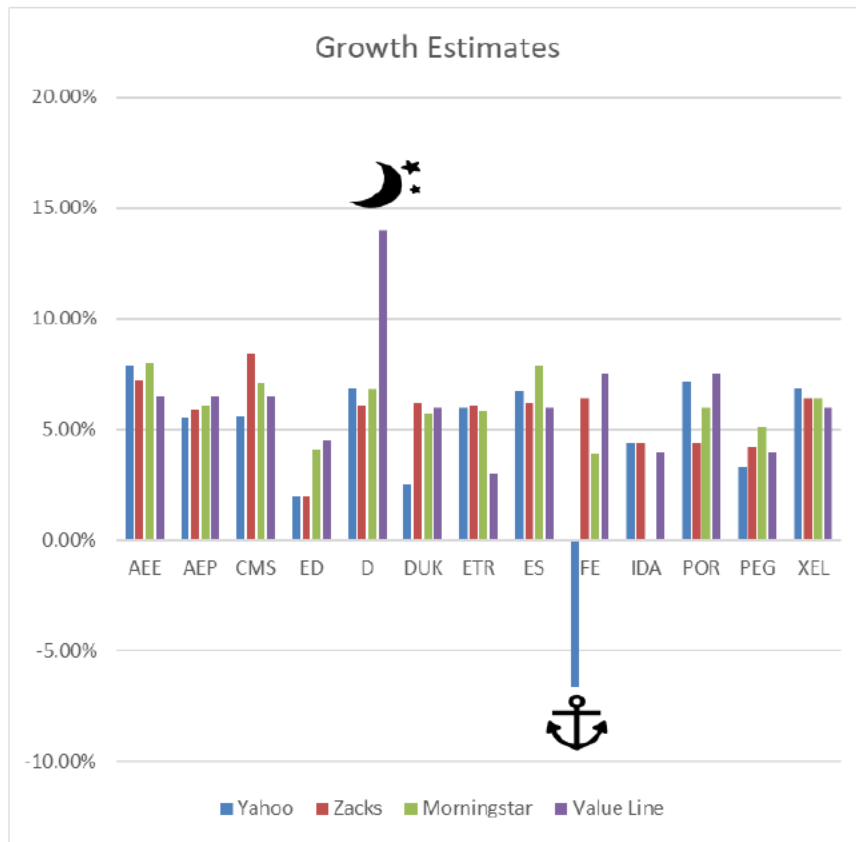
1 **Q. EXPLAIN WHY YOU EXCLUDED THE NEGATIVE PROJECTED**
2 **GROWTH RATE ESTIMATE IN YOUR ANALYSIS.**

3 A. While I believe that the use of a proxy group largely smooths out various
4 anomalies, I feel that the negative growth projection identified above was
5 extremely inconsistent with the same company estimates from the other sources.
6 Additionally, this estimate would have an unnecessary and unwarranted negative
7 impact on my DCF analysis, which would adversely affect my recommendation
8 for the Company's cost of common equity.

9
10 **Q. EXPLAIN WHY YOU ELIMINATED THE VALUE LINE PROJECTED**
11 **GROWTH ESTIMATE FOR DOMINION ENERGY.**

12 A. Similar to my rationale regarding the removal of negative growth estimates, I
13 believe that Value Line's growth projection for Dominion Energy is inconsistent
14 when compared to the estimates of the other sources and would have an
15 unnecessary and unwarranted impact on my DCF analysis, which would adversely
16 affect my recommendation for the Company's cost of common equity. Value
17 Line's estimate of 14.00% is 2.5 times higher than, and 5 standard deviations over
18 the originally calculated 5.60% overall average.

19 The following chart illustrates just how inconsistent the estimates I
20 removed are:



1

2

3 **Q. WHAT IS THE RESULT OF YOUR DCF ANALYSIS BASED ON YOUR**
 4 **RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?**

5 A. The results of my DCF analysis are calculated as follows:²⁴

K	=	D_1/P_0	+	g
8.98%	=	3.28%	+	5.70%

6

²⁴ I&E Exhibit No. 2, Schedule 7.

1 **CAPITAL ASSET PRICING MODEL**

2 **Q. PLEASE EXPLAIN YOUR CAPM ANALYSIS.**

3 A. My analysis employs the traditional CAPM as portrayed in the following formula:

4
$$K = R_f + \beta(R_m - R_f)$$

5 Where:

6 K = Cost of equity

7 R_f = Risk-free rate of return

8 R_m = Expected rate of return on the overall stock market

9 β = Beta measures the systematic risk of an asset

10

11 **Q. WHAT IS BETA AS EMPLOYED IN YOUR CAPM ANALYSIS?**

12 A. Beta is a measure of the systematic risk of a stock in relation to the rest of the
13 stock market. A stock's beta is estimated by calculating the linear regression of a
14 stock's return against the return on the overall stock market. The beta of a stock
15 with a price pattern identical to that of the overall stock market will equal one. A
16 stock with a price movement that is greater than the overall stock market will have
17 a beta that is greater than one and would be described as having more investment
18 risk than the market. Conversely, a stock with a price movement that is less than
19 the overall stock market will have a beta of less than one and would be described
20 as having less investment risk than the overall stock market.

1 **Q. HOW DID YOU DETERMINE YOUR BETA FOR YOUR CAPM**
2 **ANALYSIS?**

3 A. In estimating an equity cost rate for my proxy group, I used the average of the
4 betas for the companies as provided in the Value Line Investment Survey. The
5 average beta for my proxy group is 0.83.²⁵

6
7 **Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU USED FOR YOUR**
8 **FORECASTED CAPM ANALYSIS?**

9 A. I have chosen to use the risk-free rate of return (R_f) from the projected yield on
10 10-year Treasury Notes. While the yield on the short-term T-Bill is a more
11 theoretically correct parameter to represent a risk-free rate of return, it can be
12 extremely volatile. The volatility of short-term T-Bills is directly influenced by
13 Federal Reserve policy. At the other extreme, the 30-year Treasury Bond exhibits
14 more stability but is not risk-free. Long-term Treasury Bonds have substantial
15 maturity risk associated with market risk and the risk of unexpected inflation.
16 Long-term treasuries normally offer higher yields to compensate investors for
17 these risks. As a result, I chose to use the yield on the 10-year Treasury Note
18 because it mitigates the shortcomings of the other two alternatives. Additionally,
19 the Commission has recently agreed with I&E and recognized the 10-year
20 Treasury Note as the superior measure of the risk-free rate of return.²⁶

²⁵ I&E Exhibit No. 2, Schedule 8.

²⁶ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018).
See generally Disposition of Capital Asset Pricing Model (CAPM), p. 99.

1 The forecasted yield on the 10-year Treasury Note, as seen in Blue Chip
2 Financial Forecasts, is expected to range between 3.00% and 3.30% from the third
3 quarter of 2022 through the third quarter of 2023, and it is forecasted to be 2.90%
4 from 2023-2027. For my forecasted CAPM analysis, I used 3.15%, which is the
5 average of all the yield forecasts I observed.²⁷

6
7 **Q. HOW DID YOU DETERMINE THE RETURN ON THE OVERALL**
8 **STOCK MARKET EMPLOYED IN YOUR FORECASTED CAPM**
9 **ANALYSIS?**

10 A. To arrive at a representative expected return on the overall stock market, I
11 observed Value Line's 1700 stocks and the S&P 500. Value Line expects its
12 universe of 1700 stocks to have an average yearly return of 14.47% over the next
13 three to five years based on a forecasted dividend yield of 2.00% and a yearly
14 index appreciation of 60%. The S&P 500 index is expected to have an average
15 yearly return of 15.29% over the next five years based upon Barron's forecasted
16 dividend yield of 1.49% and Morningstar's average expected increase in the S&P
17 500 index of 13.70%.²⁸

²⁷ I&E Exhibit No. 2, Schedule 9.

²⁸ I&E Exhibit No. 2, Schedule 10.

1 **Q. WHAT IS THE EXPECTED RETURN ON THE OVERALL STOCK**
2 **MARKET BASED ON YOUR FORECASTED ANALYSIS?**

3 A. The expected return on the overall market is 14.88% for my forecasted analysis.²⁹

4

5 **Q. WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM**
6 **ANALYSIS?**

7 A. The result of my analysis is as follows:³⁰

K	=	R _f	+	β(R _m - R _f)
12.89%	=	3.15%	+	0.83 (14.88% - 3.15%)

8

9

10 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR**
11 **CAPM ANALYSIS?**

12 A. Yes. As discussed earlier in my testimony, my recommended cost of equity is
13 based upon my DCF analysis. I only present a CAPM analysis to the Commission
14 as a comparison and not for recommendation purposes as the inputs are highly
15 subjective, and other than beta, not company or industry specific. Again, it has
16 been the historical preference of the Commission to view both the DCF and
17 CAPM analysis in base rate proceedings.

²⁹ I&E Exhibit No. 2, Schedule 10.

³⁰ I&E Exhibit No. 2, Schedule 11.

1 **Q. IS IT NECESSARY OR APPROPRIATE TO APPLY THE CAPM WITH**
2 **SIMILAR WEIGHT TO THE DCF WHEN DETERMINING A SPECIFIC**
3 **RETURN ON EQUITY DUE TO RECENT INFLATIONARY TRENDS?**

4 A. No. My use of the DCF as a primary method in determining an appropriate return
5 on equity sufficiently takes this into consideration. As mentioned above, the DCF
6 includes a spot stock price in the dividend yield calculation and analysts who
7 generate forecasted earnings growth almost certainly take inflation into
8 consideration as well, so it contains the most up-to-date projected information of
9 any model. In other words, the inputs of the DCF capture all known economic
10 factors, including inflation.

11
12 **Q. BASED ON THE COMPANY'S FILED RATE BASE AND CLAIMED**
13 **CAPITAL STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL**
14 **391 BASIS POINTS TO THE COST OF EQUITY BASED ON THE**
15 **DIFFERENCE IN RESULTS BETWEEN YOUR CAPM ANALYSIS**
16 **(12.89%) AND YOUR DCF ANALYSIS (8.98%)?**

17 A. The example below illustrates the impact of 391 additional basis points to the
18 Company's cost of equity if the results of my CAPM analysis, rather than my DCF
19 results, were applied to the Company's filed rate base:

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA	
Claimed Equity Percentage of Capital Structure	49.53%
Difference in Return on Equity between I&E's CAPM and DCF Analysis (12.89% - 8.98% = 3.91%)	3.91%
Claimed Rate Base*	\$13,630,593
Impact Prior to Gross Up (0.4953 x 0.0391 x \$13,630,593)	\$263,973
Gross Revenue Conversion Factor**	1.4945
Total Impact (\$263,973 x 1.4945)	\$394,508
*Citizens' Exhibit_(HSG-1) Schedule C1 (CU), In. 30.	
**I&E Exhibit No. 2, Schedule 12.	

1

2 In this example, an addition of 391 basis points to the cost of equity would burden

3 ratepayers to fund an additional amount of \$394,508 annually to cover the increase

4 of the inflated rate of return along with the associated impact resulting from

5 increases to income taxes, gross receipts tax, uncollectibles, and assessments. In

6 short, I believe it is inappropriate to use the CAPM as the top end of a range as

7 was done by the Commission in the recent Aqua rate case in determining a return

8 on equity. Contrary to the 391-basis point spread in this proceeding as illustrated

9 above, the spread between the DCF and the CAPM in the Aqua case was much

10 more reasonable at 99 basis points.³¹ Any amount granted above the DCF (8.98%

11 based on my recommendation) places an inappropriate burden on ratepayers.

³¹ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

1 **CRITIQUE OF MR. D'ASCENDIS' PROPOSED COST OF EQUITY**

2 **Q. DO YOU AGREE WITH MR. D'ASCENDIS' PROPOSED COST OF**
3 **EQUITY?**

4 A. No. Several factors cause Mr. D'Ascendis' claimed cost of equity to be
5 overstated. First, I disagree with the weight given to his CAPM and RP methods.
6 Within his RP analysis, Mr. D'Ascendis relies upon proprietary software that is
7 not commonly used by investors making investment decisions. Additionally, Mr.
8 D'Ascendis relies upon a proxy group comprised of companies that are not
9 regulated electric utilities. Finally, Mr. D'Ascendis makes unsupported size and
10 performance factor adjustments to the results of his analyses, both of which serve
11 to inflate his recommendation.

12 Notably, although Mr. D'Ascendis' and I have different implementations of
13 our DCF and CAPM methods, our overall unadjusted results are comparable. The
14 results of his DCF and CAPM are 9.05% and 12.15% respectively, while the
15 results of my DCF and CAPM are 8.98% and 12.89% respectively. Therefore,
16 while I don't necessarily agree with the specific variables or applications of these
17 methods, such as his use of a 30-year Treasury Bond as the risk-free rate and
18 employment of the ECAPM, any specific critiques of his DCF and CAPM
19 analyses are unnecessary in this proceeding.

1 **WEIGHTS GIVEN TO THE CAPM AND RP METHODS**

2 **Q. DO YOU AGREE WITH MR. D’ASCENDIS’ RELIANCE ON THE CAPM**
3 **AND RP MODELS?**

4 A. No. While I am not opposed to providing the Commission the results of the
5 CAPM methodology for a point of comparison to the results of the DCF
6 calculation, I am opposed to giving the CAPM and RP considerable weight. For
7 the reasons previously discussed in this testimony, including my reference to
8 recent Commission orders, it is inappropriate to give the CAPM and RP models
9 similar weight to the DCF as Mr. D’Ascendis’ has done in creating his
10 recommended cost of equity. As discussed above, the CAPM measures the cost of
11 equity indirectly and can be manipulated by the time period chosen. Since the RP
12 is a simplified version of the CAPM, it suffers these same flaws.

13
14 **PREDICTIVE RISK PREMIUM MODEL (PRPM)**

15 **Q. WHAT IS THE PREDICTIVE RISK PREMIUM MODEL?**

16 A. The PRPM is a method that was published in August 2011 by Pauline M. Ahern,
17 Frank J. Hanley, and Richard A. Michelfelder in the article *New Approach to*
18 *Estimating the Cost of Common Equity Capital for Public Utilities*.³²
19 Additionally, Mr. D’Ascendis’ PRPM requires EvIEWS[©] statistical software.³³

³² Ahern, Pauline M., Hanley, Frank J., Michelfelder, Richard A. (December 2011, Volume 40, Issue 3). *New Approach to Estimating the Cost of Common Equity Capital for Public Utilities*. Journal of Regulatory Economics, pp. 261-278.

³³ Citizens’ Statement No. 2, p. 24, ln. 14 through p. 25, ln. 17.

1 **Q. DO YOU AGREE WITH MR. D’ASCENDIS’ USE OF THE PRPM?**

2 A. No. The PRPM is not a commonly used method and cannot be evaluated or
3 recreated without purchasing the Eviews[©] software. The PRPM does not solve the
4 problem of the RP method because it is still an indirect measure of the cost of
5 equity, and it uses historic data that may not represent the current or future
6 economic conditions. Further, the PRPM complicates the RP method in that it
7 requires the use of specialized software that, to my knowledge, is proprietary and
8 requires a substantial fee for a user license.

9

10 **DOMESTIC, NON-PRICE REGULATED PROXY GROUP**

11 **Q. EXPLAIN MR. D’ASCENDIS’ USE OF A DOMESTIC, NON-PRICE**
12 **REGULATED PROXY GROUP.**

13 A. Mr. D’Ascendis asserts that in the landmark *Hope* and *Bluefield* cases, the U.S.
14 Supreme Court did not specify that comparable risk companies had to be
15 utilities.³⁴ Consequently, he assembled a proxy group consisting of 48 non-price
16 regulated firms which he contends are comparable in terms of total risk to his
17 Electric Utility Proxy Group. After forming his proxy group of 48 non-price
18 regulated firms, Mr. D’Ascendis calculated common equity costs with data inputs
19 specific to these companies using the DCF, RP, and CAPM methods.³⁵ The
20 average of the mean and median results of these analyses, specifically 12.60%,

³⁴ Citizens’ Statement No. 2, p. 45, lines 7-8.

³⁵ Citizens’ Statement No. 2, p. 45, ln. 16 through p. 49, ln. 13 and Citizens’ Exhibit DWD-1, Schedule DWD-7.

1 was incorporated into Mr. D'Ascendis' final calculation of the Companies' returns
2 on equity before any adjustments for the claimed risks the Companies face.³⁶

3
4 **Q. DO YOU AGREE WITH MR. D'ASCENDIS' APPROACH OF USING THE**
5 **MARKET DATA OF DOMESTIC, NON-PRICE REGULATED (NON-**
6 **UTILITY) COMPANIES TO CALCULATE CITIZENS' RETURN ON**
7 **EQUITY?**

8 A. No. The process of choosing a proxy group of non-utility companies similar in
9 risk to Citizens' is highly speculative and subjective. In effect, Mr. D'Ascendis
10 has blended the CE method into the DCF, RP, and CAPM models. In the UGI
11 Electric case, the Commission made the following comments regarding the CE
12 method, specifically, the use of non-utility companies in comparable groups, and
13 stated:³⁷

14 With respect to the CE method, as noted above, this cost of
15 equity method utilizes data for non-regulated firms. Thus, by
16 its very nature, determining which companies are comparable is
17 entirely subjective. In addition, the record indicates that the
18 companies UGI utilized in its CE group results in the selection
19 of companies such as Coca-Cola Company, Kellogg Company,
20 and Walmart Stores, Inc....Each of these companies operate in
21 industries that are very different from a utility company and
22 have significantly more competition, which would require a
23 higher return for the associated additional risk.

³⁶ Citizens' Exhibit DWD-1, Schedule DWD-1, p. 2 and Citizens' Statement No. 2, p. 49, ln. 8.

³⁷ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order entered October 25, 2018), p. 105.

1 Prior to the UGI Electric case, the Commission has ruled:³⁸

2 The use of nonregulated companies as a comparable group for
3 regulated firms requires numerous unsupportable assumptions
4 which results in a highly speculative finding.

5 If the non-price regulated company proxy group is truly similar in total risk to
6 Citizens', similar results in the calculation of the DCF, RP, and CAPM model
7 ROEs between the Electric Utility and Non-Price Regulated Company proxy
8 groups used by Mr. D'Ascendis should be expected. Instead, while the results of
9 the CAPM were similar between the non-price regulated company proxy group
10 and his Electric Utility company proxy group, the results were vastly different for
11 the DCF and RP methods. His non-price regulated company proxy group analyses
12 resulted in a DCF of 12.70% and a RP of 12.73%, which are 365 basis points and
13 189 basis points higher than the results of his Electric Utility company proxy
14 group DCF and RP results of 9.05% and 10.84% respectively.

15
16 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO MR.**
17 **D'ASCENDIS' USE OF A NON-PRICE REGULATED COMPANY PROXY**
18 **GROUP IN THIS PROCEEDING?**

19 A. I recommend the Commission reject all analyses performed using the non-price
20 regulated company proxy group to calculate an ROE in this proceeding.

³⁸ *Pennsylvania Public Utility Commission v. Philadelphia Electric Co.* 33 PUR 4th 319, 341 (Pa PUC 1980).

1 **COST OF EQUITY ADJUSTMENTS**

2 **SIZE ADJUSTMENT**

3 **Q. WHAT IS MR. D’ASCENDIS’ SIZE ADJUSTMENT?**

4 A. Mr. D’Ascendis’ size adjustment consists of a 100-basis point addition to his
5 indicated common equity cost rate.³⁹

6
7 **Q. WHAT IS MR. D’ASCENDIS’ BASIS FOR ADDING A SIZE RISK
8 PREMIUM TO HIS RECOMMENDED COMMON EQUITY COST RATE?**

9 A. Mr. D’Ascendis opines that smaller companies are less able to cope with
10 significant events affecting sales, revenues, or earnings. He further argues that
11 loss of revenue from a few larger customers would have a greater effect on a
12 smaller company than a company with a larger, more diverse customer base.⁴⁰ To
13 support his claim, Mr. D’Ascendis quotes technical literature from the Duff &
14 Phelps 2020 Valuation Handbook Guide to Cost of Capital (“D&P – 2020”), “The
15 Capital Asset Pricing Model: Theory & Evidence” authored by Fama and French,
16 and also quotes Professor Eugene Brigham’s textbook entitled “Fundamentals of
17 Finance Management.”⁴¹ Mr. D’Ascendis quantifies his size adjustment based on
18 size premiums for portfolios of New York Stock Exchange, American Stock
19 Exchange, and NASDAQ listed companies ranked by deciles for the 1926 to 2020
20 period.⁴² Finally, even though Mr. D’Ascendis explains that his Electric Utility
21 Proxy Group falls in the 2nd decile, he asserts that Citizens’ falls in the 10th decile

³⁹ Citizens’ Statement No. 2, p. 5, ln. 11 and Citizen’s Exhibit DWD-1, Schedule DWD-1, p. 2.

⁴⁰ Citizens’ Statement No. 2, p. 51, lines 9-14.

⁴¹ Citizens’ Statement No. 2, p. 51, ln. 15 through p. 52, ln. 27.

⁴² Citizens’ Statement No. 2, p. 54, lines 11-14.

1 for size. While he suggests his analysis indicates a 452-basis point size premium
2 is warranted, he chose an upward adjustment of 100 basis points to his calculated
3 cost of equity.⁴³

4
5 **Q. IS MR. D’ASCENDIS’ SIZE ADJUSTMENT APPROPRIATE?**

6 A. No. Although Mr. D’Ascendis provides technical literature supporting
7 adjustments relating to the size of a company, this literature is not specific to the
8 utility industry. Further, the stock exchanges he uses to determine his size
9 premium are populated with a wide variety of industries and, therefore, do not
10 represent the regulated public utility industry. It is not appropriate to compare
11 highly competitive private companies with regulated, monopolistic, public utilities
12 in determining any kind of adjustment.

13
14 **Q. IS THERE ACADEMIC LITERATURE THAT SUPPORTS YOUR**
15 **CONCLUSION THAT THE SIZE ADJUSTMENT FOR RISK IS NOT**
16 **APPLICABLE TO UTILITY COMPANIES?**

17 A. Yes. In the article “Utility Stocks and the Size Effect: An Empirical Analysis,”
18 Dr. Annie Wong concludes:

19 The objective of this study is to examine if the size effect exists
20 in the utility industry. After controlling for equity values, there
21 is some weak evidence that firm size is a missing factor from
22 the CAPM for the industrial but not for utility stocks. This
23 implies that although the size phenomenon has been strongly
24 documented for the industriales, the findings suggest that there
25 is no need to adjust for the firm size in utility rate regulation.⁴⁴

⁴³ Citizens’ Statement No. 2, p. 54, ln. 14 through p. 56, ln. 2.

⁴⁴ Dr. Annie Wong, “Utility Stocks and the Size Effect: An Empirical Analysis,” *Journal of Midwest Finance Association* 1993, pp. 95-101.

1 The Company presents no evidence to support application of a non-utility study
2 regarding a size adjustment for risk to a utility setting. Absent any credible article
3 to refute Dr. Wong’s findings, Mr. D’Ascendis’ size adjustment to his CAPM
4 results should be rejected.

5 Additionally, and more importantly, the Commission has recently rejected
6 the application of a size adjustment to the cost of equity calculation.⁴⁵

7
8 **Q. BASED ON THE COMPANY’S CLAIMED RATE BASE AND CAPITAL**
9 **STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL 100 BASIS**
10 **POINTS FOR MR. D’ASCENDIS’ SIZE ADJUSTMENT TO THE COST**
11 **OF EQUITY?**

12 A. The example below illustrates the impact of 100 additional basis points for the size
13 adjustment to the Company’s cost of equity:

CITIZENS’ ELECTRIC COMPANY OF LEWISBURG, PA	
Claimed Equity Percentage of Capital Structure	49.53%
Additional Basis Points to Calculated Cost of Equity	100
Claimed Rate Base*	\$13,630,593
Impact Prior to Gross Up (0.4953 x 0.0100 x \$13,630,593)	\$67,512
Gross Revenue Conversion Factor**	1.4945
Total Impact (\$67,512 x 1.4945)	\$100,897
*Citizens’ Exhibit_(HSG-1) Schedule C1 (CU), ln. 30. **I&E Exhibit No. 2, Schedule 12.	

14
15 In this example, an addition of 100 basis points for the size adjustment to the cost
16 of equity would force ratepayers to fund an unwarranted additional amount of

⁴⁵ Pa. PUC v. UGI Utilities, Inc. – Electric Division; Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 100.

1 \$100,897 annually to cover the increase of the overstated rate of return along with
2 the associated impact resulting from increases to income taxes, gross receipts tax,
3 uncollectibles, and assessments.
4

5 **PERFORMANCE FACTOR ADJUSTMENT**

6 **Q. SUMMARIZE THE COMPANY’S REQUEST REGARDING A**
7 **PERFORMANCE FACTOR ADJUSTMENT.**

8 A. Mr. D’Ascendis includes an upward adjustment of 5 basis points⁴⁶ to his market-
9 derived calculated cost of common equity recommendation based upon the
10 testimony of Citizens’ Witness John Kelchner (Citizens’ Statement No. 4). Mr.
11 D’Ascendis also notes that the Commission awarded the Company a 5-basis point
12 performance factor adjustment in its previous base rate case (at Docket No.
13 R-2019-3008208).⁴⁷
14

15 **Q. WHAT EVIDENCE DOES MR. KELCHNER PRESENT TO SUPPORT**
16 **THE 5 BASIS POINT PERFORMANCE ADJUSTMENT?**

17 A. Mr. Kelchner presents several reasons to support the Company’s claim for a
18 performance adjustment. These reasons include excellent reliability metrics, low
19 customer complaints and favorable feedback, significant capital investment,

⁴⁶ Citizens’ Exhibit DWD-1, Schedule DWD-1, p. 2, ln. 7.

⁴⁷ Citizens’ Statement No. 2, p. 56, lines 3-18.

1 technology adoption, zero reportable injuries in 2021, streetlight upgrades, and
2 efforts to assist payment-troubled customers during the pandemic.⁴⁸

3
4 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIMS REGARDING A**
5 **PERFORMANCE FACTOR ADJUSTMENT?**

6 A. No. First, many of the topics presented by the Company witnesses fall within the
7 categories of reliability, customer satisfaction, and safety that are required of every
8 public utility company under 66 Pa C.S.A. §1501. Additionally, the Company
9 passes capital expenditures to its ratepayers via base rates, or it can utilize a DSIC
10 for capital expenditure recovery. Further, if the Company is effective at
11 controlling operating and maintenance costs, those savings should flow through to
12 ratepayers and/or investors. These savings would likely be offset by the addition
13 of basis points for management performance as ratepayers would have to fund the
14 additional costs. This defeats the purpose of any cost cutting measures to benefit
15 ratepayers.

16
17 **Q. ARE YOU AWARE OF ANY COMPANIES THAT HAVE RECENTLY**
18 **RECEIVED ADDITIONAL BASIS POINTS IN RECOGNITION OF**
19 **MANAGEMENT PERFORMANCE?**

20 A. Yes. Most recently, the Commission awarded Aqua an addition of 25 basis points

⁴⁸ Citizens’ Statement No. 4, p. 9, ln. 17 through p. 13, ln. 2.

1 for its management performance efforts.⁴⁹ However, it is important to recognize
2 that this addition was based specifically on Aqua rescuing troubled water and
3 wastewater systems at the Commission’s request. The Commission stated:⁵⁰

4 We specifically recognize Aqua’s efforts and willingness to
5 quickly provide emergency aid to various water and
6 wastewater systems that needed substantial improvement.
7 Aqua has often provided this emergency aid on short notice
8 and at the request of the Commission or other parties to protect
9 the public from egregious health and safety threats and to
10 protect the Commonwealth’s drinking water resources from
11 catastrophic damage.
12

13 **Q. DOES THE COMMISSION’S PAST ISSUANCE OF ADDITIONAL**
14 **EQUITY POINTS TO RECOGNIZE MANAGEMENT PERFORMANCE**
15 **MEAN THAT CITIZENS’ SHOULD ALSO RECEIVE AN ADJUSTED**
16 **RETURN ON EQUITY?**

17 **A.** No. The issuance of equity points to recognize management performance should
18 be done on a case-by-case basis. The situation in the Aqua proceeding as
19 discussed above was very specific to Aqua rescuing troubled water and
20 wastewater systems and preventing health and safety concerns regarding drinking
21 water. This scenario does not apply to Citizens’.

⁴⁹ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 168-173 (Order entered May 16, 2022).

⁵⁰ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, p. 169 (Order entered May 16, 2022).

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE**
2 **CONSIDERATION OF ADDITIONAL BASIS POINTS FOR THE**
3 **COMPANY’S RECOMMENDED PERFORMANCE FACTOR**
4 **ADJUSTMENT?**

5 A. Ultimately, as alluded to above, true strong management performance is earning a
6 higher return through efficient use of resources and cost cutting measures. The
7 greater net income resulting from cost savings and true efficiency in management
8 and operations is available to be passed on to both ratepayers and shareholders. I
9 do not believe that Citizens’ or any utility, should be gifted additional basis points
10 for doing what they are required to do to provide adequate, efficient, safe, and
11 reasonable service under 66 Pa C.S.A. §1501.

12 For these reasons, I recommend that any addition of basis points to the cost
13 of equity for a performance factor be disallowed.

14
15 **OVERALL RATE OF RETURN RECOMMENDATION**

16 **Q. WHAT IS THE COMPANY’S PROPOSED COST OF EQUITY AND**
17 **OVERALL RATE OF RETURN?**

18 A. Although Mr. D’Ascendis recommends a cost of equity of 11.50% which results in
19 an overall rate of return of 7.76%, Citizens’ is requesting a lower 6.65% rate of
20 return (corrected and updated position as of July 11, 2022)⁵¹ in order to keep its
21 requested revenue increase under \$1,000,000 to “mitigate the effect” on
22 customers.⁵²

⁵¹ Citizens’ Statement No. 1 (CU) and Exhibit HSG-1, Schedule C1 (CU).

⁵² Citizens’ Statement No. 1, p. 4, lines 11-17.

1 **Q. WHAT IS I&E’S RECOMMENDED COST OF EQUITY AND OVERALL**
2 **RATE OF RETURN?**

3 A. I&E Exhibit No. 2, Schedule 1, shows the calculation of an appropriate cost of
4 equity to be 8.98% with an overall rate of return for Citizens’ to be 6.51%.

5
6 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING THE**
7 **COMPANY’S PROPOSED RETURN ON EQUITY?**

8 A. Yes. First, a report issued by Regulatory Research Associates, a group within
9 S&P Global Market Intelligence,⁵³ illustrates that Citizens’ 11.50% requested
10 return on equity is a significant 136 basis points higher than the average return on
11 equity request of 10.14% of all pending vertically integrated electric utility rate
12 cases as of March 10, 2022. It is also important to note that Pennsylvania is a
13 deregulated state, which would indicate less risk.

14 Second, when asked, Mr. D’Ascendis indicated he was unaware if any
15 electric utilities throughout the United States were granted a Commission
16 authorized return of 11.50% or higher cost of common equity in the past two
17 years.⁵⁴

18 Third, the Company’s requested return on common equity is 205 basis
19 points higher than the Commission’s most recently approved DSIC rate of 9.45%
20 (Q4 2021 Quarterly Earnings Summary Report) for electric utility companies. The

⁵³ Regulatory Research Associates, “Major energy utility cases in progress in the US, Quarterly update on pending rate cases,” *S&P Global Market Intelligence*, March 16, 2022.

⁵⁴ I&E Exhibit No. 2, Schedule 13.

1 DSIC rate is designed to encourage its use and to incentivize accelerated pipeline
2 replacement and infrastructure upgrades to bring the existing aging infrastructure
3 closer to meeting safety and reliability requirements in between base rate filings.
4 Additionally, the DSIC rate establishes a benchmark above which a utility
5 company is considered “overearning.” As such, the DSIC rate does not serve as a
6 proper measurement of a subject utility’s cost of equity in a rate case proceeding.
7 To suggest the cost of equity must be at or above the DSIC rate in this base rate
8 proceeding is inappropriate and not in the public interest.

9 Finally, while I am aware of the rising costs of capital due to the after-
10 effects of the pandemic and the increasing levels of inflation, I believe it is
11 important not to over burden ratepayers. While the economy is in decline,
12 Citizens’ is requesting a record return on equity. As detailed in the various charts
13 above, the effect of Mr. D’Ascendis’ adjustments to the market-determined cost of
14 common equity are an enormous burden to ratepayers and are completely
15 unwarranted and unnecessary.

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

18 **A.** Yes.

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

EMPLOYMENT

Fixed Utility Financial Analyst 2014 – Present	PA Public Utility Commission Bureau of Investigation & Enforcement
Auditor 2012 – 2014	Public School Employee’s Retirement System Bureau of Benefits Administration
Tax Technician 2010 – 2012	PA Department of Labor and Industry Unemployment Compensation Tax Services
Staff Accountant 2006 – 2009	Boyer & Ritter Certified Public Accountants

EDUCATION & TRAINING*EDUCATION/CERTIFICATIONS:*

Society of Utility and Regulatory Financial Analysts (SURFA) – 2018
Certified Rate of Return Analyst (CRRA)

Indiana University of Pennsylvania, A.A. Accounting - 2006

The Pennsylvania State University, B.S. Labor and Industrial Relations – 2003

The Pennsylvania State University - The Smeal College of Business - 2003

Certificates of Completion:

Business Management - 20 credits of instruction

General Business - 20 credits of instruction

UTILITY SPECIFIC TRAINING/CONFERENCES:

NARUC Staff Subcommittee on Accounting & Finance, Fall 2021 webinar, October 5-7, 2021

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 webinar, April 6-8, 2021

SURFA Annual Financial Forum – New Orleans, LA – 2018

SURFA Annual Financial Forum – Indianapolis, IN - 2016

Western NARUC Utility Rate School – San Diego, CA - 2015

Pennsylvania Public Utility Commission Rate School – Harrisburg, PA – 2014

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE

I have submitted testimony or assisted in the following proceedings:

- Docket No. R-2022-3031113 – PECO Energy Company – Gas Division*
- Docket No. R-2022-3030661 – Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2021-3030218 – UGI Utilities, Inc. – Gas Division*
- Docket Nos. R-2021-3027385 & R-2021-3027386 – Aqua Pennsylvania, Inc. & Aqua Pennsylvania Wastewater, Inc.*
- Docket No. A-2021-3027268 - Aqua PA Wastewater, Inc. – Acquisition of the Wastewater System Assets of Willistown Township (§1329)*
- Docket No. R-2021-3026682 – City of Lancaster – Water Fund*
- Docket Nos. R-2021-3024773, R-2021-3024774 & R-2021-3024779 – Pittsburgh Water & Sewer Authority*
- Docket No. R-2021-3024601 - PECO Energy Company – Electric Division*
- Docket No. R-2021-3023618 – UGI Utilities, Inc. – Electric Division*
- Docket No. R-2020-3022135 – Pike County Light & Power Company (Electric)*
- Docket No. R-2020-3022134 – Pike County Light & Power Company (Gas)*
- Docket No. R-2020-3020919 – Audubon Water Company*
- Docket No. R-2020-3020256 – City of Bethlehem – Bureau of Water*
- Docket Nos. R-2020-3019369 & R-2020-3019371 - Pennsylvania-American Water Company*
- Docket Nos. R-2020-3017951, R-2020-3017970 & P-2020-3019019 – Pittsburgh Water & Sewer Authority*
- Docket No. R-2020-3017850 - Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2020-3017846 - Peoples Gas Company, LLC 1307(f)*
- Docket No. R-2020-3017206 – Philadelphia Gas Works*
- Docket No. R-2019-3010955 – City of Lancaster – Sewer Fund*
- Docket No. R-2019-3008948 – Community Utilities of PA, Inc. – Wastewater Division*
- Docket No. R-2019-3008947 – Community Utilities of PA, Inc. – Water Division*
- Docket No. R-2019-3008212 - Citizens’ Electric Company of Lewisburg, PA*

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

- Docket No. R-2019-3008208 - Wellsboro Electric Company*
- Docket No. A-2019-3006880 – Pennsylvania-American Water Company – Acquisition of the Water Treatment and Distribution System Assets of Steelton Borough Authority (§1329)*
- Docket No. R-2018-3006814 – UGI Utilities, Inc. – Gas Division*
- Docket Nos. A-2018-3003517 & 3003519 - SUEZ Water Pennsylvania, Inc. – Acquisition of the Water and Wastewater Assets of Mahoning Township (§1329)*
- Docket Nos. R-2018-3002645 & 3002647 - Pittsburgh Water & Sewer Authority*
- Docket No. R-2018-3000164 - PECO Energy Company – Electric Division*
- Docket No. R-2018-3000124 - Duquesne Light Company*
- Docket No. R-2018-3000236 - Peoples Natural Gas – Equitable Division 1307(f)*
- Docket No. R-2018-2645296 - Peoples Gas Company LLC 1307(f)*
- Docket No. R-2018-2645278 - Peoples Natural Gas Company, LLC 1307(f)*
- Docket Nos. M-2018-2640802 & 2640803 – Pittsburgh Water & Sewer Authority (Compliance Plan)*
- Docket No. R-2017-2640058 - UGI Utilities, Inc. – Electric Division*
- Docket No. A-2017-2606103 - Pennsylvania-American Water Company – Acquisition of Assets of the Municipal Authority of the City of McKeesport (§1329)*
- Docket No. R-2017-2595853 - Pennsylvania-American Water Company*
- Docket No. A-2016-2580061 - Aqua PA Wastewater, Inc. – Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority (§1329)
- Docket No. R-2016-2542923 - PNG, LLC – Equitable Division (Rate MLX)*
- Docket No. R-2016-2542918 - Peoples Natural Gas Company, LLC (Rate MLX)*
- Docket No. R-2016-2538660 - Community Utilities of PA, Inc.
- Docket No. R-2016-2531551 - Wellsboro Electric Company*
- Docket No. R-2016-2531550 - Citizens' Electric Company of Lewisburg, PA*
- Docket No. P-2016-2543140 - Duquesne Light Company (DSP VIII)*
- Docket No. R-2016-2529660 - Columbia Gas of PA, Inc.*

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

- Docket No. P-2016-2521993 - Columbia Gas of PA, Inc. (DSIC)*
- Docket No. R-2015-2506337 - Twin Lakes Utilities, Inc.
- Docket No. R-2015-2479962 - Corner Water Supply & Service Corp.
- Docket No. R-2015-2479955 - Allied Utility Services, Inc.
- Docket No. R-2015-2470184 - Borough of Schuylkill Haven – Water Dept.
- Docket No. R-2014-2452705 - Delaware Sewer Company*
- Docket No. R-2014-2430945 - Plumer Water Company
- Docket No. R-2014-2427189 - B.E. Rhodes Sewer Company
- Docket No. R-2014-2427035 - Venango Water Company
- Docket No. R-2014-2428745 - Metropolitan Edison Company
- Docket No. R-2014-2428744 - Pennsylvania Power Company
- Docket No. R-2014-2428743 - Pennsylvania Electric Company
- Docket No. R-2014-2428742 - West Penn Power Company

*Testimony Submitted

I&E Exhibit No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

Exhibit to Accompany

the

Direct Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

I&E			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Citizens' Electric Company of Lewisburg, PA			
Long-Term Debt	50.47%	4.09%	2.06%
Common Equity	49.53%	8.98%	4.45%
Total	100.00%		6.51%

**CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA RESPONSE TO
BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUEST
DOCKET NO. R-2022-3032369**

I&E Exhibit No. 2
Schedule 2
Page 1 of 2

I&E-RR-4 Reference Citizens' Statement No. 2, p. 15, ln. 12 through p. 16, ln. 13. Identify each company from Value Line's Electric Utility Eastern, Western, and Central groups that were excluded from Mr. D'Ascendis' electric proxy group. Specifically, state which of Mr. D'Ascendis' criteria each company violated in order to be excluded.

Response:

Please see I&E-RR-4 Attachment 1.

**Response Provided by: Dylan W. D'Ascendis, CRRRA, CVA, Partner
ScottMadden, Inc.**

Date: May 27, 2022

I&E MODIFIED

Source: S&P Global Market Intelligence; SEC Company 10-Ks
 Numbers in (\$000)

(as of March 18, 2022)

	NOI	NOI Regulated Electric	% Regulated Electric	Assets	Assets Regulated Electric	% Regulated Electric	Both NOI and Assets >= 70% Regulated Electric	Merger / Significant Event?	Dividend Cutter?	VL / BB betas?	Positive VL DPS Growth Projections?	VL, Zacks, or Yahoo Proj EPS Growth Rates?	Proxy Group Company?
ALE	241,200	186,400	77.28%	6,435,000	4,289,400	66.66%	N	N	N	Y	Y	Y	N
LNT	795,000	716,000	90.06%	18,553,000	14,924,000	80.44%	Y	N	N	Y	Y	Y	Y
AEE	1,376,000	1,179,456	85.72%	41,602,000	34,400,000	82.69%	Y	N	N	Y	Y	Y	Y
AEP	3,705,900	3,363,500	90.76%	92,077,800	81,967,700	89.02%	Y	N	N	Y	Y	Y	Y
AGR	875,000	597,296	68.26%	39,504,000	37,441,844	94.78%	N	Y	N	Y	Y	Y	N
AVA	253,581	157,100	61.95%	6,855,824	4,713,844	68.76%	N	N	N	Y	Y	Y	N
BKH	449,981	202,676	45.04%	9,131,896	3,796,662	41.58%	N	N	N	Y	Y	Y	N
CNP	1,313,000	701,000	53.39%	35,341,000	16,439,000	46.52%	N	N	Y	Y	Y	Y	N
CMS	1,246,000	772,000	61.96%	28,753,000	16,493,000	57.36%	N	N	N	Y	Y	Y	N
ED	2,486,000	1,738,000	69.91%	63,116,000	38,383,000	60.81%	N	N	N	Y	Y	Y	N
D	4,668,000	3,099,000	66.39%	104,600,000	66,700,000	63.77%	N	N	Y	Y	N	Y	N
DTE	1,518,000	1,202,000	79.18%	41,691,000	28,524,000	68.42%	N	N	Y	Y	Y	Y	N
DUK	6,084,000	5,282,000	86.82%	169,587,000	143,841,000	84.82%	Y	N	N	Y	Y	Y	Y
EIX	1,684,000	1,614,000	95.84%	74,745,000	74,538,000	99.72%	Y	N	N	Y	Y	Y	Y
ETR	1,841,920	1,748,549	94.93%	61,537,468	57,284,099	93.09%	Y	N	N	Y	Y	Y	Y
EVRG	1,354,900	1,354,900	100.00%	28,520,500	28,520,500	100.00%	Y	N	N	Y	Y	Y	Y
EXC	3,400,000	2,891,567	85.05%	143,175,000	81,059,850	56.62%	N	N	Y	Y	N	Y	N
FE	2,424,000	2,467,000	101.77%	45,432,000	44,049,000	96.96%	Y	Y	N	Y	Y	Y	N
HE	347,459	252,084	72.55%	15,822,637	6,491,625	41.03%	N	N	N	Y	Y	Y	N
IDA	332,295	329,888	99.28%	7,272,838	6,990,839	96.12%	Y	N	N	Y	Y	Y	Y
MGEE	129,873	79,171	60.96%	2,807,036	1,525,163	54.33%	N	N	N	Y	Y	Y	N
NEE	4,843,000	3,822,000	78.92%	140,912,000	75,406,000	53.51%	N	N	N	Y	Y	Y	N
ES	1,900,700	1,388,900	73.07%	48,492,100	37,789,000	77.93%	Y	N	N	Y	Y	Y	Y
NWE	280,514	239,966	85.55%	6,780,443	5,432,578	80.12%	Y	N	N	Y	Y	Y	Y
OGE	505,800	504,300	99.70%	12,824,900	11,688,000	91.14%	Y	N	N	Y	Y	Y	Y
OTTR	223,336	105,501	47.24%	2,697,385	2,283,776	84.67%	N	N	N	Y	Y	Y	N
PNW	805,310	805,310	100.00%	22,003,222	22,003,222	100.00%	Y	N	N	Y	Y	N	N
PNM	308,153	321,615	104.37%	8,666,885	8,424,905	97.21%	Y	Y	N	Y	Y	Y	N
POR	378,000	378,000	100.00%	9,494,000	9,494,000	100.00%	Y	N	N	Y	Y	Y	Y
PPL	1,342,000	1,197,787	89.25%	33,223,000	28,259,412	85.06%	Y	Y	Y	Y	N	N	N
PEG	1,901,000	1,335,805	70.27%	38,588,000	25,767,000	66.77%	N	N	N	Y	Y	Y	N
SRE	2,472,000	1,657,947	67.07%	58,940,000	21,594,000	36.64%	N	N	N	Y	Y	Y	N
SO	4,230,000	3,215,000	76.00%	127,534,000	102,441,000	80.32%	Y	N	N	Y	Y	Y	Y
WEC	1,986,200	1,040,244	52.37%	33,946,300	14,836,100	43.70%	N	N	N	Y	Y	Y	N
XEL	2,413,000	2,046,000	84.79%	65,290,000	48,680,000	74.56%	Y	N	N	Y	Y	Y	Y

Proxy Group Capital Structure

	2021		2020		2019		2018		2017		Average
Ameren Corp.											
Long-term Debt	\$ 12,562.000	56.43%	\$ 11,078.000	55.35%	\$ 8,944.000	52.60%	\$ 7,859.000	50.74%	\$ 7,094.000	49.68%	52.96%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	9,700.000	43.57%	8,938.000	44.65%	8,059.000	47.40%	7,631.000	49.26%	7,184.000	50.32%	47.04%
	22,262.000	100.00%	20,016.000	100.00%	17,003.000	100.00%	15,490.000	100.00%	14,278.000	100.00%	100.00%
American Electric Power Company Inc.											
Long-term Debt	31,989.000	58.73%	29,855.800	59.18%	26,110.600	57.03%	21,881.700	53.44%	19,658.400	51.79%	56.03%
Preferred Stock	43.300	0.08%	45.200	0.09%	42.900	0.09%	39.400	0.10%	11.900	0.03%	0.08%
Common Equity	22,433.200	41.19%	20,550.900	40.73%	19,632.200	42.88%	19,028.400	46.47%	18,287.000	48.18%	43.89%
	54,465.500	100.00%	50,451.900	100.00%	45,785.700	100.00%	40,949.500	100.00%	37,957.300	100.00%	100.00%
CMS Energy Corp.											
Long-term Debt	12,115.000	65.41%	13,715.000	71.39%	12,064.000	70.62%	10,684.000	69.20%	9,214.000	67.48%	68.82%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	6,407.000	34.59%	5,496.000	28.61%	5,018.000	29.38%	4,755.000	30.80%	4,441.000	32.52%	31.18%
	18,522.000	100.00%	19,211.000	100.00%	17,082.000	100.00%	15,439.000	100.00%	13,655.000	100.00%	100.00%
Consolidated Edison Inc.											
Long-term Debt	23,321.000	53.79%	21,146.000	52.87%	19,336.000	51.76%	17,495.000	51.12%	14,731.000	48.86%	51.68%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	20,037.000	46.21%	18,847.000	47.13%	18,022.000	48.24%	16,726.000	48.88%	15,418.000	51.14%	48.32%
	43,358.000	100.00%	39,993.000	100.00%	37,358.000	100.00%	34,221.000	100.00%	30,149.000	100.00%	100.00%
Dominion Energy											
Long-term Debt	37,890.000	56.71%	34,473.000	56.90%	34,266.000	51.71%	31,144.000	60.77%	30,948.000	64.35%	58.09%
Preferred Stock	3,393.000	5.08%	2,387.000	3.94%	2,387.000	3.60%	-	0.00%	-	0.00%	2.52%
Common Equity	25,525.000	38.21%	23,730.000	39.16%	29,607.000	44.68%	20,107.000	39.23%	17,142.000	35.65%	39.39%
	66,808.000	100.00%	60,590.000	100.00%	66,260.000	100.00%	51,251.000	100.00%	48,090.000	100.00%	100.00%
Duke Energy Corp.											
Long-term Debt	61,522.000	55.52%	56,965.000	54.29%	56,417.000	54.65%	51,123.000	53.85%	49,035.000	54.02%	54.46%
Preferred Stock	1,962.000	1.77%	1,962.000	1.87%	1,962.000	1.90%	-	0.00%	-	0.00%	1.11%
Common Equity	47,334.000	42.71%	46,002.000	43.84%	44,860.000	43.45%	43,817.000	46.15%	41,739.000	45.98%	44.43%
	110,818.000	100.00%	104,929.000	100.00%	103,239.000	100.00%	94,940.000	100.00%	90,774.000	100.00%	100.00%
Entergy Corp.											
Long-term Debt	25,053.255	68.28%	21,429.544	66.23%	17,313.378	62.87%	15,538.681	63.73%	14,337.274	64.21%	65.06%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	11,637.284	31.72%	10,926.142	33.77%	10,223.675	37.13%	8,844.305	36.27%	7,992.515	35.79%	34.94%
	36,690.539	100.00%	32,355.686	100.00%	27,537.053	100.00%	24,382.986	100.00%	22,329.789	100.00%	100.00%
Eversource Energy											
Long-term Debt	17,569.879	54.62%	15,726.088	52.79%	14,360.350	53.21%	12,832.074	52.77%	11,775.889	51.51%	52.98%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	14,599.844	45.38%	14,063.566	47.21%	12,629.994	46.79%	11,486.817	47.23%	11,086.242	48.49%	47.02%
	32,169.723	100.00%	29,789.654	100.00%	26,990.344	100.00%	24,318.891	100.00%	22,862.131	100.00%	100.00%
FirstEnergy Corp.											
Long-term Debt	22,519.000	72.19%	22,394.000	75.58%	19,859.000	74.01%	17,751.000	72.26%	21,115.000	84.33%	75.67%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	71.000	0.29%	-	0.00%	0.06%
Common Equity	8,675.000	27.81%	7,237.000	24.42%	6,975.000	25.99%	6,743.000	27.45%	3,925.000	15.67%	24.27%
	31,194.000	100.00%	29,631.000	100.00%	26,834.000	100.00%	24,565.000	100.00%	25,040.000	100.00%	100.00%
IDACORP Inc.											
Long-term Debt	2,000.640	42.85%	2,000.414	43.86%	1,736.659	41.34%	1,834.788	43.63%	1,746.123	43.68%	43.07%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	2,668.436	57.15%	2,559.980	56.14%	2,464.628	58.66%	2,370.360	56.37%	2,251.385	56.32%	56.93%
	4,669.076	100.00%	4,560.394	100.00%	4,201.287	100.00%	4,205.148	100.00%	3,997.508	100.00%	100.00%
Portland General Electric Company											
Long-term Debt	3,580.000	63.26%	3,051.000	53.87%	2,775.000	51.71%	2,225.000	47.03%	2,475.000	50.60%	53.30%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	2,079.095	36.74%	2,613.000	46.13%	2,591.000	48.29%	2,506.000	52.97%	2,416.000	49.40%	46.70%
	5,659.095	100.00%	5,664.000	100.00%	5,366.000	100.00%	4,731.000	100.00%	4,891.000	100.00%	100.00%
Public Service Enterprise Group Inc.											
Long-term Debt	15,410.000	51.63%	14,748.000	47.99%	14,016.000	48.16%	13,168.000	47.81%	12,068.000	46.57%	48.43%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	14,437.000	48.37%	15,984.000	52.01%	15,089.000	51.84%	14,377.000	52.19%	13,847.000	53.43%	51.57%
	29,847.000	100.00%	30,732.000	100.00%	29,105.000	100.00%	27,545.000	100.00%	25,915.000	100.00%	100.00%
Xcel Energy Inc.											
Long-term Debt	22,994.000	59.56%	21,062.000	59.10%	19,033.000	58.98%	15,803.000	56.39%	14,520.000	55.90%	57.99%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	15,612.000	40.44%	14,575.000	40.90%	13,239.000	41.02%	12,222.000	43.61%	11,455.000	44.10%	42.01%
	\$38,606.000	100.00%	\$35,637.000	100.00%	\$32,272.000	100.00%	\$28,025.000	100.00%	\$25,975.000	100.00%	100.00%
Five-Year Average Capital Structure											
Long-term Debt	56.81%		Maximum	75.67%	Minimum	43.07%					
Preferred Stock	0.29%										
Common Equity	42.90%		Minimum	24.27%	Maximum	56.93%					
	100.00%										

Source:

Compustat (S&P Global Market Intelligence - Data Management Solutions)
Yearly data updates typically provided late April of each year
(data in millions)

2021

Company	Interest Charges	Long-Term Debt	Debt Cost
Ameren Corp.	\$ 400.00	\$ 12,562.00	3.18%
American Electric Power Company Inc.	\$ 1,252.90	\$ 31,989.60	3.92%
CMS Energy Corp.	\$ 503.00	\$ 12,115.00	4.15%
Consolidated Edison Inc.	\$ 916.00	\$ 23,321.00	3.93%
Dominion Energy	\$ 1,471.00	\$ 37,890.00	3.88%
Duke Energy Corp.	\$ 2,344.00	\$ 61,522.00	3.81%
Entergy Corp.	\$ 863.71	\$ 25,053.26	3.45%
Eversource Energy	\$ 600.73	\$ 17,569.88	3.42%
FirstEnergy Corp.	\$ 1,141.00	\$ 22,519.00	5.07%
IDACORP Inc.	\$ 98.69	\$ 2,000.64	4.93%
Portland General Electric Company	\$ 145.00	\$ 3,580.00	4.05%
Public Service Enterprise Group Inc.	\$ 571.00	\$ 15,410.00	3.71%
Xcel Energy Inc.	\$ 842.00	\$ 22,994.00	3.66%
	Range:	Low	3.18%
		High	5.07%
		Average	<u>3.94%</u>

Source:

Compustat (S&P Global Market Intelligence - Data Management Solutions)

Yearly data updates typically provided late April of each year

(data in millions)

Dividend Yields of the Proxy Group

Company	Ameren Corp.	American Electric Power Company Inc.	CMS Energy Corp.	Consolidated Edison Inc.	Dominion Energy
Symbol	AEE	AEP	CMS	ED	D
Div	2.52	3.35	1.94	3.24	2.83
52-wk low	79.35	80.22	57.92	71.17	70.37
52-wk high	99.20	104.81	73.76	99.22	88.78
Spot Price	92.68	99.69	69.18	94.38	83.77
Spot Div Yield	2.72%	3.36%	2.80%	3.43%	3.38%
52-wk Div Yield	2.82%	3.62%	2.95%	3.80%	3.56%
Average	2.77%	3.49%	2.88%	3.62%	3.47%

Company	Duke Energy Corp.	Entergy Corp.	Eversource Energy	FirstEnergy Corp.	IDACORP Inc.
Symbol	DUK	ETR	ES	FE	IDA
Div	4.06	4.30	2.70	1.64	3.25
52-wk low	95.48	133.79	78.44	35.42	95.26
52-wk high	116.33	293.20	94.63	48.85	118.92
Spot Price	110.80	136.24	90.54	42.17	107.34
Spot Div Yield	3.66%	3.16%	2.98%	3.89%	3.03%
52-wk Div Yield	3.83%	2.01%	3.12%	3.89%	3.03%
Average	3.75%	2.59%	3.05%	3.89%	3.03%

Company	Portland General Electric Company	Public Service Enterprise Group Inc.	Xcel Energy Inc.
Symbol	POR	PEG	XEL
Div	1.90	2.28	2.08
52-wk low	45.40	58.96	61.16
52-wk high	57.03	75.61	76.05
Spot Price	46.92	69.06	73.65
Spot Div Yield	4.05%	3.30%	2.82%
52-wk Div Yield	3.71%	3.39%	3.03%
Average	3.88%	3.35%	2.93%

Average	Average
Spot Div Yield	3.28%
52-wk Div Yield	3.29%
Average	3.28%

Sources:

Barrons 5/10/2022
Value Line 3/11/22 - 4/22/22 - 5/13/22

Five-Year Growth Estimate Forecast for the Proxy Group (Actual)

Company	Symbol	Yahoo	Zacks	Morningstar Source	Value Line	Average
Ameren Corp.	AEE	7.90%	7.20%	8.00%	6.50%	7.40%
American Electric Power Company Inc.	AEP	5.50%	5.90%	6.10%	6.50%	6.00%
CMS Energy Corp.	CMS	5.62%	8.40%	7.10%	6.50%	6.91%
Consolidated Edison Inc.	ED	2.00%	2.00%	4.10%	4.50%	3.15%
Dominion Energy	D	6.90%	6.10%	6.80%	14.00%	8.45%
Duke Energy Corp.	DUK	2.50%	6.20%	5.70%	6.00%	5.10%
Entergy Corp.	ETR	6.00%	6.10%	5.80%	3.00%	5.23%
Eversource Energy	ES	6.70%	6.20%	7.90%	6.00%	6.70%
FirstEnergy Corp.	FE	-6.60%	6.40%	3.90%	7.50%	2.80%
IDACORP Inc.	IDA	4.40%	4.40%	NA	4.00%	4.27%
Portland General Electric Company	POR	7.15%	4.40%	6.00%	7.50%	6.26%
Public Service Enterprise Group Inc.	PEG	3.27%	4.20%	5.10%	4.00%	4.14%
Xcel Energy Inc.	XEL	6.90%	6.40%	6.40%	6.00%	6.43%
Average:						5.60%

Sources:

Yahoo, Zacks, & Morningstar

5/10/2022

Value Line

3/11/22 - 4/22/22 - 5/13/22

Five-Year Growth Estimate Forecast for the Proxy Group (Adjusted)

Company	Symbol	Yahoo	Zacks	Morningstar Source	Value Line	Average
Ameren Corp.	AEE	7.90%	7.20%	8.00%	6.50%	7.40%
American Electric Power Company Inc.	AEP	5.50%	5.90%	6.10%	6.50%	6.00%
CMS Energy Corp.	CMS	5.62%	8.40%	7.10%	6.50%	6.91%
Consolidated Edison Inc.	ED	2.00%	2.00%	4.10%	4.50%	3.15%
Dominion Energy	D	6.90%	6.10%	6.80%	NA	6.60%
Duke Energy Corp.	DUK	2.50%	6.20%	5.70%	6.00%	5.10%
Entergy Corp.	ETR	6.00%	6.10%	5.80%	3.00%	5.23%
Eversource Energy	ES	6.70%	6.20%	7.90%	6.00%	6.70%
FirstEnergy Corp.	FE	NA	6.40%	3.90%	7.50%	5.93%
IDACORP Inc.	IDA	4.40%	4.40%	NA	4.00%	4.27%
Portland General Electric Company	POR	7.15%	4.40%	6.00%	7.50%	6.26%
Public Service Enterprise Group Inc.	PEG	3.27%	4.20%	5.10%	4.00%	4.14%
Xcel Energy Inc.	XEL	6.90%	6.40%	6.40%	6.00%	6.43%
Average:						5.70%

Sources:

Yahoo, Zacks, & Morningstar

5/10/2022

Value Line

3/11/22 - 4/22/22 - 5/13/22

Expected Market Cost Rate of Equity for the Proxy Group

5-Year Forecasted Growth Rates

<u>Time Period</u>	<u>Adjusted Dividend Yield</u> (1)	<u>Growth Rate</u> (2)	<u>Expected Return on Equity</u> (3=1+2)
(1) 52-Week Average Ending: May 10, 2022	3.29%	5.70%	8.99%
(2) Spot Price Ending: May 10, 2022	<u>3.28%</u>	<u>5.70%</u>	<u>8.98%</u>
(3) Average:	<u>3.28%</u>	<u>5.70%</u>	<u>8.98%</u>

Sources:

Barrons	05/10/22
Value Line	3/11/22 - 4/22/22 - 5/13/22

<u>Company</u>	<u>Beta</u>
Ameren Corp.	0.80
American Electric Power Company Inc.	0.75
CMS Energy Corp.	0.80
Consolidated Edison Inc.	0.75
Dominion Energy	0.80
Duke Energy Corp.	0.85
Entergy Corp.	0.95
Eversource Energy	0.90
FirstEnergy Corp.	0.80
IDACORP Inc.	0.80
Portland General Electric Company	0.85
Public Service Enterprise Group Inc.	0.90
Xcel Energy Inc.	0.80
Average beta for CAPM	<u>0.83</u>

Source:

Value Line

3/11/22 - 4/22/22 - 5/13/22

Risk-Free Rate

<u>10-Year Treasury Note</u>	<u>Yield</u>
3Q 2022	3.00
4Q 2022	3.10
1Q 2023	3.30
2Q 2023	3.30
3Q 2023	3.30
2023-2027	2.90
Average	<u><u>3.15</u></u>

Source:

Blue Chip

12/1/2021 & 4/29/2022

Required Rate of Return on Market as a Whole Forecasted

	<u>Dividend Yield</u>	+	<u>Growth Rate</u>	=	<u>Expected Market Return</u>
Value Line Estimate	2.00%		12.47%	(a)	14.47%
S&P 500	1.59%	(b)	13.70%		15.29%
Average Expected Market Return				=	<u><u>14.88%</u></u>

(a) Value Line forecast for the 3 to 5 year index appreciation is 50%
 $((1+60\%)^{.25})-1$

(b) S&P 500 dividend yield multiplied by half the S&P 500 growth rate
 $1.49\% * ((1+13.70\%/2)) = 1.59\%$

Sources:

S&P 500 Growth Rate Morningstar	5/10/2022	13.70%
S&P 500 Dividend Yield Barron's	5/6/2022	1.49%
Value Line Dividend Yield	5/13/2022	2.00%
Value Line Appreciation Potential	5/13/2022	60.00%

(a) 0.1246827

(b) 0.0159207

CAPM with Forecasted Return

Re Required return on individual equity security
Rf Risk-free rate
Rm Required return on the market as a whole
Be Beta on individual equity security

Re = $Rf + Be(Rm - Rf)$

Rf =		3.15
Rm =		14.88
Be =		0.83
Re =		<u><u>12.89</u></u>

Citizens' Electric Company of Lewisburg, PA

Gross Revenue Conversion Factor

			<u>Filing</u>
1	Operating Revenue	1.00000000	
2	Less: Gross Receipts Tax	0.05900000	Schedule C1-3
3	Income Before State Taxes	0.94100000	Line 1 - Line 2
4	State Income Tax Effect Rate	0.09990000	Schedule C1-4
5	Less: State Income Tax	0.09400590	Line 3 x Line 4
6	Income Before Federal Taxes	0.84699410	Line 3 - Line 5
7	Federal Income Tax Effect Rate	0.21000000	Schedule C1-4
8	Less: Federal Tax @ 21%	0.17786876	Line 6 x Line 7
9	Adjusted Operating Income	0.66912534	Line 1 - (Line 2 + Line 5 + Line 8)
10			
11	Gross Revenue Conversion Factor	<u>1.4945</u>	$1 + ((1 - \text{Line 9}) / \text{Line 9})$

**CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA RESPONSE TO
BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUEST
DOCKET NO. R-2022-3032369**

I&E Exhibit No. 2 Schedule 13

I&E-RR-5 Reference Citizens' Statement No. 2, p. 3, lines 14-15:

- A. State whether Mr. D'Ascendis is aware of any electric utilities throughout the United States that have been granted a Commission authorized 11.50% or higher cost of common equity in the past two years.

- B. If the answer to I&E-RR-10-D Part A is yes, identify which company/companies have been authorized such cost of common equity, in what jurisdiction, and docket numbers associated with each instance.

Response:

- A. Mr. D'Ascendis is not aware of any electric utilities throughout the United States that have been granted a Commission authorized 11.50% or higher cost of common equity in the past two years; however, Mr. D'Ascendis' analysis is based on current market conditions and the circumstances presented in this case. Mr. D'Ascendis limited his review to decisions provided by Regulatory Research Associates which only covers rate cases in which the company has requested a rate change of at least \$5 million or has authorized a rate change of at least \$3 million.

- B. N/A.

**Response Provided by: Dylan W. D'Ascendis, CRRA, CVA, Partner
ScottMadden, Inc.**

Date: May 27, 2022

I&E Statement No. 3
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

Direct Testimony

Of

Esyan A. Sakaya
Bureau of Investigation and Enforcement

Concerning:

Rate Base
Present Rate Revenue
Cost of Service
Customer Charges
Revenue Allocation
Rate Structure
Forfeited Discounts
Scale Back of Rates

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1 **INTRODUCTION**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Esyan A. Sakaya. My business address is Pennsylvania Public Utility
5 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
6 Pennsylvania 17120.

7

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

9 A. I am employed as a Fixed Utility Valuation Engineer in the Pennsylvania Public
10 Utility Commission's ("Commission") Bureau of Investigation and Enforcement
11 ("I&E").

12

13 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
14 **BACKGROUND?**

15 A. My educational and professional background are set forth in Appendix A, which is
16 attached.

17

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

19 A. I&E is responsible for protecting the public interest in proceedings before the
20 Commission. The I&E analysis in this proceeding is based on its responsibility to
21 represent the public interest. This responsibility requires the balancing of the
22 interests of ratepayers, the regulated utility, and the regulated community as a
23 whole.

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

2 A. Citizens' Electric Company of Lewisburg, Pa ("Citizens'" or "Company")
3 requested a base rate revenue increase of \$999,270 (Citizens' St. No. 1, p. 2). My
4 direct specifically addresses the following issues:

- 5 • Test Year;
- 6 • Rate Base;
- 7 • Customer Charges;
- 8 • Revenue Cost Allocation;
- 9 • Rate Structure;
- 10 • Forfeited Discounts and
- 11 • Scale Back of Rates.

12

13 **TEST YEAR**

14 **Q. WHAT IS A TEST YEAR AND HOW IS IT USED BY A COMPANY IN A**
15 **RATE PROCEEDING?**

16 A. A test year is the twelve-month period over which a utility's costs and revenues
17 are measured as the basis for setting prospective base rates. In order to meet its
18 burden of proof, a utility has the option of selecting to use a historic test year
19 ("HTY"), a future test year ("FTY"), or a Fully Projected Future Test Year
20 ("FPFTY"). An HTY is a twelve-month period selected by a company that
21 represents the most recent full year of actual data. An FTY begins the day after

1 the HTY ends and is determined using a combination of actual data and a
2 projection of annualized and normalized estimates of future revenues and expenses
3 and a corresponding rate base at the end of that period. The FPFTY is defined as
4 the twelve-month period that begins with the first month that the new rates will be
5 placed into effect, after the application of the full suspension period permitted
6 under Section 1308(d). The FPFTY is a shift from the fundamental ratemaking
7 principle that a public utility should only be permitted to include projects in rate
8 base and earn a reasonable return on its investments after they become “used and
9 useful” for the utility’s public service.

10
11 **Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS**
12 **PROCEEDING?**

13 A. Citizens’ has selected the year ended December 31, 2021 as the HTY, the year
14 ending December 31, 2022 as the FTY, and the year ending December 31, 2023 as
15 the FPFTY (Citizens’ St. No. 1, p. 2).

16
17 **Q. WHAT TEST YEAR HAS THE COMPANY BASED ITS REVENUE**
18 **REQUIREMENT ON IN THIS PROCEEDING?**

19 A. Citizens’ based its requested revenue requirement on the FPFTY ending December
20 31, 2023 (Citizens’ St. No. 1, p. 2).

1 **Q. HAS THE COMPANY REVISED ITS INITIAL FILING?**

2 A. Yes. On July 11, 2022, Citizens provided a revised rate study that included
3 changes to expenses, rate base and its Cost of Service Study (COSS). However,
4 the Company did not change proposed rates or revenue.

5

6 **RATE BASE**

7 **Q. WHAT IS RATE BASE?**

8 A. Rate base is the depreciated original cost of a utility's investment in plant a utility
9 has in place to serve customers plus other additions and deductions that the
10 Commission determines to be necessary in order to keep the utility operating and
11 providing safe and reliable service to its customers.

12

13 **Q. HOW IS RATE BASE USED WITHIN THE RATEMAKING FORMULA?**

14 A. Rate base is one part of the financial equation used by the Commission to
15 determine the appropriate revenue that a utility is granted in a rate proceeding.
16 The revenue determination allows the utility to meet its expense obligations and
17 gives it the opportunity to earn the rate of return established by the Commission in
18 a rate proceeding. The equation used to determine the proper revenue requirement
19 level is:

20
$$\text{Revenue Requirement} = (\text{Rate Base} \times \text{Rate of Return}) + \text{Operating}$$

21
$$\text{Expenses} + \text{Depreciation Expenses} + \text{Taxes}.$$

1 **Q. HOW IS THE DEPRECIATED ORIGINAL COST OF PLANT-IN-**
2 **SERVICE AT THE END OF THE TEST YEAR DETERMINED?**

3 A. The depreciated original cost is equal to the original cost of the plant-in-service
4 that is used and useful in the provision of utility service to the customers less the
5 depreciation reserve as adjusted by other items such as salvage value and removal
6 costs. By using a FPFTY, the depreciated original cost of the plant in service is
7 computed by taking a “snapshot” look at the depreciated original cost value of
8 used and useful utility plant estimated to be in service at the end of the FPFTY.

9
10 **Q. WHAT OTHER ADDITIONS AND DEDUCTIONS TO THE**
11 **DEPRECIATED ORIGINAL COST OF UTILITY PLANT ARE**
12 **ALLOWED?**

13 A. Some of the additions to the depreciated original cost of a company’s investment
14 include materials and supplies, prepayments, and cash working capital. Some of
15 the deductions include deferred income taxes and customer deposits. Some
16 additions are applicable to a specific utility or utility type.

17
18 **RATE BASE SUMMARY**

19 **Q. WHAT RATE BASE IS THE COMPANY CLAIMING FOR THE FPFTY**
20 **ENDING DECEMBER 31, 2023?**

21 A. The Company’s proposed revised rate base for the FPFTY ending December 31,
22 2023 is \$13,630,593 (Citizens’ Ex._(HSG-1), Sch. C1-6, (CU), line 13).

1 **Q. IS I&E RECOMMENDING ANY ADJUSTMENTS TO THE REVISED**
2 **RATE BASE?**

3 A. No.

4

5 **REPORTING REQUIREMENTS**

6 **Q. WHAT AMOUNT OF PLANT IN SERVICE HAS THE COMPANY**
7 **PROPOSED FOR THE FTY AND FPFTY?**

8 A. The Company is proposing \$28,550,801 of total plant in service for the FTY, and
9 \$30,044,161 for the FPFTY (Citizens Ex._(HSG-1), Sch. C1-6(RE2)-CU, line 2).

10

11 **Q. HOW MUCH ADDITIONAL PLANT IN SERVICE DOES THIS**
12 **REFLECT?**

13 A. Citizens had \$1,385,673 in plant additions for the HTY. The Company has
14 projected to add \$1,929,238 in plant additions in the FTY, with \$410,200 of
15 retirements and \$1,902,898 addition in the FPFTY with \$409,538 of retirements
16 (Citizens Ex._(HSG-1), Sch. C3-CU, pp. 2-3, line 28).

17

18 **Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT**
19 **ADDITIONS THAT THE COMPANY PROJECTS TO BE IN SERVICE**
20 **DURING THE FTY ENDING DECEMBER 31, 2022, AND THE FPFTY**
21 **ENDING DECEMBER 31, 2023?**

22 A. Yes. I recommend that the Company provide the Bureau of Investigation and
23 Enforcement and the Office of Consumer Advocate with an. update to Citizen's

1 Exhibit_(HSG-1), Schedule C3-CU no later than April 1, 2023, under this docket
2 number, which should include actual plant additions, and retirements by month for
3 the twelve months ending December 31, 2022. And an additional update should
4 be provided for actual plant additions and retirements by month through December
5 31, 2023, no later than April 1, 2024.

6
7 **Q. WHY DO YOU RECOMMEND THAT CITIZEN'S PROVIDE THESE**
8 **UPDATES?**

9 A. I&E believes that there is value in determining how closely Citizens projected
10 investments in future facility comport with the actual investments that are made by
11 the end of the FTY and FPFTY. Determining the correlation between Citizens
12 projected and actual results will help inform the Commission and the parties in
13 future rate cases.

14 The updates are important because, as previously explained, through the
15 use of the FPFTY, Citizens is requiring ratepayers to pay a return on its projected
16 investment in future facilities that are not in place and providing service at the
17 time the new rates take effect, but also are not subject to any guarantee of being
18 completed and placed into service. While the FPFTY provides for such
19 projections, there should be verification of the projections. Therefore, requiring
20 the Company to provide updates demonstrating that actual investments comport
21 with projections used in setting rates in the FPFTY provides the Commission with
22 actual data to gauge the accuracy of Citizen's projected investments in future
23 proceedings as has become common practice among Pennsylvania utilities as the
24 use of the FPFTY has gained prevalence.

1 **COST OF SERVICE**

2 **Q. WHAT IS AN ALLOCATED COST OF SERVICE (“ACOS”) STUDY?**

3 A. A utility provides service to a defined set of customer classes that are different in
4 terms of demand and usage patterns. An ACOS allocates or assigns a utility’s
5 revenue requirement based on those service differences. In other words, an ACOS
6 is a formalized analysis of costs that attempts to assign to each customer or rate
7 class its proportionate share of the Company’s total cost of service (i.e., the
8 Company’s total revenue requirement). The results of such a study can be utilized
9 to determine the relative cost of service for each class and help determine the
10 individual class revenue requirements and, to the extent a particular class is above
11 or below the system average rate of return, show the additional revenues each
12 class receives or conversely the additional revenues that each class contributes to
13 the Company’s overall revenues. In addition to the relative provision of revenues,
14 a relative rate of return is also provided, which shows how the rate of return for
15 each class compares to the system average rate of return.

16
17 **Q. WHAT ARE RATE OF RETURN AND RELATIVE RATE OF RETURN?**

18 A. The rate of return is the Commission authorized return on rate base that is
19 determined in a base rate proceeding. A relative rate of return indicates how the
20 rate of return of each customer class compares to the system average rate of return.
21 In general, a relative rate of return that provides revenue equal to its cost to serve
22 would have a relative rate of return equal to 1.0.

1 **Q. WHAT PERCENT INCREASE DID CITIZENS' INITIALLY PROPOSE**
2 **FOR THE VARIOUS CUSTOMER CLASSES?**

3 A. Based upon the ACOSS, Citizens' proposed revenue distribution is presented in
4 the following table (Citizens' Ex._(HSG-1), Sch. B6-1 (CU)).

Citizens' Proposed Revenue Distribution				
Class	Present Rates	Increase	Proposed Rates	Increase Percent
RS	\$3,138,434	\$763,641	\$3,902,075	24.3%
GLP-1	\$985,385	\$112,720	\$1,098,105	11.4%
GLP-3	\$874,663	\$99,340	\$974,003	11.4%
SH	\$25,678	\$5,997	\$31,675	23.4%
MBL	\$20,519	\$5,971	\$26,490	29.1%
OL	\$85,141	\$11,601	\$96,742	13.6%
Total	\$5,129,820	\$999,270	\$6,129,090	19.5%

5

6

7 **Q. WHAT CLAIMED OVERALL RATE OF RETURN WOULD THE**
8 **REQUESTED INCREASE PROVIDE CITIZENS' AN OPPORTUNITY TO**
9 **EARN?**

10 A. As shown on Citizens' Exhibit_(HSG-1), Schedule B6-4, (CU) line 18, the
11 requested increase proposed by Citizens' would provide it an opportunity to earn a
12 claimed overall rate of return of 6.65%.

13

14 **Q. DESCRIBE THE GUIDELINES CITIZENS' FOLLOWED TO**
15 **DISTRIBUTE ITS REQUESTED REVENUE INCREASE AMONG ITS**
16 **CUSTOMER CLASSES IN THIS PROCEEDING.**

17 A. Mr. Gorman set forth two objectives that guided his recommended allocation of
18 the proposed revenue increase. The first is to move each class closer to its cost of

1 service, which would result in a relative rate of return of 1.0 for each class. The
2 second is to mitigate extreme rate impacts (Citizens' St. No. 1, pp. 29-30). He
3 proposed an allocation that he believes meets those two objectives.
4

5 **Q. WHAT METHODS CAN A COMPANY USE TO MOVE THE RELATIVE**
6 **RATE OF RETURN FOR A SPECIFIC CLASS TOWARDS 1.0?**

7 A. If a rate class has a relative rate of return of less than 1.0, that class is not
8 generating sufficient revenue to recover the costs the utility spends to serve that
9 class. The solution in this instance would be to increase rates for that rate class in
10 order to generate more revenue to cover its cost to serve. In the event a rate class
11 has a relative rate of return of greater than 1.0, that class is generating revenue
12 greater than its cost to serve. Some possible solutions to a rate class generating
13 revenue greater than its cost to serve are 1) to reduce the rates of that rate class to
14 match the cost to serve, 2) to not increase or decrease rates and allow costs to
15 "catch up" to the revenue over time as costs inevitably increase between rate
16 cases, or 3) propose a smaller rate increase that allows costs to "catch up" at a
17 more gradual pace.

1 **Q. WHAT ARE THE REVISED RELATIVE RATES OF RETURN FOR EACH**
2 **CLASS UNDER CITIZENS' PRESENT RATES AND PROPOSED RATES?**

3 A. The revised relative rate of return for each class, as indicated by Citizens' cost of
4 service study, are as follows (Citizens' Ex._(HSG-1), Sch. B6-4, (CU), lines. 8 and
5 32):

Citizens' Relative Rates of Return		
Class	At Present Rates	At Proposed Rates
RS	(0.50)	0.79
SH	0.37	0.77
GLP-1	4.86	1.68
GLP-3	4.25	1.52
MBL	(3.36)	(0.43)
OL	2.13	0.75
Total	1.00	1.00

6
7

8 **Q. DID YOU AGREE WITH THE REVENUE ALLOCATION PROPOSED BY**
9 **MR. GORMAN?**

10 A. Generally, yes because as shown above, the relative rates of return for all classes
11 move towards 1.00 except the OL class which went from over 1.00 to under 1.00.
12 I will address the OL and GLP-1 class below, and the GLP-1 and GLP-3 increase
13 as part of the scale back as described below.

14

15 **Q. WHAT CHANGES TO THE PROPOSED REVENUE DO YOU**
16 **RECOMMEND?**

17 A. I recommend that the OL lighting class be increased 27.7%. This recommendation
18 increases the Company proposed revenue from OL lighting from \$96,742 to

1 \$108,742, which is an increase of \$12,000 over the increase proposed by the
2 Company for a total increase of \$23,601 or 27.7% (I&E Ex. No. 3, Sch. 1, lines
3 10-11, column H).

4
5 **Q. WHY DO YOU RECOMMEND A \$23,601 OR 27.7% INCREASE FOR THE**
6 **OL LIGHTING CLASS?**

7 A. Under Company proposed rates, the OL class is projected to receive an increase of
8 \$11,601. This increase is insufficient because compared to the overall increase,
9 the relative return for the OL class decreases from 2.13 to 0.75. Since the overall
10 goal of rate allocation is to get rates at or near 1.00, I&E proposes an additional
11 increase of \$12,000 to the \$11,601 already being proposed by the Company which
12 equates to a \$23,601 (\$11,601 + \$12,000) increase in revenue increase to the OL
13 class. I&E's recommended increase will increase the relative return from 0.75 to
14 1.00 which is the goal described above (I&E Ex. No. 3, Sch. 1, line 24, column H).

15
16 **Q. HOW MUCH ADDITIONAL REVENUE DOES THIS PRODUCE?**

17 A. This recommendation produces \$12,000 (\$23,601 - \$11,601) of additional revenue
18 from the OL class.

19
20 **Q. BECAUSE THIS RECOMMENDATION PRODUCES ADDITIONAL**
21 **REVENUE, CAN THE ADDITIONAL REVENUE BE USED TO REDUCE**
22 **THE INCREASE PROPOSED FOR ANOTHER CLASS?**

23 A. Yes. The additional \$12,000 should be used to reduce the \$112,720 increase
24 proposed for the GLP-1 class (HSG-1, Sch. B-6-1 (CU), line 35).

1 **Q. WHY DO YOU RECOMMEND THAT THE \$12,000 BE USED TO**
 2 **REDUCE THE GLP-1 CLASS INCREASE?**

3 A. The revised proposed ROR for the GLP-1 class is 1.68, well above the target ROR
 4 of 1.00. Therefore, it is reasonable to apply the additional \$12,000 in revenue to
 5 reduce the increase proposed for the GLP-1 class by \$12,000 from \$112,720 to
 6 \$100,720 (I&E Ex. No. 3, Sch. 1, column E, lines 9-11). This recommendation
 7 brings the relative return for the GLP-1 class to 1.60.
 8

9 **Q. PLEASE SUMMARIZE YOUR REALLOCATION OF PROPOSED**
 10 **REVENUE?**

11 A. I created a revised ACOSS summary based upon Citizens' Ex. (HSG-1), Sch. B6-
 12 4, (CU) to show the revenue, rate of return and relative rate of return by class under
 13 my proposed revenue allocations. My reallocation of proposed revenue produces
 14 the following percentage increases by class as shown on I&E Exhibit No. 3, Sch.
 15 1, lines 10-11.

Change in Percent Increase (I&E Ex. No. 3, Sch. 1, line 11)		
Rate Class	Company As-Filed	I&E Recommended
RS	24.3%	24.3%
SH	23.4%	23.4%
GLP-1	11.4%	10.2%
GLP-3	11.4	11.4%
MBL	29.1%	29.1%
OL	13.6%	27.7%
Total	19.5%	19.5%

16

1 **CUSTOMER COST ANALYSIS**

2 **Q. WHAT IS A CUSTOMER COST ANALYSIS AND HOW IS IT USED?**

3 A. A customer cost analysis is part of an ACOSS that includes only customer costs to
4 determine the appropriate customer charges for the various classes.

5

6 **Q. WHAT IS CITIZENS' PROPOSING REGARDING CUSTOMER**
7 **CHARGES?**

8 A. Citizens' is proposing to increase the customer charge of each rate class as shown
9 on Citizens' Exhibit_(HSG-1), Schedule B7 (CU) and summarized below:

Customer Charges			
Rate Class	Present Rate	Proposed Rate	Percent Increase
RS	\$13.00	\$14.00	7.7%
SH	\$18.57	\$22.00	18.5%
GLP-1	\$15.00	\$16.00	6.7%
GLP-3	\$51.00	\$55.00	7.8%

10

11

12 **Q. WHAT IS THE BASIS FOR CITIZENS' PROPOSED INCREASE IN THE**
13 **CLASS CUSTOMER CHARGES?**

14 A. Citizens' proposed rate structure allows it to receive greater revenue recognition
15 from fixed monthly charges with less contribution from usage charges by
16 including demand-related costs in the customer charges, which are based on a
17 customer cost analysis provided on Citizens' Exhibit_(HSG-1), Sch. E-1C (CU).

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE**
2 **APPROPRIATE LEVEL OF CUSTOMER CHARGES FOR EACH CLASS?**

3 A. As described below, I recommend that the increase in the customers charges be
4 scaled back if the Commission grants an increase less than the full increase.

5

6 **FORFEITED DISCOUNTS**

7 **Q. WHAT ARE FORFEITED DISCOUNTS?**

8 A. A public utility can assess a separate charge to customers who do not pay their bill
9 on time. The term forfeited discounts revenue, also referred to as late payment
10 charges, refers to the revenue received by the utility as a result of this charge.

11

12 **Q. HOW MUCH REVENUE FROM FORFEITED DISCOUNTS DID THE**
13 **COMPANY ACTUALLY RECEIVE IN THE HTY UNDER PRESENT**
14 **RATES?**

15 A. As shown on Citizens Ex. HSG-1, Sch. B6 (CU), line 7, the Company received
16 \$23,994 in forfeited discounts revenue in the HTY ended December 31, 2021.

17

18 **Q. WHAT LEVEL OF FORFEITED DISCOUNTS REVENUE IS THE**
19 **COMPANY CLAIMING AT PROPOSED RATES FOR THE FPFTY?**

20 A. Citizens is projecting the same \$23,994 of forfeited discounts at proposed rates for
21 the FPFTY ending December 31, 2023 (Citizens Ex. HSG-1, Sch. B6 (CU), line
22 7).

1 **Q. WHAT DO YOU RECOMMEND REGARDING FORFEITED DISCOUNTS**
2 **REVENUE AT PROPOSED RATES FOR THE FPFTY?**

3 A. I recommend that the forfeited discount revenue be increased from \$23,994 to
4 \$25,608, which is an increase of \$1,614 (I&E Ex. No. 3, Sch. 2, col. G, lines 8-9).

5
6 **Q. HOW DID YOU DETERMINE THE INCREASE OF \$1,614?**

7 A. I began by summarizing electric revenue under from base rates under present rates
8 received in 2021 (I&E Ex. No. 3, Sch. 2, column B line 9). Then I summarized
9 revenue from the Generation Supply Service Rate (“GSSR”), the Tax Cuts and
10 Jobs Act (“TCJA”), unbilled revenue and the GSSR annualization claimed by the
11 Company on (Citizens Ex. HSG-1, Sch. B1 (CU), line 15). Then I determined the
12 percentage of each of these is to total revenue excluding unbilled December
13 revenue (I&E Ex. No. 3, Sch. 2, column B, line 5). Using these percentages, I
14 determined that \$9,049 of late payment revenue is attributable to base rates (I&E
15 Ex. No. 3, Sch. 2, col. B, line 6). The \$1,614 is determined by multiplying this
16 \$9,049 of base rate late payment revenue times the 19.48% increase in base rates
17 to arrive at the \$1,614. The total late payment revenue under proposed rates of
18 \$25,608 (\$1,614 + \$23,994) is shown on (I&E Ex. No. 3, Sch. 2, col. G, lines 6
19 and 9).

20
21 **Q. WHY DID YOU EXCLUDE THE PORTION OF LATE PAYMENT**
22 **REVENUE ASSOCIATED WITH ELECTRIC COSTS?**

23 A. GSSR, and Unbilled revenue remain the same under present and proposed rates,
24 the TCJA and STAS will go to zero, and unbilled revenue is not part of revenue

1 received. This leaves 37.7% of late payment revenue subject to this base rate
2 increase. Since GSSR, TCJA, STAS and Unbilled revenue are not being increased
3 in this base rate case, 62.3% (100.0% - 37.7%) of total late payment revenue
4 should be excluded from the determination of late payment revenue under
5 proposed rates.

6
7 **Q. SHOULD THE \$1,614 BE REDUCED IF THE COMMISSION GRANTS**
8 **LESS THAN THE FULL INCREASE?**

9 A. Yes. I recommend that the Company include revenue under proposed rates from
10 forfeited discounts equal to the percent increase in base rates upon determination
11 of the total revenue granted by the Commission.

12
13 **SCALE BACK OF RATES**

14 **Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS**
15 **THAN THE FULL INCREASE?**

16 A. If the Commission grants less than the Company's requested increase, I
17 recommend that the first \$200,060 reduction be applied to the GLP-1 and GLP-3
18 classes. The \$200,060 first dollar reduction will eliminate the \$100,720 increase
19 remaining for the GLP-1 class described above, and \$99,340 increase proposed for
20 the GLP-3 class (I&E Ex. No. 3, Sch. 1, line 10, columns E and F).

1 **Q. WHY DO YOU RECOMMEND THE FIRST \$200,060 BE APPLIED TO**
2 **THE GLP-1 AND GLP-3 CLASSES?**

3 A. The proposed ROR for the GLP-1 class is 1.68, and the proposed ROR for the
4 GLP-3 class is 1.52, both well above the target ROR of 1.00. Therefore, it is
5 reasonable to apply the first \$200,060 of the scale back to the GLP-1 and GLP-3
6 classes. Eliminating the increase to these two rate classes through this scale back
7 recommendation results in a relative rate of return of 1.60 for the GLP-1 class and
8 1.51 for the GLP-3 class.

9
10 **Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS ANY**
11 **FURTHER DECREASE TO THE REQUESTED \$999,270 INCREASE?**

12 A. If the Commission reduces the increase below approximately \$799,210 (\$999,270
13 - \$200,060) after the first dollar relief I describe above, I recommended the rates in
14 the RS, SH, and OL class be reduced proportionally so that the revenue increase is
15 proportional to the percentage increases shown for these classes on I&E Ex, No. 3,
16 Sch. 1, line 11, Columns C, D, and H).

17
18 **Q. WHY DO YOU RECOMMEND THE REMAINING REVENUE**
19 **DECREASE FOR A REVENUE REQUIREMENT BELOW \$799,210**
20 **SCALE BACK BE APPLIED TO THE RS, SH, AND OL CLASSES?**

21 A. These classes are the only classes with an increase remaining and have a relative
22 rate of return close to 1.0 (between 0.8 and 1.00). I excluded the MBL class from

1 the remaining scale back because, even after a 29.1% increase, the relative rate of
2 return for the MBL is negative 0.42 (I&E Ex. No. 3, Sch. 1, column G).

3 Therefore, the RS, SH, and OL class increases should be scaled back
4 proportionally to the percentage increase originally proposed for each class.

5
6 **Q. DOES YOUR RECOMMENDATION TO SCALE BACK THE RS CLASS**
7 **INCLUDE THE CUSTOMER CHARGES IN THAT CLASS?**

8 A. No. I recommend that RS usage rate be scaled back, not the customer charge.
9 The proposed RS class customer charge increase is \$1.00 per month, or 7.7%,
10 which is much less than the proposed 31.3% increase for the RS usage rate
11 (Citizens' Ex_HSG-1, Sch. B7 (CU), lines 1-4). Therefore, this modest customer
12 charge increase is reasonable and should not be scaled back.

13
14 **Q. DOES YOUR RECOMMENDATION TO SCALE BACK THE SH**
15 **HEATING CLASS INCLUDE THE CUSTOMER CHARGE IN THAT**
16 **CLASS?**

17 A. Yes. The proposed SH class customer charge increase is \$3.47 (\$22.00-\$18.57)
18 per month, or 18.5%, which is slightly less than the 23.9% increase proposed for
19 the SH usage rate (Citizens' Ex_HSG-1, Sch. B7 (CU), lines 5-7). Therefore, I
20 recommend that the SH customer charge be scaled back, because it will promote
21 conservation by causing a larger portion of the customer's bill to be recovered in
22 volumetric rates, thus giving customers more of an incentive to reduce usage.

1 **Q. DID THE COMMISSION ALSO DETERMINE IN A RECENT ELECTRIC**
2 **CASE THAT IT WAS PREFERABLE TO SCALE BACK THE**
3 **CUSTOMER CHARGES EVEN IF THE CUSTOMER COST ANALYSIS**
4 **SUPPORTS THE FULL INCREASE?**

5 A. Yes. In the last UGI Electric case, the Commission determined that in spite of the
6 higher customer cost determination in the cost of service study, the customer
7 charges should be reduced for all customers (UGI Electric R-2017-2640058, Order
8 entered October 25, 2018, p. 175).

9

10 **Q. DOES YOUR RECOMMENDATION NOT TO SCALE BACK THE MBL**
11 **CLASS ALSO APPLY TO THE MBL CUSTOMER CHARGES IN?**

12 A. Yes. As described above, the relative rate of return for the MBL is negative.
13 Therefore, it is reasonable to increase the present flat rate applicable to the post
14 charge from \$3.11 per month to \$4.04 per month (Citizens' Ex. HSG-1, Sch B-7
15 (CU), line 25).

16

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.

Esyan A. Sakaya

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
400 North Street
HARRISBURG, PA 17120

EDUCATION:

National Association of Regulatory Utility Commissioners, Clearwater, FL
Utility Rate School; Utility Rate Making Basics, October 2019

Society of Depreciation Professionals, Philadelphia, PA
Introduction to Depreciation; Depreciation Fundamentals, September 2019

Temple University, Philadelphia, PA
Bachelor of Science; Major in Engineering Technology, 2015

Community College of Philadelphia, Philadelphia, PA
Associate of Applied Science; Major in Construction Management Technology, 2011

Island School of Building Arts, Gabriola Island, BC-Canada
Certificate Graduate: Heavy Timber Construction Aug 2002-Nov 2002

Solar Energy International, Carbondale, CO
Certificate Graduate: Basic and Advanced Photovoltaic Design, April 2002-May 2002

EXPERIENCE:

12/2018-Present

Pennsylvania Public Utility Commission-Harrisburg, PA

Fixed Utility Valuation Engineer- Assist in engineering related studies related to valuation, depreciation, cost of service, quality of service as they apply to regulated utilities. Contribute in evaluating, contrasting and conducting performance analyses in distinctive sections of valuation engineering and rate structure involving valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design. Provide expert testimony in rate related utility cases.

4/2018-12/2018

Pennsylvania Department of Transportation-Harrisburg, PA

Photogrammetry Technician I- Created three-dimensional mapping layouts of natural and man-made features from stereoscopic images on a computer workstation. Assisted in the field placement of ground based surveyed control-points prior to aerial photography acquisition. Provided field support in the use of laser scans for comprehensive digital surveying data. Operated global positioning satellite surveying equipment to obtain accurate geodetic coordinates of pre-established benchmarks.

8/2017-4/2018

Pennoni and Associates. Consulting Engineers-King of Prussia, PA

Construction Inspector-Provided quality assurance in the onsite material testing of concrete, soils, and asphalt. Read and interpreted construction drawings and specifications of materials and components. Completed daily reports regarding project progress to engineers, project managers/superintendents, contractors and clients.

TESTIMONY SUBMITTED:

I have assisted and/or submitted testimony in the following proceedings:

NO. Case

1. UGI Gas Utilities - Gas Division, Docket Number: R-2018-3006814
2. Newtown Artesian Water Company, Docket Number: R-2018-3006904
3. Pittsburgh Wastewater, Docket Number: M-2018-2640803
4. PAWC Purchase of Steelton, Docket Number: A-2019-3006814
5. Philadelphia Gas Works, Docket Number: R-2019-3009016 - 3007636
6. Community Utilities Water, Docket Number: R-2019-3008947
7. Aqua Purchase of Cheltenham, Docket Number: A-2019-3008491
8. UGI NORTH, Docket Number: R-2019-3009647
9. UGI CENTRAL, Docket Number: R-2019-3009647
10. UGI SOUTH, Docket Number: R-2019-3009647
11. Twin Lakes Utilities, Docket Number: R-2019-3010958
12. Penn Power Company, Docket: P-2019-3012628
13. UGI Gas Utilities, Docket Number: R-2019-3015162
14. National Fuel and Gas Distribution, Docket Number: R-2020-3015251
15. Columbia Gas of Pennsylvania, Docket: R-2020-3018993 -3018835

16. Duquesne Light Company, Docket Number: P-2020-3019522
17. PA American Water Company, Docket R-2020-3019369 – 310937
18. Bethlehem Water Company, Docket R-2020-3020256
19. Audubon Water Company, Docket: R-2020-3020919
20. Twin Lakes Utilities, Docket: P-2020-3020914
21. Pike County Light and Power-Gas, Docket: R-2020-3022134
22. Pike County Light and Power-Electric, Docket: R-2020-3022135
23. Duquesne Light Company, Docket Number: R-2021-3024750
24. Community Utilities Water, Docket Number: R-2021-3025206
25. Community Utilities Wastewater, Docket Number: R-2021-3025206
26. Hanover Municipal Water Works, Docket Number: R-2021-3026116
27. Aqua Pennsylvania, Inc, Docket R-2021-3027385 – 3027386
28. Aqua Purchase of Willistown, Docket Number: A-2021-3027268
29. National Fuel and Gas Distribution, Docket Number: R-2022-3030235
30. UGI Gas Utilities, Docket Number: R-2021-3030218
31. PECO Energy Company – Gas, Docket Number: R-2022-3031113

Revised 7/26/22

I&E Exhibit No. 3
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

**Exhibits to Accompany
the
Direct Testimony**

of

**Esyan A. Sakaya
Bureau of Investigation and Enforcement**

Concerning:

**Rate Base
Present Rate Revenue
Cost of Service
Customer Charges
Revenue Allocation
Rate Structure
Forfeited Discounts
Scale Back of Rates**

Citizens Electric Company of Lewisburg
Embedded Cost of Service Study (ECOSS)
FPPTY Ending December 31, 2023
R-2022-3032369

Summary of Present and I&E Proposed Revenue and Rate of Return

Line	Account (A)	Balance (B)	RS (C)	SH (D)	GLP-1 (E)	GLP-3 (F)	MLB (G)	OL (H)
1	Distribution Revenue	\$5,129,820	\$3,138,434	\$25,678	\$985,385	\$874,663	\$20,519	\$85,141
2	Forfeited Discounts	\$23,994	\$14,680	\$120	\$4,609	\$4,091	\$96	\$398
3	Other Revenue	\$63,366	\$40,259	\$394	\$9,903	\$12,535	\$72	\$203
4	Total Revenue	\$5,217,180	\$3,193,373	\$26,192	\$999,897	\$891,289	\$20,687	\$85,742
5	Expenses	\$4,979,557	\$3,270,684	\$26,666	\$824,616	\$750,938	\$37,922	\$68,731
6	Net income	\$237,623	-\$77,311	-\$474	\$175,281	\$140,351	-\$17,235	\$17,011
7	Rate Base	\$13,630,593	\$8,845,231	\$73,034	\$2,067,914	\$1,893,104	\$294,124	\$457,186
8	Present Rate of Return	1.74%	-0.87%	-0.65%	8.48%	7.41%	-5.86%	3.72%
	Present ROR	1.00	-0.50	-0.37	4.86	4.25	-3.36	2.13
9	Proposed Revenue	\$6,129,090	\$3,902,075	\$31,675	\$1,086,105	\$974,003	\$26,490	\$108,742
10	Revenue Increase	\$999,270	\$763,641	\$5,997	\$100,720	\$99,340	\$5,971	\$23,601
11	Revenue Increase %	19.5%	24.3%	23.4%	10.2%	11.4%	29.1%	27.7%
12	Operating expenses	\$3,225,511	\$2,193,525	\$16,513	\$509,120	\$451,799	\$20,382	\$34,172
13	Depreciation expense	\$1,234,398	\$796,684	\$7,813	\$197,709	\$196,547	\$13,784	\$21,861
14	Regulatory Comm. Expenses	\$48,803	\$31,670	\$261	\$7,404	\$6,778	\$1,053	\$1,637
15	General taxes / Other	\$79,212	\$51,034	\$461	\$12,261	\$11,848	\$1,409	\$2,199
16	Uncollectible expense	\$20,599	\$12,603	\$103	\$3,957	\$3,512	\$82	\$342
17	GRT	\$361,659	\$230,250	\$1,869	\$64,088	\$57,473	\$1,563	\$6,417
18	Total Operating Expenses	\$4,970,182	\$3,315,766	\$27,020	\$794,539	\$727,957	\$38,273	\$66,628
19	Pre-tax income	\$1,158,908	\$586,309	\$4,655	\$291,566	\$246,046	(\$11,783)	\$42,114
20	Income taxes	\$340,024	\$172,023	\$1,366	\$85,546	\$72,190	(\$3,457)	\$12,356
21	Other Revenue	\$87,360	\$54,938	\$514	\$14,512	\$16,626	\$168	\$602
22	Net income	\$906,244	\$469,224	\$3,803	\$220,533	\$190,482	(\$8,158)	\$30,360
23	Return on Rate Base	6.65%	5.30%	5.21%	10.66%	10.06%	(2.77%)	6.64%
24	Relative Rate of Return	1.00	0.80	0.78	1.60	1.51	(0.42)	1.00
25	Tax rate	29.34%	29.340%	29.340%	29.340%	29.340%	29.340%	29.340%
26	GRT Rate	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%
27	Customer Charge	\$15.28	\$14.50	\$27.11	\$16.63	\$85.12	\$14.08	\$8.83
28	All customer-related	\$33.22	\$30.69	\$40.50	\$32.72	\$98.73	\$459.96	\$319.23
29	Per kW / month-Demand	281,064.58	279,481.72	320,650.02	292,232.34	275,912.09	394,123.73	368,170.57

Citizen's Electric Company of Lewisburg
Rate Case with FPFTY Ending December 31, 2023
R-2022-3032369

Line	Rate Class	2021 Present Rate Revenue	GSSR	TCJA, STAS	Dec Unbilled	GSSR Annulaized	Total Revenue
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Residential	\$3,142,482	\$5,935,389	\$53,582	(\$67,809)	\$110,202	\$9,173,846
2	Comm and Industrial	\$1,948,167	\$2,318,658	\$31,614	(\$18,897)	\$107,907	\$4,387,449
3	Lighting	\$105,660	\$23,770	(\$5)	\$0	\$1,395	\$130,820
4	Total Present Revenue B-4	\$5,196,309	\$8,277,817	\$85,191	(\$86,706)	\$219,504	\$13,692,115
5	Percent of Present Revenue (Less Column E)	37.7%	60.1%	0.6%	0.0%	1.6%	100.0%
6	Allocated Late Payment	\$9,049	\$14,415	\$148	\$0	\$382	\$23,994
7	Percent Increase	19.48%	0.00%	-100.0%	0.0%	0.00%	19.48%
8	Increase in Late Payment	\$1,763	\$0	-\$148	\$0	\$0	\$1,614
9	I&E Late Payment Revenue Under Proposed Rates	\$10,811	\$14,415	\$0	\$0	\$382	\$25,608

**I&E Statement No. 1-SR
Witness: Zachari Walker**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

Surrebuttal Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

STATE INCOME TAX EXPENSE

CASH WORKING CAPITAL

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CHARITABLE CONTRIBUTIONS 4

COVID-19 RELATED EXTRAORDINARY COSTS 5

1 **INTRODUCTION**

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

3 A. My name is Zachari Walker, and my business address is Pennsylvania Public Utility
4 Commission, 400 North Street, Harrisburg, PA 17120.

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

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

9
10 **Q. ARE YOU THE SAME ZACHARI WALKER WHO SUBMITTED I&E
11 STATEMENT NO. 1 AND I&E EXHIBIT NO. 1?**

12 A. Yes.

13
14 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

15 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
16 Citizens' Electric Company of Lewisburg, PA (Citizens' or Company) witness
17 Howard Gorman (Citizens' Statement No. 1-R).

18
19 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN
20 ACCOMPANYING EXHIBIT?**

21 A. No. However, I refer to my direct testimony and its accompanying exhibit (I&E
22 Statement No. 1 and I&E Exhibit No. 1).

1 **OPERATING AND MAINTENANCE EXPENSE ADJUSTMENTS**

2 **Q. PLEASE SUMMARIZE THE COMPANY’S UPDATED REQUESTED**
3 **REVENUE INCREASE.**

4 A. In rebuttal testimony, Citizens’ updated its requested revenue increase to \$999,883¹
5 for the Fully Projected Future Test Year (FPFTY) ending December 31, 2023. The
6 supported increase was revised to \$1,210,040.² However, because the original filing
7 indicated Citizens’ was requesting an increase of \$999,270, it would not be possible
8 for the Company’s revenue increase to exceed this amount. Therefore, the Citizens’
9 actual maximum allowable increase remains \$999,270.

10

11 **Q. DID THE COMPANY ACCEPT ANY OF YOUR RECOMMENDED**
12 **ADJUSTMENTS?**

13 A. Yes. Citizens’ witness Howard Gorman accepted my recommended reduction to the
14 Pennsylvania corporate income tax rate (from 9.99% to 8.99%), and the change is
15 reflected in the Company’s rebuttal filing.³

16 **Q. DO YOU HAVE ANY REMAINING O&M ADJUSTMENTS TO THE**
17 **COMPANY’S REBUTTAL POSITION?**

18 A. No. As explained below, the Company has clarified its position on charitable
19 contributions.

¹ Citizens’ Exhibit No. HSG-1R, Schedule B6-1 (R).

² Citizens’ Exhibit No. HSG-1R, Schedule C1 (R).

³ Citizens’ Statement No. 1-R, p. 3.

1 **SUMMARY OF I&E OVERALL UPDATED POSITION**

2 **Q. WHAT IS I&E’S TOTAL UPDATED RECOMMENDED REVENUE**
 3 **REQUIREMENT?**

4 A. I&E’s total recommended revenue requirement for the Company is \$6,175,604. This
 5 recommended revenue requirement represents an increase of \$958,423 to the present
 6 rate revenues of \$5,217,181. This total recommended allowance incorporates the
 7 adjustments made in the testimony of I&E witness Anthony Spadaccio.⁴

8 A calculation of the I&E recommended revenue requirement is shown in the
 9 table below:

Citizens' Electric Company of Lewisburg, PA		TABLE I			
R-2022-3032369		INCOME		SUMMARY	
	12/31/23	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	5,217,181	0	5,217,181	958,423	6,175,604
Deductions:					
O&M Expenses	3,294,916	0	3,294,916	0	3,294,916
Depreciation	1,234,398	0	1,234,398		1,234,398
Taxes, Other	381,871	0	381,871	56,547	438,418
Income Taxes:					
Current State	15,907	52	15,959	81,079	97,038
Current Federal	56,892	110	57,002	172,367	229,369
Deferred Taxes	-5,827	0	-5,827		-5,827
ITC	0	0	0		0
Total Deductions	4,978,157	162	4,978,319	309,993	5,288,312
Income Available	239,024	-162	238,862	648,430	887,292
Measure of Value	13,629,678	0	13,629,678	0	13,629,678
Rate of Return	1.75%		1.75%		6.51%

10

⁴ I&E Statement No. 2.

1 **CHARITABLE CONTRIBUTIONS**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR**
3 **CHARITABLE CONTRIBUTIONS?**

4 A. I recommended a disallowance of the \$28,050 charitable contributions claim in its
5 entirety. My recommendation was based on the assumption that the HTY charitable
6 contributions claim was carried forward to the FPFTY⁵ and that charitable
7 contributions are not necessary to provide safe and reliable service to ratepayers. In
8 addition, these payments provide no direct benefit to ratepayers. Furthermore,
9 ratepayers should not be required to finance the Company’s decision to contribute to
10 various charitable organizations. My recommendation was not an attempt to dictate
11 whether the Company makes such contributions. In contrast, it was an assertion that
12 ratepayers should not be required to fund such contributions.

13
14 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

15 A. Yes. Citizens’ witness Howard Gorman clarified the Company’s claim.

16
17 **Q. SUMMARIZE MR. GORMAN’S RESPONSE.**

18 A. Mr. Gorman states the Company’s filing does not include any amounts for charitable
19 contributions. Additionally, he states the Company records charitable contributions in
20 account 426.1, and the balance of this account in the Company’s filing is zero.⁶

⁵ I&E Statement No. 1, pp. 4-5.

⁶ Citizens’ Statement No. 1-R, p. 3.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
2 **CHARITABLE CONTRIBUTIONS?**

3 A. Yes. I no longer have a recommended adjustment for charitable contributions as they
4 are not included in the Company's filing. Additionally, this results in the removal of
5 the corresponding recommended adjustment to CWC.

6 **COVID-19 RELATED EXTRAORDINARY COSTS**

7 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR**
8 **COVID-19 RELATED EXTRAORDINARY COSTS.**

9 A. I accepted the Company's total deferral claim of \$43,734 for the 2020 and 2021
10 COVID-19 related extraordinary costs, as well as the three-year amortization period
11 proposed by the Company resulting in an annual recovery amount of \$14,578.⁷
12 However, I recommended that the Company should not be allowed to continue
13 recording a regulatory asset for ongoing COVID-19 related incremental uncollectible
14 accounts costs and for other COVID-19 related expenses after the effective date of
15 new rates for the instant proceeding. My recommendation was based on the
16 Company having a new uncollectible accounts expense percentage built into rates that
17 accounts for the increased delinquency rates and higher customer balances.
18 Additionally, any other COVID-19 related expenses such as masks, hand sanitizer,
19 etc. should be built into routine expenses and are likely not material in nature.⁸

⁷ Citizens' Exhibit No. HSG-1R, Schedule C1-7 (R).

⁸ I&E Statement No. 1, pp. 9-10.

1 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

2 A. Yes. Citizens’ witness Howard Gorman responded to my recommendation for
3 COVID-19 related extraordinary costs.⁹

4 **Q. SUMMARIZE MR. GORMAN’S RESPONSE.**

5 A. Mr. Gorman agreed that when the deferred COVID-19 related costs are fully
6 recovered, that amount should be removed from rates and should not extend beyond
7 the Company’s stated three-year amortization period. He further opines that because
8 the Company’s requested rate increase is below the total revenue requirement, it is
9 debatable whether the Company is recovering these costs at all. He then agrees that
10 the Company will not include any COVID-19 related costs in a future rate case.¹⁰

11

12 **Q. DO YOU AGREE WITH MR. GORMAN?**

13 A. No. It is unclear which costs Mr. Gorman refers to when stating that the Company
14 will not include these costs in a future rate case. It appears that he is only referring to
15 COVID-19 related costs that are claimed in the instant proceeding. This leaves the
16 possibility that the Company will attempt to include “extraordinary” COVID-19
17 related costs beyond those claimed in this proceeding in a future rate case.

⁹ Citizens’ Statement No. 1-R, pp. 3-4.

¹⁰ Citizens’ Statement No. 1-R, pp. 3-4.

1 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
2 **COVID-19 RELATED EXTRAORDINARY COSTS?**

3 A. No. I continue to recommend that the Company should not be allowed to continue
4 recording a regulatory asset for ongoing COVID-19 related incremental uncollectible
5 accounts costs and for other COVID-19 related expenses after the effective date of
6 new rates for the instant proceeding as discussed above and in my direct testimony.¹¹

7

8 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

9 A. Yes.

¹¹ I&E Statement No. 1, pp. 9-10.

**I&E Statement No. 2-SR
Witness: Anthony Spadaccio**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA
Docket No. R-2022-3032369**

Surrebuttal Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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1 **INTRODUCTION OF WITNESS**

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

3 A. My name is Anthony Spadaccio. My business address is Pennsylvania Public
4 Utility Commission, Commonwealth Keystone Building, 400 North Street,
5 Harrisburg, PA 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11
12 **Q. ARE YOU THE SAME ANTHONY SPADACCIO WHO IS RESPONSIBLE**
13 **FOR THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT**
14 **NO. 2 AND THE SCHEDULES IN I&E EXHIBIT NO. 2?**

15 A. Yes.

16
17 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

18 A. The purpose of my surrebuttal testimony is to address statements made by
19 Citizens' Electric Company of Lewisburg, PA (Citizens' or Company) witness
20 Dylan W. D'Ascendis in his rebuttal testimony (Citizens' Statement No. 2R)
21 regarding rate of return topics including the cost of common equity and the overall
22 fair rate of return, which will be applied to the Company's rate base. In addition, I

1 will address the size adjustment claim discussed by both Mr. D’Ascendis and
2 Company witness Howard S. Gorman (Citizens’ Statement No. 1R) and the
3 performance factor adjustment claim discussed by witness John Kelchner
4 (Citizens’ Statement No. 4R).

5
6 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

7 A. No. However, I will refer to my direct testimony and its accompanying exhibit in
8 this surrebuttal testimony (I&E Statement No. 2 and I&E Exhibit No. 2).

9
10 **SUMMARY OF MR. D’ASCENDIS’ REBUTTAL TESTIMONY**

11 **Q. SUMMARIZE MR. D’ASCENDIS’ REBUTTAL TESTIMONY IN**
12 **RESPONSE TO YOUR RECOMMENDATIONS MADE IN DIRECT**
13 **TESTIMONY.**

14 A. Mr. D’Ascendis identifies four concerns he has with recommendations made in
15 my direct testimony. First, he criticizes the fact that my cost of equity
16 recommendation relies upon the results of the Discounted Cash Flow (DCF)
17 model and fails to consider the results of other cost of equity models. Next, he
18 criticizes my application of the Capital Asset Pricing Model (CAPM).
19 Additionally, Mr. D’Ascendis claims that I fail to account for the Company’s
20 small size as compared to the proxy group. Finally, he claims I have failed to
21 reflect a “performance factor” adjustment.¹

¹ Citizens’ Statement No. 2R, p. 4.

1 **Q. HAS THE COMPANY’S OVERALL RATE OF RETURN**
2 **RECOMMENDATION CHANGED FROM DIRECT TESTIMONY?**

3 A. Yes. Although the Citizens’ continues its request of just under \$1,000,000, the
4 requested rate of return has increased slightly from 6.65%² to 6.71%.³ This
5 increase is a result of the reduction in the Pennsylvania Corporate Net Income Tax
6 rate from 9.99% to 8.99%.

7 However, Mr. D’Ascendis’ continues to support his analysis and advocate
8 for an 11.50% cost of equity,⁴ which he contends the Company can support. For
9 purposes of this testimony, I will address his 11.50% cost of equity
10 recommendation.

11
12 **Q. WHAT WAS THE MAIN REASON FOR THE COMPANY’S UPDATED**
13 **RATE OF RETURN CLAIM?**

14 A. The reduction to the Pennsylvania Corporate Net Income Tax Rate occurred after
15 the Company’s original filing yet will be in effect during the Fully Projected
16 Future Test Year (FPFTY). Therefore, the Company changed its requested rate of
17 return but has kept the overall requested increase below \$1 million.

² Citizens’ Statement No. 1 (CU) and Exhibit HSG-1, Schedule C1 (CU).

³ Citizens’ Statement No. 1R, p. 2.

⁴ Citizens’ Statement No. 2R, pp. 1-2.

1 **Q. PLEASE SUMMARIZE THE COMPANY’S UPDATED RATE OF**
2 **RETURN CLAIM.**

3 A. As discussed above, while the Company is only requesting an overall rate of return
4 of 6.71%, shown below is the rate of return claim the Company argues it can
5 justify based on the FPFTY ending December 31, 2023:⁵

Company			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Citizens' Electric Company of Lewisburg, PA			
Long-Term Debt	50.47%	4.09%	2.06%
Common Equity	49.53%	11.50%	5.70%
Total	100.00%		7.76%

6
7

8 **DISCOUNTED CASH FLOW**

9 **Q. SUMMARIZE MR. D’ASCENDIS’ REBUTTAL TESTIMONY**
10 **REGARDING YOUR DCF ANALYSIS.**

11 A. Mr. D’Ascendis contends that I have inappropriately relied solely on the model for
12 my cost of equity recommendations.⁶ Next, he presents three cases where he
13 claims the Commission has considered multiple cost of equity models.⁷ Then, Mr.
14 D’Ascendis argues that market-to-book (M/B) ratios over the past decade have
15 increased significantly for the electric industry and likely cause the DCF results in
16 this proceeding to understate the investor-required return. He argues that the

⁵ Citizens’ Statement No. 2, p. 4, ln. 4.
⁶ Citizens’ Statement No. 2R, p. 4.
⁷ Citizens’ Statement No. 2R, pp. 21-23.

1 difference between the market value, on which investors evaluate and receive their
2 returns, and the book value, on which regulators authorize returns, will cause the
3 market-based results of the DCF, which are applied to the book value capital
4 structure, to understate the cost of equity.⁸ Finally, although Mr. D'Ascendis is
5 not advocating for a specific adjustment to the results of the DCF, he claims he
6 provided the discussion regarding M/B ratios with the purpose of demonstrating
7 the model's limitations and supporting the use of multiple models.⁹

8
9 RELIANCE ON THE DCF

10 **Q. PLEASE RESPOND TO MR. D'ASCENDIS' CRITICISM REGARDING**
11 **YOUR RELIANCE ON THE DCF.**

12 A. Although my recommendation was based on the results of my DCF analysis, I also
13 employed the CAPM as a comparison. For the reasons discussed in my direct
14 testimony, the DCF method is the most reliable.¹⁰ Although no one method can
15 capture every factor that influences an investor, including the results of methods
16 less reliable than the DCF does not make the end result more reliable or more
17 accurate. In direct testimony, I cited several cases that illustrate the methodology I
18 employed is consistent with the methodology historically used by the Commission
19 in base rate proceedings as recently as 2017, 2018, 2020, and 2021.¹¹

⁸ Citizens' Statement No. 2R, pp. 12-18.

⁹ Citizens' Statement No. 2R, p. 18.

¹⁰ I&E Statement No. 2, p. 18, lines 3-17.

¹¹ I&E Statement No. 2, p. 17, ln. 17 through p. 18, ln. 1.

1 **Q. WHICH CASES DOES MR. D’ASCENDIS PRESENT WHERE HE**
2 **CLAIMS THE COMMISSION HAS CONSIDERED MULTIPLE COST OF**
3 **EQUITY MODELS?**

4 A. Mr. D’Ascendis presents the 2013 Columbia Water Company,¹² the 2014
5 Emporium Water Company,¹³ and the 2021 Aqua¹⁴ cases to suggest the
6 Commission has considered multiple cost of common equity models.¹⁵

7
8 **Q. WHAT COMMENTS DO YOU HAVE REGARDING THE CASES MR.**
9 **D’ASCENDIS PRESENTS?**

10 A. First, within the citation Mr. D’Ascendis presents regarding the Columbia Water
11 case, the Commission specifically states that it used the DCF method as the
12 foundation in determining the cost of equity.¹⁶ Any adjustments to the cost of
13 equity after the fact are at the Commission’s discretion and independent of the
14 result of any cost of equity model.

15 Next, regarding citations of the Emporium Water case Mr. D’Ascendis
16 presents, the Commission clearly rejected the ALJs recommendation to adopt the
17 Company’s proposed return on equity. Ultimately, the Commission simply

¹² *Pa. PUC v. The Columbia Water Company*, Docket No. R-2013-2360798, (Order entered January 23, 2014).

¹³ *Pa. PUC v. Emporium Water Company*, Docket No. R-2014-2402324, (Order entered January 28, 2015).

¹⁴ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, (Order entered May 16, 2022).

¹⁵ Citizens’ Statement No. 2R, pp. 21-23.

¹⁶ Citizens’ Statement No. 2R, p. 21

1 summarized the recommendations presented by OCA, I&E, and the Company, and
2 it did not specifically comment on which model(s) it relied on.¹⁷

3 Finally, as indicated in my direct testimony,¹⁸ the Commission recently
4 indicated in the 2021 Aqua Pennsylvania, Inc. (Aqua) rate case order that its
5 method “for determining Aqua’s ROE shall utilize both I&E’s DCF and CAPM
6 methodologies”¹⁹ and that “I&E’s DCF and CAPM produce a range of
7 reasonableness for the ROE...”²⁰, thus deviating from prior Commission practice.
8 However, in my direct testimony I explain more fully why the CAPM should not
9 be used as a primary method and continue to express those concerns in this
10 proceeding as to why it should only be used as a comparison to, not a check of, the
11 DCF. Thus, I disagree with a method that provides the CAPM comparable weight
12 to the DCF method.²¹

13 Once more, it is important to mention that I did in fact employ the CAPM
14 in my cost of equity analysis. However, I presented the CAPM simply as a
15 comparison to satisfy the Commission’s historical preference, not as a check or
16 basis for my recommendation.

¹⁷ Citizens’ Statement No. 2R, pp. 21-22.

¹⁸ I&E Statement No. 2, p. 22, lines 4-11.

¹⁹ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154 (Order entered May 16, 2022).

²⁰ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

²¹ I&E Statement No. 2, p. 19, ln. 1 through p. 21, ln. 10.

1 **Q. ARE YOU AWARE OF ANY TECHNICAL LITERATURE**
2 **SPECIFICALLY SUPPORTING THE USE OF THE DCF MODEL IN**
3 **UTILITY RATEMAKING?**

4 A. Yes. A textbook co-authored by MIT Professor Stewart C. Myers, which Mr.
5 D'Ascendis cites,²² states the following when specifically referring to gas and
6 electric utilities, “[B]oth utilities and regulators work hard to estimate the cost of
7 equity accurately. They’ve noticed that utilities are mature, stable companies that
8 are tailor-made for application of the constant-growth DCF formula.”²³

9

10 MARKET-TO-BOOK RATIO

11 **Q. WHAT DOES MR. D’ASCENDIS CLAIM REGARDING MARKET-TO-**
12 **BOOK RATIOS IN THIS PROCEEDING?**

13 A. He opines that a M/B ratio for my proxy group companies are currently close to
14 their 10-year averages, implying the market based DCF is understating the return
15 required by investors.²⁴

16

17 **Q. DOES A MARKET-TO-BOOK RATIO ABOVE ONE (1.0) CAUSE THE**
18 **DCF TO INCORRECTLY ESTIMATE THE INVESTOR-REQUIRED**
19 **RETURN ON EQUITY?**

20 A. No. Although, there are differences between the book value and market value of

²² Citizens’ Statement No. 2, p. 52 and Citizens’ Statement No. 2R, p. 20.

²³ Brealey, Richard A., et al. *Principles of Corporate Finance*, Concise Edition, McGraw-Hill/Irwin, 2011, p. 82.

²⁴ Citizens’ Statement No. 2R, pp. 14-15.

1 electric utilities, Mr. D'Ascendis' assertion that the difference causes the DCF to
2 undervalue the rate of return assumes that investors are unaware of the difference.
3 The forecasted growth rates used in the DCF are set by analysts based on current
4 conditions and what they expect the future could be for the stock. As Mr.
5 D'Ascendis points out, the current market-to-book ratio for the electric proxy
6 group is 1.92x, which is well above 1.0x but in line with the ten-year average.²⁵ In
7 this scenario, no rational investor would invest in a utility stock that has been
8 trading above book value for several years and be surprised that rates continue to
9 be set based on the book value capital structure. A market-to-book ratio of above
10 1.0x for utility stocks reflects their value in the market and implies that investors
11 expect future cash flows to be more valuable than the historical accounting value
12 of the company. Since the stock market is impacted by regulatory policies, and
13 economic and financial conditions, a market-to-book ratio could be less than 1.0x
14 when the stock market is in a recession or depression, or a company is
15 experiencing under-performance, so it is inappropriate to evaluate DCF results
16 with the market-to-book ratio.

17
18 **CAPITAL ASSET PRICING MODEL**

19 **Q. SUMMARIZE MR. D'ASCENDIS' REBUTTAL TESTIMONY**
20 **REGARDING YOUR CAPM ANALYSIS.**

21 **A.** Mr. D'Ascendis agrees with the betas and projected market returns used in my

²⁵ Citizens' Statement No. 2R, pp. 14-15.

1 CAPM analysis, however, he takes issue with my determination of a risk-free rate
2 and disagrees with my exclusion of an Empirical CAPM (ECAPM) analysis.²⁶

3
4 RISK-FREE RATE

5 **Q. SUMMARIZE MR. D’ASCENDIS’ REBUTTAL TESTIMONY**
6 **REGARDING YOUR USE OF THE YIELD ON THE 10-YEAR U.S.**
7 **TREASURY BOND.**

8 A. Mr. D’Ascendis claims his use of the yield on a 30-year U.S. Treasury Bond is
9 more appropriate than my use of the yield on a 10-year Treasury Bond because it
10 better reflects the life of the underlying investment. He also claims that not
11 incorporating the longest projection available is inconsistent with the DCF
12 assumption of a constant rate of dividend growth and the Efficient Market
13 Hypothesis (EMH), which assumes that all available information is considered by
14 investors.²⁷

15
16 **Q. IS THE LIFE OF THE INVESTMENT THE ONLY FACTOR THAT**
17 **SHOULD BE CONSIDERED IN THE CHOICE OF A RISK-FREE RATE?**

18 A. No. The risk-free rate is the return that can be earned without accepting any risk,
19 and while the life of the investment can be considered when choosing risk-free
20 rates, the most important consideration is that the rate be as risk-free as possible.

²⁶ Citizens’ Statement No. 2R, p. 23.

²⁷ Citizens’ Statement No. 2R, pp. 23-26.

1 As explained in my direct testimony,²⁸ I chose the 10-year Treasury Bond as it
2 mitigates the short-comings of the short-term Treasury-Bill and the 30-year
3 Treasury Bond. Although long-term Treasury Bonds have less risk of being
4 influenced by federal policies, they have substantial maturity risk associated with
5 market risk. In addition, long-term Treasury Bonds bear the risk of unexpected
6 inflation. As such, my choice of a 10-year Treasury Bond is appropriate.
7 Additionally, as previously mentioned, the Commission recently agreed with I&E
8 that the 10-year Treasury Note is the superior measure of the risk-free rate of
9 return.²⁹

10
11 **Q. DOES THE PROJECTED RISK-FREE RATE NEED TO REPRESENT**
12 **THE LONGEST TIME PERIOD AVAILABLE AS MR. D’ASCENDIS**
13 **CLAIMS?**³⁰

14 A. No. The time period reflected in a projected risk-free rate should reflect the period
15 in which rates will be in effect. Since Citizens’ is not setting rates to be applicable
16 far into the future, using projections for 10 or more years from now, as Mr.
17 D’Ascendis suggests,³¹ is inappropriate. The yield on the 10-year Treasury Note
18 is expected to range between 3.00% and 3.30% from the third quarter of 2022
19 through the third quarter of 2023 and is forecasted to be 2.90% from 2023-2027.

²⁸ I&E Statement No. 2, p. 30, lines 7-20.

²⁹ I&E Statement No. 2, p. 29, lines 4-6 and *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order entered October 25, 2018), p. 99.

³⁰ Citizens’ Statement No. 2R, p. 25.

³¹ Citizens’ Statement No. 2R, p. 25.

1 For my forecasted CAPM analysis I calculated 3.15%,³² which is the average of
2 all the yields I observed. In addition, the further out into the future one forecasts,
3 the less reliable and more speculative the estimates become; therefore, to give
4 more weight to less reliable estimates would not be prudent. My calculation
5 provides a balance of shorter-term future estimates.

6
7 EXCLUSION OF ECAPM

8 **Q. PLEASE SUMMARIZE MR. D’ASCENDIS’ COMMENTS REGARDING**
9 **YOUR EXCLUSION OF THE ECAPM IN YOUR ANALYSIS.**

10 A. Mr. D’Ascendis asserts that the Security Market Line (SML) described by the
11 traditional CAPM is not as steeply sloped as the CAPM model predicts. He
12 further states that “tests of the CAPM have measured the extent to which security
13 returns and betas are related as predicted by the CAPM, thus confirming its
14 validity.”³³

15
16 **Q. WHY IS THE ECAPM EXCLUDED FROM YOUR ANALYSIS?**

17 A. The use of the ECAPM in estimating the cost of capital does not increase the
18 validity of the result, but instead it injects another measure of subjectivity to the
19 CAPM in an attempt to flatten the Security Market Line. The ECAPM reduces the
20 purpose of the beta, which is the only company-specific variable in the CAPM

³² I&E Exhibit No. 2, Schedule. 9.

³³ Citizens’ Statement No. 2R, p. 26.

1 model. This additional layer of subjectivity provides an even stronger basis to rely
2 on the DCF, as I have done, as the primary method to calculate a utility's cost of
3 equity.

4
5 **Q. HAVE YOU CHANGED YOUR CAPM RETURN ON EQUITY ANALYSIS**
6 **AS A RESULT OF MR. D'ASCENDIS' REBUTTAL TESTIMONY?**

7 A. No. I continue to recommend using my CAPM result of 12.89%³⁴ as a
8 comparison to my DCF result of 8.98%.

9
10 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING MR.**
11 **D'ASCENIDIS' CRITICISMS OF YOUR CAPM ANALYSIS?**

12 A. Yes. As an interesting observation, Mr. D'Ascendis provides "corrected" CAPM
13 analyses for both me and the OCA witness. These "corrections" include a revised
14 risk-free rate and the addition of an ECAPM analysis, resulting in an increase to
15 our CAPM outcomes to 13.17%³⁵ for I&E and 10.28%³⁶ for the OCA witness.
16 These "corrected" CAPM results are 289 basis points (13.17% - 10.28% = 2.89%)
17 apart. At best, I believe this illustrates that the CAPM is easily manipulated and
18 that the inputs are highly subjective which can yield wildly varying results.

³⁴ I&E Exhibit No. 2, Schedule 11.

³⁵ Citizens' Exhibit DWD-1R, Schedule DWD-3R, p. 4.

³⁶ Citizens' Exhibit DWD-1R, Schedule DWD-7R, p. 5.

1 **SIZE**

2 **Q. SUMMARIZE YOUR DIRECT TESTIMONY REGARDING AN**
3 **ADJUSTMENT FOR THE COMPANY’S SMALL SIZE.**

4 A. In direct testimony, I stated that Mr. D’Ascendis’ 100-basis point adjustment is
5 unnecessary because none of the technical literature cited in his direct testimony
6 supporting an adjustment related to the size of a company is specific to the utility
7 industry. In addition, I presented an article by Dr. Annie Wong that demonstrated
8 there is no need to make an adjustment for the size of a company in utility rate
9 regulation. Finally, I presented an analysis illustrating the financial impact to
10 ratepayers of the unnecessary size adjustment.³⁷

11
12 **Q. SUMMARIZE THE COMPANY’S RESPONSE IN REBUTTAL**
13 **TESTIMONY REGARDING A SIZE RISK FACTOR ADJUSTMENT.**

14 A. Mr. D’Ascendis opines that firms of smaller size are less able to cope with
15 significant events affecting sales, are less diverse in their operations, and have less
16 financial flexibility.³⁸ He supports these statements by first claiming the Fama and
17 French study I cited supports a size premium. Mr. D’Ascendis also attempts to
18 discredit a study performed by Dr. Wong, which I relied upon in rejection of his
19 size adjustment, by citing a review of her study authored by Thomas M. Zepp.³⁹
20 Finally, Mr. D’Ascendis inaccurately asserts that I&E claims his size risk

³⁷ I&E Statement No. 2, p. 40, ln. 2 through p. 43, ln. 3.

³⁸ Citizens’ Statement No. 2R, pp. 29-30.

³⁹ Citizens’ Statement No. 2R, p. 31.

1 premium is not specific to utilities because the study he cites utilizes data from the
2 New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and
3 National Association of Security Dealers Automated Quotation System
4 (NASDAQ).⁴⁰

5 Additionally, Mr. Gorman points to Citizens' 2019 rate case order where
6 the Commission contemplated a size adjustment.⁴¹

7
8 **Q. ARE MR. D'ASCENDIS' ASSERTIONS REGARDING FIRMS OF**
9 **SMALLER SIZE RELEVANT TO THE REGULATED UTILITY**
10 **INDUSTRY?**

11 A. No. Regulated utility companies have the option to file base rate cases to address
12 declining revenues and to recover the increasing costs of doing business in
13 addition to emergency rate relief provisions for large unforeseen impacts. In
14 contrast, non-utility businesses that may be significantly impacted by events of
15 this nature due to small operating size do not have these opportunities. Further,
16 while a smaller utility may pay higher prices for services and materials just due to
17 volume buying power, the actual costs are part of the revenue requirement
18 presented by that company, so to increase the return to account for the potential
19 size disadvantage would only further unfairly burden ratepayers who are already
20 likely paying higher utility bills to recover the higher operating costs.

⁴⁰ Citizens' Statement No. 2R, pp. 30-31.

⁴¹ Citizens' Statement No. 1R, pp. 13-15.

1 **Q. DO YOU BELIEVE THE FAMA AND FRENCH ARTICLE YOU CITED IN**
2 **DIRECT TESTIMONY SUPPORTS THE USE OF A SIZE PREMIUM FOR**
3 **SMALLER COMPANIES?**

4 A. No, again, the Fama and French study is not specific to the utility industry. While
5 I relied upon the Fama and French study in this proceeding, as Mr. D'Ascendis
6 correctly points out, the purpose for which I cited to the study was to demonstrate
7 empirically the shortcomings of the CAPM. The Fama and French study is
8 irrelevant toward the determination of the size risk factor because it is not specific
9 to the utility industry.

10

11 **Q. PLEASE COMMENT ON THE REVIEW OF DR. WONG'S STUDY**
12 **PERFORMED BY DR. ZEPP.**

13 A. The article Mr. D'Ascendis references from Dr. Zepp does not recreate Dr.
14 Wong's study; it simply speculates on other possible reasons for her results and
15 references the results of two other studies. The first study, completed by
16 California Public Utilities Commission Staff in 1991, is not included in the article,
17 and, therefore, Dr. Zepp's opinions cannot be properly evaluated. Dr. Zepp also
18 draws his conclusions about an entire industry based on the second study, which
19 examines the effects of size on only four water utility companies. This article
20 does not contain enough credible evidence to refute Dr. Wong's findings.

1 **Q. PLEASE DISCUSS THE INCORRECT INTERPRETATION MADE BY**
2 **MR. D’ASCENDIS REGARDING YOUR DIRECT TESTIMONY.**

3 A. Mr. D’Ascendis appears to have mistaken an observation I made in direct
4 testimony as a criticism of his analysis. He incorrectly asserts in rebuttal that I
5 state his size adjustment is not specific to utilities because the study he cites uses
6 data from the NYSE, AMEX, and NASDAQ. Rather, I merely observed that Mr.
7 D’Ascendis used market information from NYSE, AMEX, and NASDAQ
8 exchanges as a means to calculate his perceived size risk premium for the
9 Company. This is an important observation, because as I have explained, it is not
10 appropriate to compare highly competitive private companies with regulated,
11 monopolistic, public utilities.⁴²

12
13 **Q. HAVE YOU FOUND FURTHER EVIDENCE TO SUPPORT YOUR**
14 **RECOMMENDATION REGARDING SIZE ADJUSTMENTS?**

15 A. Yes. The difficulty in predicting the risk effect of a company’s size is
16 demonstrated in the variance from year to year of the measurement of difference
17 between the annual returns on the large and small-capitalization stocks of the
18 NYSE/AMEX/NASDAQ in the Ibbotson *Stocks, Bonds, Bills & Inflation: 2015*
19 *Yearbook*. As stated on page 100 of the SBBI Yearbook,

20 While the largest stocks actually declined in 2001, the smallest
21 stocks rose more than 30%. A more extreme case occurred in
22 the depression-recovery year of 1933, when the difference
23 between the first and 10th decile returns was far more

⁴² I&E Statement No. 2, p. 41, lines 8-12.

1 substantial. The divergence in the performance of small- and
2 large- cap stocks is evident. In 30 of the 89 years since 1926,
3 the difference between the total returns of the largest stocks
4 (decile 1) and the smallest stocks (decile 10) has been greater
5 than 25 percentage points.

6 Page 109 states,

7 In four of the last 10 years, large-capitalization stocks (deciles
8 1-2 of NYSE/AMEX/NASDAQ) have outperformed small-
9 capitalization stocks (deciles 9-10). This has led some market
10 observers to speculate that there is no size premium. But
11 statistical evidence suggests that periods of underperformance
12 should be expected.

13 Page 112 states,

14 Because investors cannot predict when small-cap returns will
15 be higher than large-cap returns, it has been argued that they
16 do not expect higher rates of return for small stocks.

17
18 **Q. WHAT IS YOUR RESPONSE TO MR. GORMAN'S REBUTTAL**
19 **TESTIMONY REGARDING THE REFERENCED COMMISSION ORDER**
20 **FOR CITIZENS' ELECTRIC COMPANY?**

21 A. The Commission did not in fact award an explicit size adjustment as the
22 Commission determined that there was not enough evidence as to whether size is
23 specifically a risk for utilities:

24 Consistent with the foregoing discussion, like the ALJs, we
25 shall not specify an exact size adjustment. Instead, we shall
26 adopt the ALJs' recommendation that Citizens' be awarded a
27 DCF cost of common equity of 9.49%. In our view, this cost
28 of equity is reasonable and strikes an appropriate balance by
29 recognizing the general inverse relationship between a
30 company's size and its risk, while acknowledging that there is

1 not substantial evidence in the record to prove that an explicit
2 size basis point adjustment is warranted in this case.⁴³

3 Finally, as I stated in my direct testimony, the Commission has recently rejected
4 the application of a size adjustment to the cost of equity calculation in the 2017
5 UGI Electric rate case.⁴⁴

6
7 **Q. HAS YOUR RECOMMENDATION REGARDING MR. D’ASCENDIS’**
8 **SIZE ADJUSTMENT CHANGED SINCE YOUR DIRECT TESTIMONY?**

9 A. No. I continue to recommend that any adjustment in consideration of the
10 Company’s size be disallowed.

11
12 **PERFORMANCE FACTOR ADJUSTMENT**

13 **Q. SUMMARIZE THE COMPANY’S REBUTTAL TESTIMONY**
14 **REGARDING A PERFORMANCE FACTOR ADJUSTMENT.**

15 A. Mr. D’Ascendis continues to recommend that 5 basis points be added to the cost
16 of equity under 66 Pa C.S.A. § 523 based upon the testimony of Citizens’ witness
17 Kelchner. Mr. D’Ascendis asserts that I have not refuted the claims made by Mr.
18 Kelchner, yet I oppose the adjustment.⁴⁵

⁴³ *Pa. PUC v. Citizens Electric Company of Lewisburg, PA*; Docket No. R-2019-3008212 (Order Entered April 29, 2020), pp. 103-104.

⁴⁴ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 100.

⁴⁵ Citizens’ Statement No. 2R, pp. 34-35.

1 **Q. PLEASE SUMMARIZE MR. KELCHNER’S REBUTTAL TESTIMONY**
2 **REGARDING A PERFORMANCE FACTOR ADJUSTMENT.**

3 A. Mr. Kelchner claims that in the Company’s last base rate case, the Commission
4 awarded Citizens’ a return on equity that included upward adjustments to reflect
5 the Company’s small size and management performance. Next, he points to his
6 direct testimony and again provides a claimed list of accomplishments for the
7 Company that he claims are above and beyond what is required. Finally, Mr.
8 Kelchner states that although I disagree with the principle of a performance factor
9 adjustment, it is in fact available under the Pennsylvania Public Utility Code and
10 he believes Citizens’ has earned an upward adjustment.⁴⁶

11
12 **Q. WHAT IS YOUR RESPONSE TO MR. KELCHNER’S REBUTTAL**
13 **TESTIMONY REGARDING AN UPWARD PERFORMANCE FACTOR**
14 **ADJUSTMENT OF 5 BASIS POINTS TO THE COST OF EQUITY?**

15 A. First, while Citizens’ was awarded a 5 basis point performance factor adjustment
16 in its previous base rate case, the Commission did not award an adjustment
17 specific to Company’s small size as Mr. Kelchner falsely claims. I have addressed
18 this claim in the “*Size*” section above. Next, Mr. Kelchner correctly points out
19 that I disagree with the principle of a performance factor adjustment. As discussed
20 in greater detail in my direct testimony,⁴⁷ I maintain my position that Citizens’ or

⁴⁶ Citizens’ Statement No. 4R, pp. 2-4.

⁴⁷ I&E Statement No. 2, p. 43, ln. 5 through p. 46, ln. 13.

1 any utility company for that matter, should not reap additional rewards for
2 programs funded by ratepayers or for meeting their obligations under 66 Pa C.S.A.
3 §1501.

4 Also, while I am aware that under 66 Pa C.S.A. §523 the Commission shall
5 *consider* a utility's performance, it is not mandatory that the Commission grant
6 additional points. Moreover, I continue to assert that for any company, true strong
7 management performance is earning a higher return through its efficient use of
8 resources and cost cutting measures. The greater the net income resulting from
9 cost savings and true efficiency in management and operations is available to be
10 passed on to shareholders. Any addition of basis points for management
11 performance offsets the savings benefits to ratepayers. Therefore, I continue to
12 recommend that the addition of basis points to the cost of equity for performance
13 be disallowed.

14
15 **NON-PRICE REGULATED PROXY GROUP**

16 **Q. WHAT WAS YOUR RECOMMENDATION IN DIRECT TESTIMONY**
17 **CONCERNING MR. D'ASCENDIS' UTILIZATION OF A NON-**
18 **REGULATED PROXY GROUP?**

19 A. I recommended the Commission reject all analyses performed using the non-price
20 regulated company proxy group as it is highly speculative and subjective, and that
21 Mr. D'Ascendis' non-regulated proxy group in effect blends the CE approach into
22 the DCF, RP, and CAPM models. I further cited that the Commission has ruled on

1 the use of using non-utility companies in comparable groups for the use of the CE
2 approach as requiring “numerous unsupportable assumptions” and being highly
3 speculative.⁴⁸

4
5 **Q. SUMMARIZE MR. D’ASCENDIS RESPONSE REGARDING YOUR**
6 **DISAGREEMENT WITH HIS USE OF A NON-REGULATED PROXY**
7 **GROUP.**

8 A. In rebuttal testimony, Mr. D’Ascendis attempts to justify the use of the companies
9 contained in his non-regulated proxy group based on the betas and standard errors
10 of the regression being similar to that of the companies in his electric company
11 proxy group and therefore similar to Citizens’. Additionally, he states that the
12 return on equity ranges produced by his various analyses show overlap between
13 his Electric Proxy Group and the Non-Price Regulated Proxy Group, implying
14 validation of his methodology.

15
16 **Q. HAS MR. D’ASCENDIS PROVEN THAT THE RISKS FACED BY HIS**
17 **NON-REGULATED PROXY GROUP ARE SIMILAR TO THAT OF HIS**
18 **ELECTRIC UTILITY GROUP?**

19 A. No. As stated in my direct testimony,⁴⁹ the risks faced in each industry for the
20 companies used in Mr. D’Ascendis’ unregulated group differ from the risks faced

⁴⁸ I&E Statement No. 2, p. 37, ln. 10 through p. 39, ln. 20.

⁴⁹ I&E Statement No. 2, p. 37, ln. 10 through p. 39, ln. 20.

1 by his electric utility group. Specifically, the level of competition between non-
2 price regulated companies and monopolies, which utilities largely are, is too
3 difficult a factor to control for. Although beta is an indicator of a company's
4 investment risk in relation to the entire stock market, beta is not a quantification of
5 the total investment risk of a given company. Mr. D'Ascendis' unregulated proxy
6 group may have a beta comparable to that of his electric group, but that does not
7 mean that the companies face sufficiently similar risks to be used as a substitute
8 for an industry's market. Both beta and the standard error of regression are
9 measures of the past performance of a stock and as such do not necessarily reflect
10 where an industry is going or what risks it is expected to face.

11 Most importantly, I am advised by counsel that this premise defies the
12 principle set forth in the *Hope* and *Bluefield cases*⁵⁰ that a utility is entitled to a
13 return similar to that being earned by companies with similar risks and
14 uncertainties, but not as high as those earned by highly profitable or speculative
15 ventures.

16 Finally, considering there is a range of 321⁵¹ basis points for his Electric
17 Proxy Group DCF results and a range of 1,509⁵² basis points for his Non-Price
18 Regulated Proxy Group DCF results, overlap is almost inevitable.

⁵⁰ See *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 262 U.S. 679,692-93 (1923), and *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

⁵¹ Citizens' Statement No. 2R, p. 40 (10.26% - 7.05% = 3.21%).

⁵² Citizens' Statement No. 2R, p. 40 (20.17% - 5.08% = 15.09%).

1 **OVERALL RATE OF RETURN RECOMMENDATION**

2 **Q. HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION**
3 **CHANGED FROM YOUR DIRECT TESTIMONY?**

4 A. No. I continue to support each recommendation made in my direct testimony
5 regarding an appropriate return on equity and overall rate of return for the
6 Company.

7
8 **Q. PLEASE RESTATE YOUR OVERALL RATE OF RETURN**
9 **RECOMMENDATION FOR THE COMPANY.**

10 A. I recommend the following rate of return for Citizens’:

I&E			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Citizens' Electric Company of Lewisburg, PA			
Long-Term Debt	50.47%	4.09%	2.06%
Common Equity	49.53%	8.98%	4.45%
Total	100.00%		6.51%

11
12

13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 A. Yes.

**I&E Statement No. 3-SR
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

**Rate Base
Reporting Requirements
Cost of Service
Forfeited Discounts.
Scale Back of Rates**

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1 **INTRODUCTION**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Eryan A. Sakaya. My business address is Pennsylvania Public Utility
5 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
6 Pennsylvania 17120.

7
8 **Q. ARE YOU THIS SAME ERYAN A. SAKAYA THAT SUBMITTED DIRECT**
9 **TESTIMONY IN THIS CASE ON JULY 25, 2022?**

10 A. Yes. I submitted Bureau of Investigation and Enforcement (“I&E”) Statement No.
11 3 and I&E Exhibit No. 3 on July 25, 2022.

12
13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
15 submitted on behalf of Citizens’ Electric Company of Lewisburg, Pa (“Citizens”
16 or “Company”) by Howard Gorman (Citizens’ St. No. 1-R) and John Kelchner
17 (Citizens’ St. No. 4-R). I will also address the rebuttal testimony submitted on
18 behalf of the Pennsylvania Office of Small Business Advocate (“OSBA”) by
19 witness Robert Knecht (OSBA Statement No. 1-R). My surrebuttal testimony
20 specifically addresses the issues of rate base, reporting requirements, cost of
21 service study, forfeited discounts and the scale back of rates.

1 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

2 A. Yes. I&E Exhibit No. 3-SR contains schedules that support my surrebuttal
3 testimony. I will also refer to my direct testimony and its accompanying exhibit in
4 this surrebuttal testimony (I&E St. No. 3 and I&E Ex. No. 3).

5

6 **COMPANY REVISIONS**

7 **Q. DID THE COMPANY UPDATE AND CORRECT ANY OF THE**
8 **COMPONENTS IN THE FILING THAT YOU RELIED UPON TO**
9 **DEVELOP YOUR RECOMMENDATIONS?**

10 A. Yes. The Company updated and corrected the revenue summary, the proof of
11 revenue, and made changes to the Cost of Service Study (COSS) in rebuttal
12 testimony (Citizens HSG-1R). The Company's revised proposed rates are shown
13 on Citizens Ex. HSG-1R-Schedule B6-4 (R). In addition to these revenue updates,
14 Citizens' adjusted their rate base valuation in rebuttal testimony (Citizens'
15 Ex. (HSG-1-R), Sch. C1-6, (R), line 13).

16

17 **Q. HAVE YOU UPDATED YOUR REVENUE AND COST OF SERVICE**
18 **EXHIBITS TO REFLECT THESE REVISED CLAIMS?**

19 A. Yes. I have updated my revenue and cost of service exhibits at I&E Ex. No. 3-SR,
20 Sch. 1. This updated schedule reflects the revised COSS and revenue changes
21 proposed by Citizens and results in different rates of return and relative rates of
22 return by class than what I reflected in my direct testimony (I&E St. No. 3. pp. 8-

1 13). Also, as described below, the changes to the COSS and revenue do not
2 change my overall scale back recommendation.

3
4 **RATE BASE**

5 **Q. IN YOUR DIRECT TESTIMONY, DID YOU RECOMMENDED ANY**
6 **ADJUSTMENTS TO THE COMPANY'S ADDITIONS AND DEDUCTIONS**
7 **TO DEPRECIATED ORIGINAL COST PLANT IN SERVICE?**

8 A. No.

9
10 **Q. DID CITIZENS REVISE ANY RATE BASE ADJUSTMENTS FOR THE**
11 **FPFTY IN ITS REBUTTAL TESTIMONY?**

12 A. Yes. The Company's revised rate base provided as part of the Company's
13 corrections and updates for the FPFTY ending December 31, 2023 was
14 \$13,630,593 (Citizens' Ex. _(HSG-1), Sch. C1-6, (CU), line 13). In rebuttal, the
15 Company's proposed rate base for the FPFTY ending December 31, 2023 is now
16 \$13,629,678 (Citizens' Ex. _(HSG-1-R), Sch. C1-6, (R), line 13).

17
18 **Q. WHAT PLANT IN SERVICE ADJUSTMENT DID CITIZENS MAKE TO**
19 **REVISE ITS FPFTY RATE BASE PROJECTION?**

20 A. Citizens' removed \$914 of CWIP from rate base for the FPFTY in its rebuttal
21 testimony (\$13,630,593 - \$13,629,678 = \$914) (Citizens St. No. 1-R, p. 8, and
22 Citizens' Ex. _(HSG-1-R), Sch. C1-6, (R)).

1 **Q. DO YOU RECOMMEND ANY ADJUSTMENTS TO CITIZENS’**
2 **\$13,629,678 RATE BASE PROJECTION?**

3 A. No. The \$914 reduction is reasonable.

4

5 **REPORTING REQUIREMENTS**

6 **Q. DID YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT**
7 **ADDITIONS THAT THE COMPANY PROJECTS TO BE IN SERVICE**
8 **DURING THE FTY ENDING DECEMBER 31, 2022, AND THE FPFTY**
9 **ENDING DECEMBER 31, 2023?**

10 A. Yes. In my direct testimony I recommended that the Company provide the Bureau
11 of Investigation and Enforcement and the Office of Consumer Advocate with an
12 update to Citizen’s Exhibit_(HSG-1), Schedule C3-CU no later than April 1, 2023,
13 under this docket number, which should include actual plant additions and
14 retirements by month for the twelve months ending December 31, 2022. I also
15 recommended that an additional update be provided for actual plant additions and
16 retirements by month through December 31, 2023, no later than April 1, 2024
17 (I&E St. No. 3, pp. 6-7).

18

19 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

20 A. Yes. The Company stated on page 13 of Citizens’ Statement No. 4-R that, “[t]he
21 Commission has not yet implemented comprehensive regulations concerning the
22 obligations for public utilities utilizing the FPFTY. The Company should not be

1 burdened with additional filing requirements unless those requirements are part of
2 regulations applicable to all EDCs. I&E will have opportunities to review this
3 information when the Company files a subsequent base rate case.” The witness
4 statement concludes with “parties litigated a similar proposal from I&E in the
5 2019 rate case in which the Commission rejected I&E’s request.”

6
7 **Q. IS IT TRUE THAT THE COMMISSION HAS NOT YET IMPLEMENTED**
8 **COMPREHENSIVE REGULATIONS CONCERNING THE**
9 **OBLIGATIONS FOR PUBLIC UTILITIES UTILIZING THE FPFTY?**

10 A. Yes. However, I&E has routinely recommended these same reporting
11 requirements in multiple other base rate proceedings that utilized an FPFTY.
12 While I&E recognizes that these reporting requirements have largely occurred
13 through the settlement process, the fact remains that other Commission regulated
14 utilities have routinely agreed to provide these requested updates. To add
15 context, the FPFTY was signed into law in February 2012 and I&E recommended
16 this reporting requirement in the first-rate case that utilized the FPFTY, which was
17 the 2012 Columbia Gas of Pennsylvania, Inc.’s base rate filing at Docket No. R-
18 2012-2321748. Since that time, I&E has consistently recommended this reporting
19 requirement in rate cases that employed an FPFTY; and it has been agreed to in
20 settlements numerous times in the ten years since Act 11 was passed. The fact that
21 there are no current regulations regarding the FPFTY does not preclude the
22 Company from agreeing to file the requested updates.

1 **Q. PLEASE RESPOND TO THE COMPANY’S CLAIM THAT THE**
2 **REQUIREMENT IS BURDENSOME, AND THE INFORMATION CAN BE**
3 **REVIEWED BY THE PARTIES IN THE NEXT BASE RATE CASE?**

4 A. The Company made these plant additions claims; therefore, it should agree to
5 track these claims. Reporting these claims to the parties should not be
6 burdensome. I do agree that the information could generally be provided in the
7 next base rate case, but this specific information is not a filing requirement which
8 means a party must compile a data request and wait for the response, leading to an
9 increased burden on all parties and unnecessary delays.

10

11 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?**

12 A. No. I continue to advocate for the recommended reporting requirements for all of
13 the reasons stated in my direct testimony (I&E St. No. 3, pp. 6 -7).

14

15 **COST OF SERVICE**

16 **Q. PLEASE SUMMARIZE THE REVENUE INCREASE THE COMPANY**
17 **ORIGINALLY PROPOSED.**

18 A. The Company proposed that base rates increase by \$999,270 (Citizens Ex. HSG-1,
19 Sch. B-6).

1 **Q. DID THE COMPANY UPDATE THE REVENUE INCREASE THE**
2 **COMPANY ORIGINALLY PROPOSED.**

3 A. Yes. The Company proposed that base rates increase by \$999,883 in rebuttal
4 testimony (Citizens Ex. HSG-1R, Sch. B-6-1).

5
6 **Q. DID THE COMPANY'S CHANGE IN PROPOSED REVENUE RESULT IN**
7 **A DIFFERENT INCREASE FOR SOME OF THE CLASSES?**

8 A. Yes. The Company revised the GLP-1, GLP-3, OL rates, and proposed revenue
9 and the corresponding increase for these classes. These revised rates caused the
10 present GLP-1 class revenue to increase from \$985,385 to \$1,093,872 which is an
11 increase of 108,487, rather than the \$112,720 increase originally proposed. These
12 revised rates caused the present GLP-3 class revenue to increase from \$874,663 to
13 \$969,788 which is an increase of \$95,117 rather than the \$99,340 increase
14 originally proposed. Finally, these revised rates caused the OL OL class revenue
15 to increase from \$85,141 to \$105,811 which is an increase of \$20,671 rather than
16 the \$11,601 increase originally proposed (Citizens Ex. HSG-1, Sch. B-6 and HSG-
17 1 (R), Sch. B-6).

18
19 **Q. WHAT CHANGES TO PROPOSED REVENUE DID YOU RECOMMEND?**

20 A. I recommended that the OL lighting class be increased 27.7%. This
21 recommendation increased the Company proposed revenue from OL lighting from
22 \$96,742 to \$108,742, which is an increase of \$12,000 over the revenue increase

1 proposed by the Company of \$11,601 for a total increase of \$23,601 or 27.7% in
2 additional revenue (I&E Ex. No. 3, Sch. 1, lines 10-11, column H). I
3 recommended the \$12,000 additional revenue be used to reduce the GLP-1 class
4 revenue by \$12,000 (I&E St. No. 3, p. 12).

5
6 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION TO**
7 **INCREASE OL CLASS REVENUE AND REDUCE THE GLP-1 CLASS**
8 **REVENUE?**

9 A. Yes. Based upon my recommendation, the Company increased the revenue from
10 the OL class by \$9,053 and lowered the increase for the GLP-1 and GLP-3 classes
11 by \$4,500 respectively (Citizens St. No. 1, pp. 8-9).

12
13 **Q. ARE THESE CHANGES TO THE OL, GLP-1 AND GLP-3 CLASSES**
14 **ACCEPTABLE?**

15 A. Yes. While the additional \$9,053 of OL revenue is less than the \$12,000 that I
16 recommended, the \$9,053 of additional OL revenue is a reasonable compromise,
17 and the allocation of this additional revenue to reduce the revenue from the GLP-1
18 and GLP-3 is also reasonable.

19
20 **Q. WHY IS ALLOCATING THE \$9,053 OF ADDITIONAL REVENUE TO**
21 **BOTH THE GLP-1 AND GLP-3 CLASSES REASONABLE?**

22 A. As a result of the Company's revisions to the COSS, the relative rate of return for

1 these classes will be 1.66 and 1.69, respectively, which supports sharing the
2 increase to the OL class to both the GLP-1 and GLP-3 classes (Citizens Ex. HSG,
3 B-6-4 (R), line 32).

4
5 **Q. DID YOU PREPARE A SCHEDULE THAT SUMMARIZED THE GLP-1,**
6 **GLP-3, AND OL CLASS REVENUE SHIFT, OVERALL REVENUE, RATE**
7 **OF RETURN, AND RELATIVE RATE OF RETURN BY CLASS?**

8 A. Yes. I prepared I&E Ex. No. 3, Sch. 1-SR that shows the \$108,487 increase for
9 the GP-1 class, the \$95,115 increase for the GP-3 class, and the \$20,670 increase
10 for the OL class that can accept if the full increase of \$999,882 is approved (I&E
11 Ex. No. 3-SR, Sch. 1, line 11). This schedule also shows the rate of return and
12 relative rate of return by class after reflecting the Company COSS and revenue
13 changes (I&E Ex. No. 3-SR, lines 24 and 25).

14
15 **FORFEITED DISCOUNTS**

16 **Q. WHAT DID YOU RECOMMEND REGARDING THE AMOUNT OF**
17 **REVENUE FROM FORFEITED DISCOUNTS THE COMPANY WILL**
18 **RECEIVE UNDER PROPOSED RATES FOR THE FPFTY ENDING**
19 **DECEMBER 31, 2023?**

20 A. I recommended that the forfeited discount revenue be increased from \$23,994 to
21 \$25,608, which is an increase of \$1,614 (I&E Ex. No. 3, Sch. 2, col. G, lines 8-9).

1 **Q. HOW DID YOU DETERMINE THE INCREASE OF \$1,614?**

2 A. I began by summarizing electric revenue under from base rates under present rates
3 received in 2021 (I&E Ex. No. 3, Sch. 2, column B line 9). Then I summarized
4 revenue from the Generation Supply Service Rate (“GSSR”), the Tax Cuts and
5 Jobs Act (“TCJA”), unbilled revenue, and the GSSR annualization claimed by the
6 Company on (Citizens Ex. HSG-1, Sch. B1 (CU), line 15). Then I determined the
7 percentage of each of these to total revenue excluding unbilled December revenue
8 (I&E Ex. No. 3, Sch. 2, column B, line 5). Using these percentages, I determined
9 that \$9,049 of late payment revenue is attributable to base rates (I&E Ex. No. 3,
10 Sch. 2, col. B, line 6). The \$1,614 is determined by multiplying this \$9,049 of
11 base rate late payment revenue times the 19.48% increase in base rates to arrive at
12 the \$1,614. The total late payment revenue under proposed rates of \$25,608
13 (\$1,614 + \$23,994) is shown on (I&E Ex. No. 3, Sch. 2, col. G, lines 6 and 9).

14

15 **Q. SHOULD THE \$1,614 BE REDUCED IF THE COMMISSION GRANTS**
16 **LESS THAN THE FULL INCREASE?**

17 A. Yes. I recommend that the Company include revenue under proposed rates from
18 forfeited discounts equal to the percent increase in base rates upon determination
19 of the total revenue granted by the Commission.

1 **SCALE BACK OF RATES**

2 **Q. WHAT SCALE BACK METHODOLOGY DID YOU RECOMMEND IF**
3 **THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

4 A. If the Commission grants less than the Company's requested increase, I
5 recommend that the first \$200,060 reduction be applied to the GLP-1 and GLP-3
6 classes. The \$200,060 first dollar reduction would have eliminated the \$100,720
7 increase remaining for the GLP-1 class described above, and \$99,340 increase
8 proposed for the GLP-3 class (I&E Ex. No. 3, Sch. 1, line 10, columns E and F).

9

10 **Q. DO YOU WISH TO REVISE YOUR RECOMMENDATION TO REFLECT**
11 **THE ADJUSTED GLP-1 AND GLP-3 REVENUE INCREASE PROPOSED**
12 **BY THE COMPANY?**

13 A. Yes. As a result of the Company's revenue changes, I now recommend that the
14 first \$203,604 reduction be applied to the GLP-1 and GLP-3 classes. The
15 \$203,604 first dollar reduction will eliminate the \$108,487 revised increase for the
16 GLP-1 class described above, and \$95,115 revised increase proposed for the GLP-
17 3 class (I&E Ex. No. 3-SR, Sch. 1, line 10, columns E and F).

18

19 **Q. DID ANY OF THE PARTIES DISAGREE WITH YOUR SCALE BACK**
20 **RECOMMENDATION?**

21 A. Yes. The Company generally agreed with my proposal if after the first dollar
22 relief, no class receive an increase more than 1.5 times the system average return

1 (Citizens St. No. 1, p. 9). OSBA witness Kalcic indicated that he would agree
2 with my recommendation if the scale back is greater than \$200,060. However, he
3 believes the increase granted by the Commission may not be below the
4 approximately \$799,921 (\$999,881 - \$200,060) increase threshold after the first
5 dollar relief is applied, and, therefore, my proposal will do little to correct the over
6 recovery of costs from the GLP-1 and GLP-3 classes (OSBA St. No. 1-R, p. 8).

7
8 **Q. WHAT SCHEDULE DID YOU CREATE TO REVIEW THE COMPANY'S**
9 **SCALE BACK PROPOSAL?**

10 A. To address the Company's proposal that no class receive an increase of more than
11 1.5 times the system average, I created a schedule that shows the increases and
12 percentage increases by class after the first \$203,604 decrease is applied to the
13 GLP-1 and GLP-3 class, leaving an increase of \$796,280 or 15.5% (I&E Ex. No.
14 3-SR, Sch. 2). I also determined that 1.5 times the system average increase would
15 limit the percentage increase in each class to 23.3% (15.5% times 1.5) for each
16 class (I&E Ex. No. 3-SR, Sch. 2, columns G and H).

17
18 **Q. PLEASE ADDRESS THE COMPANY'S TESTIMONY CONCERNING**
19 **YOUR FIRST DOLLAR RELIEF?**

20 A. I determined that the Company's scale back proposal conflicts with its proposal to
21 increase OL class revenue by \$20,671 or 24.3% (I&E Ex. No. 3-SR, Sch. 2, line
22 12). The Company's own proposal for the OL class conflicts with its

1 recommendation to restrict the increase to 23.3% or 1.5 times the system average
2 increase of 15.5% after the first dollar relief is applied. Additionally, the
3 remaining percentage increases will be close to or above the 23.3% increase cap
4 proposed by the Company (I&E Ex. No. 3-SR, Sch. 2, columns G and H).

5 Therefore, based upon this schedule, it is not possible to scale back the rates with
6 the 1.5 times the system average limitation the Company's proposes.

7 Consequently, the Company's proposal to limit the increase in each class to 1.5
8 times the system average should be rejected.

9
10 **Q. PLEASE ADDRESS THE OSBA'S TESTIMONY CONCERNING YOUR**
11 **FIRST DOLLAR RELIEF?**

12 A. When preparing direct testimony, it is not possible to know the final increase the
13 Commission will grant the Company the opportunity to receive in rates. While I
14 understand my \$203,604 reduction may not materialize, the only way to reduce the
15 GLP-1 and GLP-3 revenue increase more than the increase in total revenue would
16 be to increase the revenue received from the other classes more than the Company
17 proposed. Under that scenario, the OSBA proposal should be rejected. It is unfair
18 to residential customers to increase the rates for residential customers and some of
19 the other classes for the sole purpose of reducing the above average rate or return
20 that currently exists for the GLP-1 and GLP-3 classes.

21
22 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

23 A. Yes.

**I&E Statement No. 3-SR
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA

Docket No. R-2022-3032369

**Exhibits to Accompany
the
Surrebuttal Testimony**

of

**Esyan A. Sakaya
Bureau of Investigation and Enforcement**

Concerning:

**Rate Base
Reporting Requirements
Cost of Service
Forfeited Discounts.
Scale Back of Rates**

Citizens Electric Company of Lewisburg
Embedded Cost of Service Study (ECOSS)
FPFTY Ending December 31, 2023
Summary of Present and Proposed Revenue and Rate of Return

Line	Account (A)	Balance (B)	RS (C)	SH (D)	GLP-1 (E)	GLP-3 (F)	MBL (G)	OL (H)
1	Distribution Revenue	\$5,129,820	\$3,138,434	\$25,678	\$985,385	\$874,663	\$20,519	\$85,141
2	Forfeited Discounts	\$23,994	\$14,680	\$120	\$4,609	\$4,091	\$96	\$398
3	Other Revenue	\$63,366	\$40,259	\$394	\$9,903	\$12,535	\$72	\$203
4	Total Revenue	\$5,217,180	\$3,193,373	\$26,192	\$999,897	\$891,289	\$20,687	\$85,742
5	Expenses	\$4,978,159	\$3,298,719	\$25,552	\$819,221	\$728,444	\$37,886	\$68,337
6	Net income	\$239,021	-\$105,346	\$640	\$180,676	\$162,845	-\$17,199	\$17,405
7	Rate Base	\$13,629,678	\$8,926,779	\$69,427	\$2,059,503	\$1,823,257	\$293,973	\$456,739
8	Present Rate of Return	1.75%	-1.18%	0.92%	8.77%	8.93%	-5.85%	3.81%
9	Present ROR	1.00	-0.67	0.53	5.00	5.09	-3.34	2.17
10	Proposed Revenue	\$6,129,701	\$3,902,075	\$31,675	\$1,093,872	\$969,778	\$26,490	\$105,811
11	Revenue Increase	\$999,882	\$763,642	\$5,997	\$108,487	\$95,115	\$5,971	\$20,670
12	Revenue Increase %	19.49%	24.33%	23.36%	11.01%	10.87%	29.10%	24.28%
13	Operating expenses	\$3,215,246	\$2,214,085	\$15,249	\$505,155	\$427,150	\$20,039	\$33,568
14	Depreciation expense	\$1,244,115	\$803,800	\$7,843	\$198,787	\$197,326	\$14,062	\$22,297
15	Regulatory Comm. Expenses	\$48,804	\$31,667	\$261	\$7,392	\$6,772	\$1,062	\$1,650
16	General taxes / Other	\$79,761	\$51,396	\$463	\$12,325	\$11,915	\$1,430	\$2,232
17	Uncollectible expense	\$20,599	\$12,603	\$103	\$3,957	\$3,512	\$82	\$342
18	GRT	\$361,652	\$230,222	\$1,869	\$64,538	\$57,217	\$1,563	\$6,243
19	Total Operating Expenses	\$4,970,177	\$3,343,773	\$25,788	\$792,154	\$703,892	\$38,238	\$66,332
20	Pre-tax income	\$1,159,524	\$558,302	\$5,887	\$301,717	\$265,886	(\$11,748)	\$39,480
21	Income taxes	\$331,502	\$159,616	\$1,683	\$86,259	\$76,015	(\$3,359)	\$11,287
22	Other Revenue	\$87,361	\$54,938	\$514	\$14,512	\$16,626	\$168	\$602
23	Net income	\$915,383	\$453,624	\$4,719	\$229,970	\$206,497	(\$8,221)	\$28,794
24	Return on Rate Base	6.72%	5.08%	6.80%	11.17%	11.33%	(2.80%)	6.30%
25	Relative Rate of Return	1.00	0.76	1.01	1.66	1.69	(0.42)	0.94

Citizens' Electric Company of Lewisburg
Rate Case with Fully Projected Future Test Year 2023

Summary Of Proposed Increase to Distribution Revenue
Fully Projected Future Test Year 2023

Line	Description	Sales (kWh)	Average Customers	Distribution Total- Present Rates	Distribution - Proposed Increase	Distribution Total- Proposed Rates	% Increase Proposed	Cap at 1.5 Times Average
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1	<u>Residential Customers</u>	<u>B3</u>	<u>B3</u>	<u>B3</u>		<u>B6-3</u>		
2	RS	\$87,452,069	5,918	\$3,138,434	\$763,641	\$3,902,075	24.3%	23.3%
3		\$87,452,069	5,918	\$3,138,434	\$763,641	\$3,902,075	24.3%	23.3%
4								
5	<u>Commercial and Industrial Customers</u>							
6	GLP 1	\$26,466,835	1,125	\$985,385	\$0	\$985,385	0.0%	
7	GLP 3	\$43,276,801	40	\$874,663	\$0	\$874,663	0.0%	
8	SH	\$657,436	11	\$25,678	\$5,998	\$31,675	23.4%	23.3%
9		\$70,401,072	1,175	\$1,885,726	\$5,998	\$1,891,723	0.3%	
10								
11	MBL	\$102,962	12	\$20,519	\$5,971	\$26,490	29.1%	23.3%
12	OL	\$260,902	27	\$85,141	\$20,671	\$105,811	24.3%	23.3%
13	Lighting	\$363,864	39	\$105,660	\$26,641	\$132,301	25.2%	
14								
15	TOTAL	\$158,217,004	7,133	\$5,129,820	\$796,280	\$5,926,100	15.5%	23.3%

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	Docket No. R-2022-3032369
	:	
v.	:	
	:	
Citizens' Electric Company of Lewisburg, PA	:	
Base Rates	:	

**WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Zachari Walker, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 1; and I&E Exhibit No. 1.
- I&E Statement No. 1-SR.

were 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 at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ Zachari Walker
Zachari Walker

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: September 8, 2022

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	Docket No. R-2022-3032369
	:	
v.	:	
	:	
Citizens' Electric Company of Lewisburg, PA	:	
Base Rates	:	

**WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Anthony Spadaccio, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 2; and, I&E Exhibit No. 2.
- I&E Statement No. 2-SR.

were 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 at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ Anthony Spadaccio _____
_Anthony Spadaccio_____

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: September 8, 2022

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	Docket No. R-2022-3032369
	:	
v.	:	
	:	
Citizens' Electric Company of Lewisburg, PA	:	
Base Rates	:	

**WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT**

I, Esyan A. Sakaya, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 3; and, I&E Exhibit No. 3.
- I&E Statement No. 3-SR; and I&E Exhibit No. 3-SR.

were 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 at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ Esyan A. Sakaya
Esyan A. Sakaya

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: September 8, 2022