



COMMONWEALTH OF PENNSYLVANIA

June 4, 2025

E-FILED

Matthew L. Homsher, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Pike County Light & Power Company
(Electric) / Docket No. R-2024-3052359**

Dear Secretary Homsher:

Enclosed please find the admitted PreServed Testimony, Exhibits, and Verifications, on behalf of the Office of Small Business Advocate (“OSBA”), pursuant to the Order Granting Joint Stipulation and Admitting Evidence, that was issued on May 29, 2025, in the above-referenced proceeding:

- Direct Testimony and Exhibits of Mark D. Ewen, labelled OSBA Statement No. 1, with Exhibit IEC-1 and Exhibit IEC-2, including a Verification.
- Rebuttal Testimony of Mark D. Ewen, labelled OSBA Statement No. 1-R, including a Verification.

Copies will be served on all known parties in this proceeding, as indicated on the attached Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Rebecca Lyttle

Rebecca Lyttle
Assistant Small Business Advocate
Attorney ID No. 201399

Enclosures

cc: Mark D. Ewen
Parties of Record



COMMONWEALTH OF PENNSYLVANIA

April 3, 2025

The Honorable Marta Guhl
Administrative Law Judge
Pennsylvania Public Utility Commission
Philadelphia District Office
801 Market Street
Philadelphia, PA 19107

The Honorable Alphonso Arnold III
Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Pike County Light & Power Company
(Electric) / Docket No. R-2024-3052359**

Dear Judge Guhl and Judge Arnold:

Enclosed please find the Direct Testimony and Exhibits of Mark D. Ewen, labelled OSBA Statement No. 1, with Exhibit IEC-1 and Exhibit IEC-2, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-referenced proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Rebecca Lyttle

Rebecca Lyttle
Assistant Small Business Advocate
Attorney ID No. 201399

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Mark D. Ewen
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**Pike County Light & Power Company
(Electric Division)**

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Docket No. R-2024-3052359

Direct Testimony and Exhibits of

MARK D. EWEN

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

- Cost Allocation**
- Revenue Allocation**
- Rate Design**
- Late Payment Plans**

Date Served: April 3, 2025

Date Submitted for the Record: _____

DIRECT TESTIMONY OF MARK D. EWEN

1 **1. Introduction and Context**

2 **Q. Please state your name and briefly describe your qualifications.**

3 A. My name is Mark D. Ewen. I am a Principal and President of Industrial Economics,
4 Incorporated (“IEc”), a consultancy of 165 professionals headquartered at 2067
5 Massachusetts Avenue, Cambridge, MA 02140. My consulting practice focuses on
6 regulatory and environmental economics, expert case management and economic damages
7 estimation in a variety of litigation contexts, and financial analysis. I obtained a B.A degree
8 in Economics and Political Science from the University of North Dakota, and a Master of
9 Public Policy degree from the University of Michigan. I have participated and provided
10 testimony in a variety of proceedings before the PA Public Utilities Commission, including
11 electric and gas base rates cases, 1307(f) purchased gas cost filings, energy efficiency and
12 conservation cases, merger and acquisition cases, and default service provider (“DSP”)
13 petitions. My résumé and a listing of the expert testimony that I have filed in various
14 litigation and utility regulatory proceedings are attached in Exhibit IEC-1.

15 **Q. What is the purpose of this testimony?**

16 A. I was retained by the OSBA to review the base rates filing of Pike County Light & Power
17 Company Electric Division (the “Company” or “PCL&P”) base rates filing to evaluate
18 whether the Company’s proposed rate increases and tariff changes for small businesses are
19 consistent with sound regulatory and economic principles. In preparing this testimony, I
20 relied in part on analyses that my colleague Robert D. Knecht prepared as part of his direct
21 testimony for the Company’s prior base rate proceeding (Docket No R-2020-3022135)
22 particularly with respect to cost allocation and rate design matters.

23 **Q. Please summarize the Company’s proposed rate increase in this proceeding.**

24 A. PCL&P proposes to increase its annual electric distribution revenues by approximately \$1.9
25 million, or 24.3 percent for the forecast test year ended June 2025.¹ This increase is proposed

¹ The Company measures its rate increase by comparing the revenues at present rates for the historical test year (“HTY”) ending June 2024 to the revenues at proposed rates for the future test year (“FTY”) ending June 2025. As such, the Company’s reported increase includes the effects of changes in both billing determinants and tariff charges.

1 to achieve a target return on equity of 9.75 percent and a weighted average return on rate
 2 base of 8.37 percent. The proposed increase would be achieved by assigning rate increases
 3 among the major rate classes as shown in Table IEC-1 below. The classes shown in Table
 4 IEC-1 are those used in the Company’s cost of service study (“COSS”).

Table IEC-1		
PCL&P Electric Proposed FTY Rate Increases		
	Amount (\$000)	Percent
SC1: Residential	\$826.6	26.9%
SC1: Res. Space/Water Htg.	\$187.5	27.1%
SC2-S: C&I Secondary	\$670.6	21.2%
SC2-S: C&I Primary	\$119.4	21.2%
SC3: Municipal Lighting	\$36.1	32.0%
SC4: Private Area Lighting	\$15.9	32.0%
Total	\$1,855.9	24.3%
Source: IEC WPI		

5
 6 **Q. Please summarize your current conclusions and recommendations.**

7 A. As detailed herein, I conclude the following:

- 8 • The Company’s class cost of service study (“COSS”) uses the same minimum system
 9 approach that the Commission approved in the last base rates proceeding.
- 10 • The Company’s proposed revenue allocation for assigning the rate increase among the
 11 various rate classes is not fully consistent with its own COSS. Specifically, the Company
 12 limits the maximum revenue increase for any class to 110 percent of the system average.
 13 This results in limited progress towards cost-based rates, with the Company significantly
 14 over-recovering costs from the SC2 classes and under-recovering costs from the
 15 Residential classes.

Consistent with Pennsylvania practice, I attempt to consistently measure rate increases based on FTY billing determinants in this testimony, which avoids the distortive effects of year-to-year changes in billing determinants.

- 1 • I developed an alternative revenue allocation based on the principle of moving rates more
2 into line with allocated costs, subject to rate gradualism considerations.
- 3 • The Company’s tariff for non-residential secondary voltage customers (SC2-S) can be
4 simplified. The tariff includes a customer charge, a three-tiered declining block load-
5 factor energy charge (with little rate differentiation), a two-tiered inclining-block
6 demand charge, an energy-only charge for non-demand-metered customers, and an
7 option for customers to pay a discounted energy-only charge for electric space heating
8 service.

9 **Q. How is your testimony organized?**

10 A. Sections 2 through 4 address cost allocation, revenue allocation, and rate design,
11 respectively. Section 5 addresses the Company’s responses to OSBA’s interrogatories about
12 the potential for PCL&P to implement a formal late payment plan for small businesses.
13 Appendix A provides an explanation as to why the indexed rate of return can be an unreliable
14 metric for evaluating progress toward cost-based rates.

15 **2. Cost Allocation**

16 **Q. What is a utility cost allocation study?**

17 A. A utility cost allocation study, in this case the Company’s electric class cost of service study
18 (“COSS”), is an analytical tool that assigns the utility’s test year total costs (i.e., the “revenue
19 requirement”) among the various utility rate classes. Pennsylvania electric and gas utilities
20 generally use an “embedded cost” approach to cost allocation, in which accounting book
21 costs are directly assigned among the rate classes, rather than a marginal cost approach. It is
22 generally agreed that costs should, to the extent practicable, be assigned among rate classes
23 based on “cost causation,” such that costs caused by a particular class of customers are
24 assigned to that class. A cost allocation study generally involves a three-step process, in
25 which costs are (a) segregated by function (“functionalization”), (b) further segregated by
26 cost causation factor, notably throughput, peak demand, “excess” demand, and customer
27 count (“classification”), and (c) allocated among the rate classes based on each class’s
28 contribution to the cost causation factor (“allocation”).

29 **Q. What purpose does the COSS serve in a utility rate proceeding?**

1 A. The COSS informs both the assignment of the rate increase among customer classes
2 (“revenue allocation”) and the design of rates to recover the revenues assigned to each rate
3 class. Revenue allocation is often used to move rate revenue more into line with allocated
4 costs from the COSS. For rate design, classified costs, such as customer-related and demand-
5 related costs, are used to inform the development of specific rate charges, such as monthly
6 customer and demand charges.

7 **Q. Please describe the Company’s filing with respect to cost allocation in this proceeding.**

8 A. The Company’s cost allocation analysis was filed in Exhibits E-6 and E-7, and an electronic
9 version was provided in OSBA-Pike-Electric-I-2. These analyses are based on the allocation
10 of embedded book costs. The company COSS is performed for the historical test year
11 (“HTY”) ending June 2024, rather than for the future test year (“FTY”) (or even a fully
12 projected future test year) as is normal utility practice in Pennsylvania. However, the
13 Company has also roughed out the implications of a FTY COSS, by taking the HTY
14 allocated costs and then reallocating the changes in revenues and costs between the FTY and
15 HTY. This approach is far from perfect, as it (a) lumps together many of the year-to-year
16 revenue and cost changes into aggregate accounts, and (b) fails to reflect changes in forecast
17 loads, demands and number of customers in the FTY. In effect, the Company allocates 2025
18 costs with 2024 allocation factors.

19 In addition, the key classification and allocation factors used in this year’s COSS are either
20 identical to those used in the 2013 base rates case or are updated simply for change in use
21 per customer. These include the sub functionalization analysis between primary and
22 secondary system costs, the classification factors for primary and secondary distribution
23 equipment, the transmission, primary and secondary peak demand factors, and the services
24 plant allocator.

25 The Company has four basic rate classes: Residential (SC1), Small Commercial and
26 Industrial (“Small C&I”) (SC2), Municipal Street Lighting (SC3) and Private Area Lighting
27 (SC4). For both cost allocation and rate design, the Company segregates the SC2 class into
28 primary and secondary (“SC2-P” and “SC2-S” respectively) voltage categories. For cost

1 allocation purposes, the Company segregates SC1 into "residential" and "space/water
2 heating" categories, but the same tariff charges apply to both sub-categories.

3 **Q. Turning to the issues of cost allocation methodology, what are the most important cost
4 allocation issues for an electric utility distribution company ("EDC") like PCL&P?**

5 A. The most contentious issue regarding EDC cost allocation usually revolves around the
6 "classification" and "allocation" of joint use distribution plant costs, including substations,
7 poles, overhead and underground lines, and transformers. This debate arises for several
8 reasons.

- 9 • First, this plant represents a substantial portion of the overall distribution plant, making
10 the issue of critical importance to the overall allocation of rate base. Moreover, because
11 O&M costs are generally allocated in proportion to the allocation of plant, the allocation
12 of plant has a large impact on the allocation of O&M costs.
- 13 • Second, unlike meters and service line plant, this plant represents "joint use" costs,
14 meaning that multiple rate classes rely on the same plant. These costs therefore generally
15 cannot be directly assigned to the specific rate class which uses the plant but must be
16 allocated using some reasonable factors.
- 17 • Third, the economics literature provides little theoretical support for the allocation of
18 such costs, other than to state that the allocated costs should lie somewhere between the
19 short-run marginal cost of providing service and the standalone cost of serving a
20 particular class. These guidelines leave considerable leeway for allocating electric
21 distribution plant costs.
- 22 • Fourth, the various methodologies offered by cost allocation analysts produce a wide
23 range of cost allocation outcomes.

24 The debate for allocating joint use distribution plant costs generally revolves around
25 which factors best reflect "cost causation." These factors typically fall into three
26 categories: peak demand, annual energy usage (or its arithmetic equivalent, average

1 demand), and number of customers. These three "classification" factors are generally
2 abbreviated as "demand," "energy" and "customer."

3 **Q. Please describe the basic issues involved in the classification and allocation of**
4 **distribution plant costs.**

5 A. An electric distribution system must be designed to meet two objectives. First, the poles,
6 wires and transformers must be large enough to be able to deliver power from the
7 transmission grid to customer premises at the time when the load on each component of the
8 system is the highest. Second, the system must be designed to interconnect all the EDC's
9 customers.

10 A two-step process is generally used to recognize how these system design considerations
11 cause costs to be incurred and to assign costs to rate classes. First, distribution plant costs
12 are classified into demand-related and customer-related components, to reflect both the peak
13 demand and size of system design considerations. Second, each component of the classified
14 costs is allocated among the various rate classes. Customer-related costs are generally
15 allocated on the basis of the number of customers. Demand-related costs are allocated on the
16 basis of some measure of customer peak demand.

17 **Q. Please discuss the electric distribution plant cost classification methods.**

18 A. The "minimum system" approach is based on the idea that the customer-related component
19 of costs should represent those costs that would be incurred to meet minimal demand levels.
20 It is calculated by determining what the cost of the electric distribution system would be if
21 only minimum-sized poles, wires and transformers were installed. The ratio of the cost of
22 this minimum system to the cost of the actual system is deemed to be the percentage of the
23 cost of the actual system that is customer-related. All costs incurred in excess of the
24 minimum system are considered demand-related.

25 The minimum system approach is often criticized for failing to recognize that a minimum
26 system has some load carrying capability, and therefore overstates the customer-related
27 component of costs. This critique is addressed by some analysts using a "zero-intercept"
28 methodology. In a zero-intercept approach, the minimum system is based not on the cost of
29 the actual minimum-sized plant, but on the implicit cost of plant with zero load carrying

1 capability. The cost of a zero-capacity transformer, for example, is determined using
2 statistical methods, which show a mathematical relationship between the cost of a
3 transformer and its capacity.

4 Finally, the "100% demand" approach assumes that all distribution costs are demand related,
5 and that there is no customer component at all. This method simply assumes that there are
6 no economies of scale related to serving larger customers on the distribution system, and
7 that all customers have the same cost per unit of peak demand.

8 **Q. Please address the issues relating to the allocation of distribution plant costs.**

9 A. The traditional methods for allocating the demand component of electric distribution plant
10 costs are either a peak demand method or the average-and-excess ("A&E") demand method.
11 Under the peak demand method, costs are allocated based on each class's contribution to
12 peak demand. Peak demand methods include coincident peak ("CP"), noncoincident peak
13 ("NCP") and individual customer maximum demand ("ICMD") methods. Under the CP
14 method, costs are allocated based on each class's contribution to a measure of the diversified
15 system peak. For NCP, costs are generally allocated based on the diversified sum of peak
16 demands within each class. For ICMD, costs are allocated based on the undiversified sum
17 of each individual customer's peak demand within each class. For electric utilities,
18 generation and transmission demand-related costs are more commonly allocated using a
19 diversified CP method, whereas distribution costs are more commonly allocated using NCP
20 and ICMD methods.

21 The A&E method allocates demand costs based on a weighted average of "average demand,"
22 which is proportional to annual energy consumption, and "excess demand," which is the
23 difference between peak demand and average demand.

24 In addition, in Pennsylvania and elsewhere, some experts advocate the use of a peak-and
25 average ("P&A") allocation method for demand costs. In this method, costs are allocated
26 based on a weighted average of average demands and peak demands.

27 **Q. What approaches has PCL&P taken with respect to electric distribution plant cost**
28 **classification and allocation?**

1 A. PCL&P proposes to classify all primary voltage distribution plant as 100 percent demand-
2 related. For secondary voltage distribution plant, PCL&P uses a minimum system approach
3 for cost classification.

4 For allocating primary system costs, PCL&P uses a class NCP allocator. For its secondary
5 distribution plant demand-related costs, PCL&P uses a weighted average of the class NCP
6 demand and the sum of individual customer demands.

7 **Q. Do you agree with PCL&P's methods for joint-use distribution plant allocation?**

8 A. In my view, PCL&P's use of a mix of class NCP and individual customer peak demands is
9 a reasonable approach. The Company's methodology is also consistent with Commission
10 precedent.

11 **Q. Turning to a different topic, please comment on PCL&P's electronic payment fees.**

12 A. The Company proposes to include electronic payment fees charged by its third-party vendor
13 in the Company's COSS. Though the Company provided historical data related to this
14 change, it did not indicate where electronic payment fee costs are reflected in the COSS, or
15 explain how those costs are classified and allocated.² I request that the Company provide
16 this information in rebuttal testimony.

17 **Q. Please summarize the results of the Company's COSS if the Commission accepts it
18 without changes?**

19 A. Table IEc-2 below reports revenue-cost ratios at the Company's current and proposed rates
20 for all rates classes. At both current and proposed rates, SC1, SC3, and SC4 are under-
21 recovering costs, while the SC2 classes are over-recovering costs. As I discuss below, a
22 smaller rate increase for SC2 customers, offset by a modest rate increase for the other rate
23 classes, is justified to move revenues more in line with costs for all classes.

24

² OSBA-Pike-Electric-I-4.

Table IEC-2		
Summary of PCL&P Electric COSS: Revenue-Cost Ratios		
	Current Rates	Proposed Rates
SC1: Residential	84.2%	85.9%
SC1: Res. Space/Water Htg.	99.2%	101.0%
SC2-S: C&I Secondary	124.5%	121.9%
SC2-S: C&I Primary	124.0%	121.6%
SC3: Municipal Lighting	56.3%	58.0%
SC4: Private Area Lighting	47.3%	48.7%
Total	100.0%	100.0%
Source: IEC WPI		

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3. Revenue Allocation

Q. What is revenue allocation?

A. Revenue allocation is the assignment of the dollar net increase or decrease to each of the Company’s rate classes in a base rates proceeding. In contrast, rate design determines how the allocated revenue is recovered from individual ratepayers within each class. From a cost recovery standpoint, revenue allocation addresses inter-class cross-subsidization issues, while rate design addresses intra-class cross-subsidization issues.

Q. What are the primary economic and regulatory criteria for revenue allocation?

A. In general, allocated cost is the primary criterion used by regulators in the revenue allocation process. Most utilities and regulators adopt a policy in a base rates proceeding of attempting to move revenues more into line with allocated costs by varying the magnitude of the rate increases for the individual classes. However, regulators also subject the rate increases to other non-cost criteria of ratemaking. Of the traditional rate design criteria, the most common non-cost considerations in the revenue allocation process are:

- The *gradualism* principle (or avoidance of “rate shock”), in which large rate increases for individual customers or classes of customers are avoided; and

- The *value of service* principle, which is often used to mitigate rate increases for customers or customer classes with relatively elastic demand.³

Using these criteria, the utility will develop a proposal for assigning the increase in the revenue requirement among the classes that reflects both cost and non-cost considerations. With this proposal, the COSS can be simulated at both present and proposed rates to evaluate the magnitude of “progress” that has been made toward the policy of achieving cost-based rates. I evaluate progress toward cost-based rates using a revenue-cost ratio methodology.⁴

Q. How does PCL&P proposed to allocate revenues in this proceeding?

A. The Company’s rate panel does not directly explain how it assigns the rate increase among the various rate classes, other than to indicate that it considers allocated costs. However, the specific calculations underpinning the Company's revenue allocation are provided in the "Revenue Allocation" tab in the Pike Electric Rate Design 01-09-25.xlsx worksheet, submitted in response to OSBA-I-15. Based on those calculations, the Company's method appears to be:

- Set the Residential class increase at 32.0 percent, compared to a system average of 29.1 percent, presumably to reflect the above-average class rate of return in the Company’s COSS. The Company limits the maximum revenue increase for any class to 110 percent of the system average. PCL&P explains that “[t]he class base revenue limit of 110 percent was determined to be an appropriate percentage to mitigate the level of increase since the selection of the increase is influenced by several cost results relating to the overall Pike Electric increase coupled with the class revenue required to achieve the overall system and class return.”⁵

³ See, for example, *Principles of Public Utility Rates*, Second Edition, Bonbright, Daniels, Kamerschen, 1988, pages 383 to 387. Note that the criteria in this text apply to the overall development of a utility rate structure. The criteria that I discuss in this testimony are those that apply to the revenue allocation portion of the process, which is only one aspect of the overall development of utility rates.

⁴ See Appendix A.

⁵ OSBA-Pike-Electric-I-15.

- Set the increase for the SC3 and SC4 lighting classes at the system average increase of 29.1 percent.
- Apply the balance of the required increase to the SC2-S and SC2-P rate classes. This remaining balance is split between the SC2-S and SC2-P classes based on the relative increase necessary to achieve cost-based rates.
- This approach results in the revenue allocation shown in Table IEC-3 below.

Table IEC-3				
PCL&P Proposed Revenue Allocation Using PCL&P Filed COSS, \$000				
	PCL&P Current R/C Ratio	Increase (\$000)*	Increase (%)	PCL&P Proposed R/C Ratio
Residential	84.2%	\$826.6	26.9%	85.9%
Residential Heating	99.2%	\$187.5	27.1%	101.0%
Sub-Total Residential (SC1)	86.6%	\$1,000.0	27.0%	88.3%
Small C&I Secondary (SC2-S)	124.5%	\$670.6	21.2%	121.9%
Small C&I Primary (SC2-P)	124.0%	\$119.4	21.2%	121.6%
Municipal Lighting (SC3)	56.3%	\$36.1	32.0%	58.0%
Private Area Lighting (SC4)	47.3%	\$15.9	32.0%	48.7%
Total	100%	\$1,855.9	24.3%	100%
*Excludes revenue increase from change in billing determinants				
Source: IEC WP1				

Q. Do you agree with this approach?

A. In my view, the Company’s revenue allocation is overly biased towards rate gradualism concerns at the expense of making progress toward cost-based rates. The usual “rule of thumb” in Pennsylvania is that rate increases for any individual class should not exceed 1.5 or 2.0 times the system average. PCL&P’s rationale for limiting the rate increase for the SC1 classes to 1.1 times the system average – chosen arbitrarily to mitigate the rate increase for

1 Residential customers – is not convincing.⁶ More importantly, such a low cap limits the
 2 Company’s ability to bring rates more in line with allocated costs.

3 **Q. Please provide your revenue allocation proposal in the event that the Commission**
 4 **approves the Company’s COSS as filed?**

5 A. In that event, I propose that revenues be allocated to move rates into line with allocated costs
 6 for all rate classes, subject to a 1.75 times system average limit on rate increases for all
 7 classes. For the Residential class, I developed the revenue allocation to move the combined
 8 class to a 100 percent revenue/cost ratio, and then assigned the same average increase to the
 9 two sub-classes. I allocate this small shortfall back among the other rate classes based on
 10 each class's revenue requirement. The details supporting this revenue allocation are shown
 11 in IEC WP1 and summarized in Table IEC-4 below.

Table IEC-4				
Proposed Revenue Allocation Using PCL&P Filed COSS, \$000				
	PCL&P Current R/C Ratio	Increase (\$000)*	Increase (%)	PCL&P Proposed R/C Ratio
Residential	84.2%	\$1,289.3	42.0%	96.1%
Residential Heating	99.2%	\$178.6	25.8%	100.0%
Sub-Total Residential (SC1)	86.6%	\$1,467.9	39.0%	96.7%
Small C&I Secondary (SC2-S)	124.5%	\$217.6	8.6%	109.2%
Small C&I Primary (SC2-P)	124.0%	\$48.3	8.6%	108.9%
Municipal Lighting (SC3)	56.3%	\$47.3	42.0%	62.4%
Private Area Lighting (SC4)	47.3%	\$20.8	42.0%	52.4%
Total	100%	\$1,855.9	24.3%	100%
*Excludes revenue increase from change in billing determinants				
Source: IEC WP1				

⁶ Per OSBA-Pike-Electric-I-15: “The resulting overall ROR [rate of return] requested yields a Residential increase of 32% which we believe to be considerable for the Company’s smaller customers. As a result, the proposed limit of 110% was targeted to mitigate the Residential increase which resulted in a minor shift away from unity which was balanced for the relative size of the class increases.”

1 **4. Rate Design for SC2-S**

2 **Q. Please describe the current SC2-S class rate design.**

3 A. The Company’s tariff structure is relatively complicated and consists of a customer charge,
4 three levels of declining-block load factor energy charges, two levels of inclining block
5 demand charges, a separate energy charge for non-demand metered customers, and a
6 separate energy charge for space heating loads (minimum 10 kW installed equipment).

7 Approximately 76 percent of SC2-S revenues at current rates are produced from the load-
8 factor energy charges. The customer charge accounts for about 6 percent, and the blocked
9 demand charges 14 percent. The balance comes from an energy charge for customers with
10 no demand meters, and a special space heating energy rate.

11 **Q. Please describe the Company’s proposed changes to Rate SC2-S.**

12 A. The Company proposes to retain its current basic rate design, but it proposes to apply a
13 modestly higher rate increase to the customer and demand charges than to the load-factor
14 energy charges. The specific proposed changes are shown in Table IEC-5 below.

Table IEC-5			
PCL&P Electric Proposed Rate Design: Rate SC2-S			
	Current	Proposed	Percent
Customer Charge (\$/mo.)	\$17.26	\$21.5	24.6%
First 100 kWh/kW (cents/kWh)	7.91	9.46	19.6%
Next 100 kWh/kW (cents/kWh)	6.55	7.83	19.6%
Over 200 kWh/kW (cents/kWh)	6.43	7.69	19.6%
Demand First 5 kW (\$/kW)	\$1.21	\$1.56	28.9%
Demand Over 5 kW (\$/kW)	\$4.70	\$6.06	28.9%
FTY Class Average (cents/kWh)	8.74	10.59	21.2%
Source: IEC WP1			

15
16 **Q. Do you agree with the Company’s proposed increase to the customer charge, from**
17 **\$17.26 to \$21.5 per month?**

1 A. On a cost basis, the customer charge is consistent with customer costs allocated to the SC2
2 S class.

3 In addition, as I discuss further below, the Company has a very low demand charge for the
4 first 5kW, which benefits the low-usage customers. Some utilities who have a zero or
5 minimal demand charge for the first few kW often try to use the customer charge to recover
6 some of the demand costs related to that block. This is not the case for PCL&P.

7 I conclude that the Company's proposed increase at the full revenue requirement is not
8 unreasonable. I recommend only that if the SC2-S rate class increase is scaled back, that the
9 Company's proposed customer charge increase be similarly scaled back.

10 **Q. Please describe the purpose of the demand charge and the load-factor tariff charges.**

11 A. The demand charge, as its name implies, is generally designed to recover costs that are
12 classified as peak-demand related. However, the peak demand costs in the COSS are based
13 on non-coincident peak class demand, which recognizes some load diversity, whereas
14 demand charges are based on the customer's individual peak billing demand. Thus, there is
15 some mismatch between cost causation recognized in the COSS and the demand charge. The
16 demand charge, of course, provides a strong economic incentive for customers to avoid peak
17 demands and to levelize their load.

18 However, as I explained earlier, the mismatch between billing demand and COSS demand
19 often causes utilities to recover demand-related costs using a combination of the demand
20 charge, based on individual customer peak demands, and an energy charge. In the alternative,
21 the utility may use the load-factor tariff that implicitly incorporates both customer peak
22 demand and energy usage factors. The idea of including an energy component in the tariff
23 is an attempt to recognize that the customer's peak demand may not coincide with the more
24 diversified system demands that cause costs to be incurred (and allocated to the class in the
25 COSS).

26 **Q. Please address the Company's blocked demand charges.**

27 A. The Company has two demand charge blocks. The first 5 kW of billing demand are currently
28 charged a minimal rate of \$1.21 per kW, and billing demand over 5 kW is charged \$4.70 per

1 kW. As I indicated earlier, the demand charge recovers only a relatively small share of SC-
2 2 costs, about 14 percent.

3 At this writing, it is not clear why the Company has a low demand charge for the first 5 kW,
4 since it is not recovering those costs in the customer charge. The Company may be trying to
5 keep per-kWh rates down for the smallest customers, although there is no cost basis for
6 doing so. Also, it is not clear why the Company recovers such a small portion of its
7 distribution costs with the demand charge, particularly in light of the relatively flat structure
8 of the load factor tariff block charges, as discussed below.

9 **Q. Please address the Company's load factor block energy charges.**

10 A. The Company has three load factor blocks split at up to 100 kWh/kW (a 14 percent load
11 factor), 100 to 200 kWh/kW (14 percent to 29 percent load factor) and over 200 kWh/kW.
12 Since the per-kWh charge declines at higher kWh per kW levels, higher load factor
13 customers pay an average per-kWh charge that is higher than lower load factor customers.
14 In that way, the block demand tariff is conceptually similar to a tariff with both demand and
15 energy charges, but it tends to have less extreme impacts for customers with very low load
16 factors. Moreover, the relative impact of peak demand average unit rates is dependent on
17 how steep the decline is for the energy charges. Steeper steps down in energy charges
18 implicitly increase the importance of peak demand in the tariff.

19 Overall, the Company's SC-2 base rate tariff recovers more than 70 percent of distribution
20 costs with an energy charge, despite the fact that energy-related costs represent only a small
21 fraction of distribution base rates costs. Therefore, I conclude that the Company should be
22 moving to increase the relative importance of peak demands in its tariff design for this class.

23 **Q. How should the Company go about increasing the importance of demand in the SC2-S
24 tariff charges?**

25 A. If the Company desires to retain both demand and energy tariffs, I recommend that (a) the
26 spread between the first block and tail block demand charges be gradually reduced, since
27 demand costs are not lower per kW for small customers than larger customers, and (b) the
28 spread between energy tariff rates should be gradually increased, to reflect the fact that the
29 costs being recovered are primarily related to peak demands.

1 **5. Late Payment Plan for the SC2 Class**

2 **Q. Did the Company provide statistics about the number of small business customers that**
3 **have been late on payments and have had services cancelled due to lack of payment?**

4 A. Yes. Per OSBA-Pike-Electric-I-19, PCL&P states that 30 small businesses (out of 106) have
5 been late on payments in the last three years, and that, over the same period, 4 small
6 businesses had their service canceled for lack of payment.

7 **Q. What is the Company's position on implementing a formal late payment plan for small**
8 **businesses?**

9 A. Per OSBA-Pike-Gas-I-20, PCL&P does not have a formal late payment plan for small
10 businesses. The Company may consider developing a plan if shown to be just, reasonable
11 and in the public interest.

12 **Q. Does this conclude your direct testimony?**

13 A. Yes, it does.

APPENDIX A

MEASURES OF PROGRESS TOWARD COST BASED RATES

PENNSYLVANIA UTILITY COST AND REVENUE ALLOCATION

1 **Introduction**

2 The Pennsylvania Commonwealth Court held that cost of service is “the polestar” criterion
3 for assigning a utility rate increase among the various rate classes.⁷ Parties to Pennsylvania base
4 rates proceedings generally agree that this criterion implies that the revenues for each class at the
5 rates approved by the Commission should be closer to allocated costs than the rates in place when
6 the rate case is filed. Thus, parties to the proceeding will typically compare some metric for cost
7 recovery under “proposed rates” with that same metric for cost recovery under “current rates.”
8 This comparison can show (a) *whether* the proposed rates result in class revenues that are closer
9 to allocated costs, and (b) *how much* progress the proposed rates make toward moving class
10 revenues toward allocated costs.

11 While different metrics are used for this analysis, the most common metric in Pennsylvania
12 is the “indexed rate of return” metric (also called the “relative rate of return” or “unitized rate of
13 return” metric). This appendix demonstrates why the indexed rate of return is not a reliable metric
14 for identifying whether proposed rates are closer to allocate costs than current rates, and that even
15 where the indexed rate of return correctly implies that there is progress toward cost-based rates, it
16 is not a reliable indicator of the amount of progress that is achieved.⁸ This appendix also compares
17 the indexed rate of return to three other metrics for evaluating progress toward cost-based rates,
18 namely the dollar subsidy, the rate of return differential, and revenue-cost ratio metrics.

⁷ Lloyd v. Pennsylvania Public Utility Commission, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006).

⁸ This problem with the indexed rate of return metric was identified in OSBA-sponsored testimony at least as early as 1994. This critique has been presented in expert testimony many times since. No credible rebuttal to these basic conclusions has been submitted, but the widespread use of this flawed metric continues.

1 **The Structure of the Cost Allocation Study**

2 The indexed rate of return metric is derived from the method that is most often used for
3 utility cost allocation in Pennsylvania. When a utility or regulator develops a revenue requirement
4 for a test year, it simply sums all of the individual cost items for that year, including operating and
5 maintenance (“O&M”), administrative and general (“A&G”), depreciation, taxes other than
6 income, income taxes and allowed return on rate base. Thus, the objective of a cost allocation
7 study should be to simply allocate each of these cost elements to the various rate classes. Because
8 the allowed return and associated income tax are derived from rate base, the cost allocation study
9 allocates all net plant and other rate base items to the various rate classes, and the return and income
10 taxes can then be allocated in proportion to rate base.

11 Cost allocation studies in Pennsylvania, however, are most often conducted on a class rate
12 of return basis. That is, the cost allocation study calculates a class rate of return by taking revenues,
13 deducting the allocated O&M, A&G, depreciation and taxes other than income, to produce a pre-
14 tax class net income. Income taxes are then most often allocated based on the calculated pre-tax
15 class income, and a net income by class value is derived by difference. The allocated pre-tax and
16 net income figures are thus not a cost of capital, but represent the implied return provided by each
17 class under the revenues (current or proposed) used in the cost allocation study. These net income
18 values are then divided by the allocated rate base, to produce percentage class rates of return.⁹
19 Thus, with this approach to cost allocation, there is a desire by utilities and regulators to develop
20 a metric for evaluating progress toward cost-based rates that is based on the class rates of return
21 produced by the cost allocation study.

22 **Defining Progress Toward Cost-Based Rates**

23 It is not necessarily obvious what it means to “move rates more into line with allocated
24 cost” between current and proposed rates. At the simplest level, one could argue that if the current
25 rate revenues for a particular class are below the allocated cost for that class at the full proposed
26 revenue requirement, any increase in rates will move that class’s revenues closer to allocated cost.

⁹ Some Pennsylvania utilities also calculate cost of service using a “levelized rate of return” method, in which return and income tax costs are allocated such that each class produces the system average rate of return. This approach is arithmetically equivalent to allocating return and income tax costs in proportion to rate base, as described above.

1 However, the objective of this exercise is to measure the progress toward cost-based rates for each
2 rate class compared to that for all of the other classes. Thus, a revenue allocation proposal must
3 be evaluated for its impact on all of the rate classes.

4 Also at the simplest level, of course, a proposed revenue allocation will by definition move
5 rates more into line with allocated cost if each class's revenues are moved exactly to the full
6 proposed allocated cost of service. Or, equivalently, rates are exactly cost-based when each class's
7 revenues are set such that the class produces the system average rate of return. Therefore, there is
8 no question that moving a class exactly to an indexed rate of return of unity (1.0) is necessarily
9 consistent with making rates more cost-based.

10 In many base rate proceedings, however, moving rates fully into line with allocated costs
11 cannot be achieved due to consideration of other rate design factors, most notably "rate
12 gradualism," which serves to limit the increase for any particular class of customers in any rate
13 proceeding, and has the aim of gradually moving rates into line with allocated cost.

14 Thus, in terms of determining whether a particular rate proposal moves rates into line with
15 allocated cost, this appendix takes the position that there is progress toward cost-based rates if the
16 proposed relative rate increases across the various classes, when followed for a number of base
17 rates proceedings (in which there is no change in the relative cost structure), will eventually result
18 in cost-based rates. Thus, for any particular metric, it is important to consider not only the
19 difference between the metric and current rates and proposed rates in one base rates case, but also
20 what that metric will imply going into the next base rates case.

21 As shown further in the numerical example below, this standard for defining progress
22 implies that for classes with revenues below allocated cost at current rates (or, equivalently, with
23 a class rate of return below system average), progress can only be achieved by assigning that class
24 a rate increase above the system average increase. This, of course, is just plain common sense. If
25 a class is under-recovering costs, it should be assigned an above average increase. As shown
26 below, however, the indexed rate of return metric fails at common sense.

The Numerical Example

This appendix takes the approach of defining a specific numerical example, and showing the implications of various different metrics on different rate increase scenarios. The calculations associated with this example are also provided in MS Excel electronic format (WP2), and parties are able to simulate alternative examples to evaluate the rigor of this analysis.

The example attached to this appendix shows the arithmetic impacts of a single two-class utility example under four different rate increase proposals. Each page shows the implications of a different revenue-cost metric, namely the indexed rate of return, dollar subsidy, differential rate of return, the revenue-cost ratio and the normalized revenue-cost ratio.

The example involves two rate classes, A and B, in which each generates the same revenue at current rates, but in which Class A has a moderately higher cost to serve. The four rate increase scenarios are (I) an across-the-board increase in which both classes get the same percentage increase, (II) a scenario with a moderately higher percentage increase for Class B, and (III) a slightly higher percentage increase for Class A, and (IV) a moderately higher percentage increase for Class B.

The common-sense answer is that the across-the-board scenario (I) should show no progress toward cost-based rates, Scenario II should indicate that revenues are moving farther away from costs, and Scenarios III and IV should show that revenues are moving slightly and modestly closer to allocated costs. The discussion of each metric below highlights where the metric produces results that are at odds with these expectations.

To evaluate the question as to whether there is consistent progress toward cost-based rates, the metrics are evaluated at both proposed rates in the “current” base rates proceeding, and for what the values would imply going into the next base rates case after a uniform increase in costs.

The Indexed Rate of Return Metric

The indexed rate of return metric is measured as the class rate of return divided by the system average rate of return, at current and proposed rates. If revenues are fully in line with allocated costs, the class indexed rate of return is unity (1.0). Thus, if a class has an indexed rate

1 of return at present rates that is higher than system average, it is deemed to be over-recovering
2 costs, and conversely, where the indexed rate of is below unity, the class is under-recovering
3 allocated costs.

4 As a standalone measure for relative cost performance, there is nothing wrong with the
5 indexed rate of return metric – for any particular system average rate of return scenario, the farther
6 a class’s indexed rate of return is from unity, the farther it is from allocated costs.

7 Moreover, since an indexed rate of return of unity represents cost-based rates, it is
8 conceptually appealing to conclude that if the indexed rate of return moves closer to unity, there
9 is progress toward cost-based rates. Moreover, it is similarly appealing to conclude that progress
10 toward cost-based rates could be measured by how much closer the index gets toward unity
11 between current and proposed rates. Unfortunately, this intuitive approach fails in the actual
12 arithmetic.

13 Utilities have used this argument for decades in Pennsylvania. While it is not clear why
14 alternative methods have not been adopted, it may be that the metric is attractive to both utilities
15 and regulators in that it tends to show significant progress toward cost-based rates when in fact
16 there is little such progress. This then allows utilities to claim that they are following the cost
17 standard without having to make politically unpopular decisions regarding differentiating rate
18 increases among the various rate classes.

19 When applied in an actual example, the indexed rate of return fails even the simplest test.
20 In the example shown, the current rates class rates of return are 2.50% and 5.71% for Classes A
21 and B respectively, producing indexed rates of return of 0.625 and 1.429 relative to the system
22 average return of 4.00%. When a 30% increase is applied to both classes, the system average rate
23 of return rises to 8.00%, and the class returns rise to 6.25% and 10.00% respectively, yielding
24 indexed rates of return of 0.781 and 1.250.

25 Thus, despite the fact that both classes get the same percentage increase and common sense
26 says that there should be no progress toward cost-based rates, the indexed rate of return metric not
27 only implies that there is progress, but that there is significant progress. The Class A indexed rate

1 of return moves from 0.625 to 0.781, which appears to imply that the class has moved 42 percent
2 of the way to cost-based rates.¹⁰

3 The fallacy of this logic is shown in the implications for the next rate case. When costs
4 increase, the system average rate of return falls back to its lower level and the indexed rate of
5 return metrics all shift farther away from unity. Thus, as shown, an across-the-board increase in
6 the current rate case followed by an across-the-board cost increase for the next case will
7 demonstrate that, in fact, there is no progress toward cost-based rates and the indexed rates of
8 return are right back where they started.

9 The other revenue increase scenarios show similar problems with the indexed rate of return
10 metric. In Scenario II, despite a smaller percentage increase for the higher-cost Class A, the
11 indexed rate of return again implies that there is progress toward cost-based rates, which is
12 obviously nonsense. This is again demonstrated by the implications for the next base rates case,
13 which understandably show that rates are farther out of line than they were going into the current
14 rate case. It is simply unreasonable to believe that assigning larger percentage increases to the rate
15 class that is already over-recovering costs will somehow reduce inter-class subsidies. And yet
16 that is the implication of the indexed rate of return metric.

17 In Scenarios III and IV, the indexed rate of return does produce the correct directional
18 answer, namely that rates are moving more into line with allocated cost. But the indexed rate of
19 return metric implies that both scenarios result in enormous progress toward cost-based rates, when
20 in fact there is relatively little progress, particularly in Scenario III. As shown in the example,
21 despite a small differential in the rate increases, the indexed rate of return implies that revenues
22 have moved 50 percent of the way toward allocated cost. Realistically, however, as shown in the
23 implications for the next base rates case, the actual progress is much lower.

24 Thus, the indexed rate of return metric is a wholly unreliable guide for evaluating progress
25 toward cost-based rates in a utility rate proceeding, because it (a) may show progress toward cost-

¹⁰ “Progress” is measured by how much the metric has moved divided by how far it needs to move to become fully cost-based. Thus, in the residential class example, the index moves from 0.625 to 0.781, a difference of 0.156, compared to moving fully to cost-based rates, which would require the index to move from 0.625 to 1.000, a difference of 0.375. Progress is measured as $0.156/0.375$, or 42 percent.

1 based rates when in fact revenues are moving farther away from costs, and (b) will overstate the
2 magnitude of progress toward cost-based rates when progress is occurring.

3 **The Dollar Subsidy Method**

4 While the indexed rate of return metric is the most common approach used by Pennsylvania
5 utilities, the Commission has also supported the use of the dollar subsidy metric. In an order
6 involving the City of Bethlehem – Water Department, the Commission concluded:

7 "As noted by the OSBA, the proper yardstick for measuring the degree of
8 movement toward cost of service is the change in the absolute level of class
9 subsidies at present and proposed rates."¹¹

10 In the dollar subsidy method, the total cost to provide service is calculated using the method
11 described above, in which each component to cost, including return and income taxes, is allocated
12 to each cost. The difference between current rate revenues and the allocated cost is the dollar
13 subsidy.¹²

14 In allocating the return and income tax costs under the “current rates” evaluation, the values
15 used represent only the return that the utility would achieve and the income taxes that it would
16 incur if it were assigned no rate increase. These values therefore do not represent the utility cost
17 of capital, but simply residual values of what is left from current rate revenues after O&M, A&G,
18 depreciation and other taxes are deducted.

19 When the dollar subsidy metric is applied to the four alternative revenue allocation
20 proposals in the attached example, it implies the following:

- 21 • For the across-the-board increase, the dollar subsidy metric indicates that the dollar
22 value of the revenue-cost difference increases under proposed rates, implying that rates

¹¹ *Pennsylvania Public Utility Commission v. City of Bethlehem -- Water Department*, Docket No. R-2020-3020256, Order entered April 15, 2021, at 36.

¹² This appendix uses the term “subsidy” as the difference between revenues and fully allocated cost in a utility cost allocation study. Theoretical economics generally defines subsidy based on incremental cost concepts, rather than fully allocated cost.

1 are moving farther away from costs. In dollar terms, that conclusion is correct,
2 although in percentage terms the subsidies remain the same.

- 3 • When a larger increase is assigned to Class B, the dollar subsidy metric indicates
4 correctly that rates are moving farther away from allocated cost, and that the problem
5 will be worse with the next base rates proceeding.
- 6 • When a modestly larger increase is assigned to Class A, the dollar subsidy metric
7 implies that there is no progress toward cost-based rates in the current rate proceeding,
8 and that the situation will be worse in the next base rates case. In effect, even though
9 the slightly higher rate increase for Class A will (eventually) lead to cost-based rates,
10 the dollar subsidy method implies that there is no progress.
- 11 • When a materially larger increase is assigned to Class A, the dollar subsidy metric
12 correctly indicates that there is progress toward cost-based rates.

13 Thus, overall, the dollar subsidy metric will tend to slightly understate progress toward
14 cost-based rates, but the distortion is far smaller (and in the opposite direction) of that of the
15 indexed rate of return metric.

16 **The Differential Rate of Return**

17 The differential rate of return metric is similar to the indexed rate of return metric, in that
18 both approaches calculate class rates of return and current and proposed rates, and compares each
19 class's return to the system average. However, where the indexed rate of calculates the *ratio* of
20 class to average return, the differential rate of return calculates the *difference* between class and
21 average rates of return. In the indexed rate of return, cost-based rates are achieved with an indexed
22 rate of return of unity (1.0); for the differential rate of return, cost-based rates are achieved with a
23 differential rate of return of zero.

24 When applied to the four revenue allocation scenarios in the example, the differential rate
25 of return produces results that are nearly the same as the dollar subsidy method. That is, the
26 differential rate of return calculation will slightly understate progress toward cost-based rates, but
27 the results are much less distorted than those from the indexed rate of return metric.

1 **Revenue-Cost Ratio**

2 The revenue cost ratio is similar to the dollar subsidy metric, except rather than taking the
3 difference between revenues and allocated costs, it takes the ratio of revenues to allocated cost.
4 Like the indexed rate of return, cost-based rates are achieved at a revenue-cost ratio of unity (1.0
5 or 100 percent).

6 Unlike the indexed rate of return metric, however, the revenue-cost ratio generally does
7 not distort the implications of a revenue allocation proposal. As shown in the example, in all four
8 revenue allocation proposals, the revenue-cost ratio correctly indicates when there is progress
9 toward cost-based rates and when there is not.

10 The only downside to this unadjusted revenue-cost ratio approach is that the progress
11 toward cost-based rates in the current case is not the same as that going into the next base rates
12 case. This results because the mix of operating costs allocated to each class is different from the
13 mix of rate base costs. This minor distortion is addressed in the final metric below.

14 **Normalized Revenue-Cost Ratio**

15 The normalized revenue-cost ratio makes a technical correction to the revenue-cost ratio
16 metric to reduce the distortion associated with using a non-cost parameter, namely the residual
17 return and income tax costs, as a measure of cost at current rates. This metric uses fully allocated
18 costs including the utility's allowed return on capital as the cost metric at both current and proposed
19 rates. In this metric, however, the revenues at current rates are "normalized" by applying the
20 system average rate increase to each class. Thus, in this metric, the current rates revenue-cost ratio
21 is the revenues that would be earned from each class if an across-the-board rate increase were
22 applied divided by the fully allocated class revenue requirement. This is then compared to the
23 revenue-cost ratio that results from the actual proposed revenue allocation.

24 As shown in the attached example, this metric correctly shows the progress toward cost-
25 based rates in each of the scenarios, and it also correctly predicts what each class's revenue-cost
26 performance will be going into the next base rates case if there is no change in the underlying cost
27 structure.

28

1 **Summary**

2 The indexed rate of return is a metric that has intuitive appeal, in that cost-based rates are
3 achieved when the index is at unity (1.0), and that it would seem therefore that moving the index
4 closer to 1.0 would represent progress toward cost-based rates.

5 Alas, it is not that simple. As shown in the examples attached, and as evidenced in
6 hundreds of utility rate proceedings in Pennsylvania, the indexed rate of return is not a reliable
7 metric for gauging progress toward cost-based rates for any particular revenue allocation proposal.
8 It may give a directionally correct answer, and it may not. And even when it does correctly show
9 progress, it implies that there is much more progress toward cost-based rates than actually exists.

10 Of the five metrics evaluated in this review, the indexed rate of return is the only metric to
11 fail the test and imply that there is progress toward cost-based rates when there is none, and even
12 when rates are moving substantially away from allocated cost.

13 All the other metrics evaluated in this review are superior to the indexed rate of return
14 approach. The dollar subsidy and differential rate of return have a modest disadvantage in that
15 they may imply that there is no progress toward cost-based rates when in fact some small progress
16 is occurring. This is a relatively modest disadvantage since the distortion is much smaller than
17 that in the indexed rate of return, and more so because it will encourage Pennsylvania utilities and
18 regulators to adopt revenue allocation proposals that are more aggressive in moving revenues into
19 line with allocated cost, consistent with the legal standard that cost of service be the polestar
20 criterion.

21 Overall, however, the revenue-cost metric, particularly the normalized revenue-cost
22 metric, does not suffer from the distortions of any of the other methods, and is the most reliable of
23 the methods on offer.

EXHIBIT IEc-1

**RÉSUMÉ AND EXPERT TESTIMONY LIST
FOR
MARK D. EWEN**

Overview

Mr. Ewen has a strong background in applied economics, empirical methodologies, and financial analysis. As a Principal at Industrial Economics, Incorporated (IEc), he focuses on expert case management and economic damages estimation in a variety of litigation contexts, regulatory and environmental economics, and financial analysis. Within his areas of expertise, Mr. Ewen has been qualified as an expert witness before judicial and regulatory bodies (see schedule of testimony and appearances). He has also served as a Managing Director of the firm.

Education

Master of Public Policy, University of Michigan

Bachelor of Arts, summa cum laude in Economics and Political Science, University of North Dakota

Project Experience

Examples of his project work include the following:

Mr. Ewen has participated in various proceedings concerning energy markets and regulated utilities. These efforts, which focus on issues related to cost allocation and rate design, include working on behalf of industry and consumer intervenor groups in rate-making cases before the public utility commissions in Pennsylvania and Alberta, Canada, and the U.S. Postal Rate Commission. For example, for the **Pennsylvania Office of Small Business Advocate**, he has provided consulting and analytic support relating to electricity and natural gas tariff design, revenue requirements, and other regulatory initiatives concerning electrical and natural gas distribution utilities. For the **Rhode Island Attorney General**, Mr. Ewen conducted a due diligence review of PPL's proposed acquisition of Narragansett Electric Company and its potential impacts on the state's ratepayers.

For the **New York State Energy Research and Development Authority (NYSERDA) and Department of Public Service (DPS)**, Mr. Ewen provided expert services assessing the economic impacts to municipal governments of extended electricity outages related to Tropical Storm Isaias. As part of this work, he constructed a model to estimate various costs of incremental staffing requirements for over 500 localities, including excess overtime, surge time (i.e., bringing on extra staff for outage response coordination and logistics), and idle time (e.g., crews waiting extended periods for downed lines to be de-energized). The review also included consideration of other direct costs, including, among others: effects to water systems; delivery of bottled water; operation of generators; and other constraints on the provision of essential governmental services. The litigation was settled to the satisfaction of the involved parties.

For the **NYSERDA and New York DPS**, Mr. Ewen directed the development of a Generic Environmental Impact Statement (GEIS), pursuant to the requirement of the State Environmental Quality Review Act (SEQRA) that assessed the environmental and economic impacts of the "Reforming the

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Energy Vision” and “Clean Energy Fund” initiatives within the state. He also directed the preparation of a Supplemental EIS to assess the environmental and economic impacts of the newly proposed Clean Energy Standard (CES). The CES is being developed to support the state’s goal of supplying 50 percent of electricity demand with renewable generation resources by the year 2030. More recently, he directed the development of a model to assess the financial viability of various waste-to-energy technologies, and related social welfare benefits. This model uses detailed capital budgeting scenarios for specific facilities to generate forecast scenarios.

For the **U.S. Department of the Interior, Bureau of Ocean Energy Management (BOEM)**, directing an assessment of the Bureau’s approach to calculating and presenting the operating fee included in offshore wind leases under BOEM’s jurisdiction. As part of this engagement, IEc provided a number of recommendations for simplifying the implementation of the operating fee formula and identified available data sources and approaches to estimating individual components of the fee formula. The review also addressed the structure and levels of fees associated with operations of renewable wind energy projects in the U.S. and worldwide. More recently, IEc has been supporting the development of Standard Operating Procedures for the fee calculation and lease management process. The overall goal is to provide information resources and a methodological approach that will allow lessees to derive accurate data for fee equation variables efficiently and consistently, and for BOEM to present the fee calculation clearly in the lease.

For **NYSERDA**, conducting a market analysis examining the potential economic development opportunities that could accrue in New York from hydrogen playing a role in achieving components of its Climate Leadership and Community Protection Act.

For the **U.S. Department of the Interior, Bureau of Ocean Energy Management**, managed the development of a model to assess the economic and fiscal impacts of offshore oil and gas activity in the Gulf of Mexico and other BOEM OCS regions. This model, the Lifecycle Impacts Model (LCIM), assesses the economic and fiscal impacts associated with a specific lease or group of leases, over the time horizon of the lease(s). IEc’s framework for the model was to build a capital budgeting forecasting tool for lease development, yielding estimates of industry expenditures, OCS revenues, industry profits, and employment impacts for a single lease or a set of leases. A key component of model development was to dynamically simulate the complex and unique timing parameters of lease development, incorporating the influence of critical exogenous factors like market prices and lease geology.

For the **U.S. Coast Guard, National Pollution Funds Center**, Mr. Ewen provides ongoing support to the NPFC in adjudicating damages claims resulting from oil spills. These claims include damages for business interruption, lost profits, property damage or value diminution, increased costs, and lost wages or employment, among other categories. Cases have also included damages for contract delays to construction projects and shipping demurrage. Industry sectors that Mr. Ewen has evaluated include: *electricity generation (nuclear and coal); railroads; cruise ships; oil ship transport; lodging and tourism; food and beverage; gambling; fisheries; marinas; real estate development, oil and gas development; and oil refining.*

Mr. Ewen's analytic work includes expert financial analysis and economic damages estimation in the context of general litigation and environmental enforcement actions. These efforts include assessing damages in breach of contract, nuisance, and cost recovery actions, and assessing the financial capabilities and economic benefit of noncompliance of firms accused of environmental violations. Clients in this area of his practice include the **U.S. Department of Justice, U.S. Coast Guard, U.S. Environmental Protection Agency, States**, and private parties.

Testimony and Appearances

Mr. Ewen has provided testimony or appeared in the following cases and regulatory proceedings.

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning the distribution system improvement charge (DSIC) case for PPL Electric Utilities Corporation (Docket No. R-2024-3048732, July 2024).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning cost allocation, revenue allocation, and rate design in the base rates case for First Energy of PA (Docket No. R-2024-30447068, June 2024).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning cost allocation, revenue allocation, and rate design in the base rates case for PECO Gas (Docket No. R-2024-3046932, June 2024).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning cost allocation, revenue allocation, and rate design in the base rates case for Columbia Gas of Pennsylvania (Docket No. R-2024-3046519, June 2024).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning the Default Service Plan for PPL Electric (Docket No. P-2024-3047290, June 2024).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning the Default Service Plan for PECO Energy Company (Docket No. P-2024-3046008, April/May 2024).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning recovery of purchased gas costs and revenue sharing for National Fuel Gas Distribution Corporation (Docket No R-2024-3045177, March 2024).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning electricity price hedging under the default service plan for Pike County Light and Power (Docket No. P-2023-3039927; direct testimony June 2023; surrebuttal testimony August 2023).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning base tariff rate development for Columbia Gas of Pennsylvania, including issues of cost allocation, revenue allocation, and rate design. (Docket No. R-2022-3031211, June/July 2022)

On behalf of Attorney General of the State of Rhode Island, submitted testimony before the Rhode Island Division of Public Utilities and Carriers concerning due diligence and related reviews of PPL Corporation's proposed acquisition of Narragansett Electric Company from National Grid USA (Docket No. D-21-09, November 2021).

Expert report and deposition testimony concerning economic damages and related financial matters, *Seaplane Adventures, LLC, vs. County of Marin, California*; expert report filed September 2021, deposition testimony given September 2021.

IEC

Expert reports and deposition testimony on bankruptcy reorganization plan feasibility and related financial matters, *in re: First Energy Solutions Corp., et al., Debtors, Case No. 18-50757*; expert reports filed July 2019, deposition testimony given August 9, 2019.

Expert declaration concerning economic damages and related financial matters, *in re: Outer Banks Power Outage Litigation, all actions, No. 4:17-CV-141-D*, March 2018.

Expert report and deposition testimony on Economic Damages in *State of Alaska v. Williams Alaska Petroleum, Inc., et al., Case No. 4FA-14-01544 CI*; expert report filed December 2016, deposition testimony given February 15, 2017.

Expert reports and deposition testimony on Economic Benefit in *Sierra Club v. Energy Future Holdings Corp. et al., Case No. 5:10-cv-156 (E.D. Tex.)* and *Sierra Club v. Energy Future Holdings Corp. et al., Case No. 6:12-cv-108 (W.D. Tex.)*; expert reports filed in June and July 2013, deposition testimony given August 2013. Trial testimony given in *Case No. 6:12-cv-108 (W.D. Tex.) in March 2014*.

Expert testimony on ability-to-pay provided, in the matter of Mercury Vapor Processing Technologies, Inc., et al. (No. RCRA-05-2010-0015), July 2011.

Expert Declaration in a patent case concerning economic and financial matters in the context of environmental credits valuation -- In re Patent Application of: Jeff Andrienas et al., Application No.: 12/328,219, For: VALUING ENVIRONMENTAL CREDITS, submitted June 2011.

Expert report and deposition testimony on financial matters in *Evansville Greenway and Remediation Trust v. Southern Indiana Gas and Electric Company, Inc., et al. (03:07-cv-0066-SEB-WGH)*; expert report filed July 2009, deposition testimony given January 2010.

Expert testimony on ability-to-pay provided, in the matter of Robert J. Heser, Andrew J. Heser, and Heser Farms (No. CWA-05-2006-0002), May 2007.

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning tariff design issues for Columbia Gas of Pennsylvania (Docket No. R-00049783, May 2005).

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning cost allocation, revenue assignment, and rate design for Pennsylvania Power and Light (Docket No. R-00049255, August 2004).

Expert report on economic damages in *United States v. Southern California Edison No. CIV. F-01-5167 OWW DLB (E.D. Cal.)*, July 2004; deposition testimony provided September 2004.

Expert testimony on ability-to-pay provided in *U.S. v. Peter Thorson, Managed Investments, Inc., Construction Management, Inc., and Gerke Excavating, Inc. (No. 03-C-0074)*, May 2004.

Expert testimony on ability-to-pay provided in *U.S. v. Paul A. Heinrich and Charles Vogel Enterprises, Inc. (No. 03-C-0075-S)*, October 2003.

Expert testimony on ability-to-pay provided in the matter of Dearborn Refining Company (No. RCRA-05-2001-0019), February 2003.

IEc

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning recovery of purchased gas costs and revenue sharing for PFG Gas and Northern Penn Gas (Docket No. R-00027389, July 2002).

Expert report and testimony on economic damages in Carol Marmo et al. v. IBP, Inc.; expert report filed March 2002, deposition testimony given June 2002, September 2004, and testimony at trial given February 2005.

On behalf of Pennsylvania's Office of Small Business Advocate, submitting testimony before the Pennsylvania Public Utility Commission, concerning recovery of purchased gas costs and revenue sharing for National Fuel Gas Distribution Corporation (Docket No. R-00016789, March 2002).

On behalf of the Office of the Consumer Advocate, providing testimony before the United States Postal Rate Commission regarding cost allocation of city carrier street time costs. Docket No. R2000-1, July 11, 2000.

Expert report and declaration on ability-to-pay in re Indspec Chemical Corporation and Associated Thermal Services, Inc., and related testimony in U.S. EPA administrative court on February 24, 1998 (No. CAA-III-086).

Expert report on ability-to-pay in re Harrisburg Hospital and First Capital Insulation, Inc. and related testimony in U.S. EPA administrative court on October 8, 1997 (No. CAA-III-076).

EXHIBIT IEc-2

IEc ELECTRONIC WORKPAPERS

IEc WP1: Cost and Revenue Allocation***

*****Workpapers are in excel format ONLY; therefore, will be served via email ONLY
simultaneous to service of OSBA's Direct Testimony*****

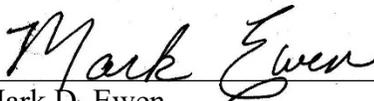
**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket No. R-2024-3052359
	:	
v.	:	
	:	
Pike County Light & Power Company	:	
(Electric)	:	
	:	

VERIFICATION

I, Mark D. Ewen, hereby state that the facts set forth in the Direct Testimony labelled OSBA Statement No. 1 and associated exhibits is true and correct to the best of my knowledge, information, and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: April 2, 2025



Mark D. Ewen

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2024-3052359
	:	C-2025-3053075
v.	:	
	:	
Pike County Light & Power Company	:	
(Electric)	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless otherwise noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

The Honorable Marta Guhl
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Date: April 3, 2025

/s/ Rebecca Lyttle _____

Rebecca Lyttle
Assistant Small Business Advocate
Attorney ID No. 201399



COMMONWEALTH OF PENNSYLVANIA

May 1, 2025

The Honorable Marta Guhl
Administrative Law Judge
Pennsylvania Public Utility Commission
Philadelphia District Office
801 Market Street
Philadelphia, PA 19107

The Honorable Alphonso Arnold III
Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Pike County Light & Power Company
(Electric) / Docket No. R-2024-3052359**

Dear Judge Guhl and Judge Arnold:

Enclosed please find the Rebuttal Testimony of Mark D. Ewen, labelled OSBA Statement No. 1-R, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-referenced proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Rebecca Lyttle

Rebecca Lyttle
Assistant Small Business Advocate
Attorney ID No. 201399

Enclosures

cc: PA PUC Secretary Matthew L. Homsher (Cover Letter & Certificate of Service only)
Mark D. Ewen
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission : **Docket No. R-2024-3052359**
:
: **v.** :
:
: **Pike County Light & Power Company** :
(Electric) :

Rebuttal Testimony

of

MARK D. EWEN

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

**Cost Allocation
Revenue Allocation**

Date Served: May 1, 2025

Date Submitted for the Record: _____

REBUTTAL TESTIMONY OF MARK D. EWEN

1 **1. Introduction and Context**

2 **Q. Please state your name and briefly describe your qualifications.**

3 A. My name is Mark D. Ewen. I submitted direct testimony and associated exhibits on behalf
4 of the Pennsylvania Office of Small Business Advocate (“OSBA”) earlier in these
5 proceedings and my qualifications were presented therein.

6 **Q. What is the purpose of this rebuttal testimony?**

7 A. This rebuttal testimony responds to the following witnesses/topics:

8 Pennsylvania Office of Consumer Advocate (“OCA”) witness Karl R. Pavlovic on matters
9 of cost allocation and revenue allocation.

10 **2. Cost Allocation**

11 **Q. What are the positions of the various parties regarding the appropriate method for**
12 **classifying joint-use distribution plant for this proceeding?**

13 A. The parties’ positions are as follows:

14 • Pike County Light & Power Company Electric Division (the “Company” or
15 “PCL&P”): Proposes to classify all primary voltage distribution plant as 100
16 percent demand-related. For secondary voltage distribution plant (plant accounts
17 364-368), PCL&P uses a minimum system (or minimum-size) approach for cost
18 classification that is consistent with the Company’s method in previous base rates
19 cases. For allocating primary system costs, PCL&P uses a class non-coincident
20 peak (“NCP”) allocator. For its secondary distribution plant demand-related costs,
21 PCL&P uses a weighted average of the class NCP demand and the sum of
22 individual customer demands.

23 • OCA: Witness Pavlovic states that there is no is no basis in theory, system design
24 and operating practice, or empirical quantitative data to support the Company’s use
25 of the minimum-size method to classify as customer-related any portion of its
26 distribution costs in accounts 364-368 in its cost of service study (“COSS”).
27 Witness Pavlovic argues that such costs should be classified as 100 percent

1 demand-related and properly allocated to rate classes using the Company’s demand
2 allocation factors. Based on his simulation of the Company’s COSS with this
3 modification, he offers an alternative revenue allocation.

- 4 • OSBA: I supported the Company’s use of the minimum size classification method
5 in this case.

6 **Q. Witness Pavlovic claims that there is no basis in theory, system design and operation
7 practice for PCL&P to use a minimum size classification method. Do you agree?**

8 A. No. This assertion would only be reasonable if (a) the distribution system never expands
9 to new areas to serve new customers, and (b) the existing distribution system that was
10 expanded to interconnect new customers never needs to be replaced. If the electric
11 distribution system expands into new areas, it will incur additional poles, conductors and
12 transformer costs, some of which are related to the increased demand and some of which
13 are related to the need to interconnect the new customers. Moreover, since much of the
14 existing distribution system was once expanded in a similar manner, i.e. to meet new load
15 and connect new customers, the costs of replacing those assets are similarly related to both
16 demand and customers.

17 In addition, Witness Pavlovic’s assertion does not recognize a second rationale for
18 including a customer component in distribution costs, namely that it is generally less costly
19 per unit of demand to provide service to larger commercial and industrial customers who
20 are often located in narrower geographic areas (i.e., commercial-zoned districts) than it is
21 to provide service to geographically dispersed residential customers. PCL&P made this
22 argument in the 2020 base rates proceeding, recognizing that smaller sized secondary lines
23 are influenced considerably by population density as opposed to the larger primary lines.

24 The Company’s COSS represents continuity with previous methods and analyses that
25 informed revenue allocation. For example, its COSS utilizes the same primary and
26 secondary line separation and minimum system distribution factors as was used in the 2013
27 and 2020 proceedings.¹

¹ See OSBA-Pike-Electric-I-2 and the accompanying “2013 Pike Electric Minimum System Calculations for 365 & 367.xlsx” spreadsheet.

1 **Q. Please comment on Witness Pavlovic’s claim that the Company’s use of the minimum**
2 **system method does not reflect the planning, design, and operation of PCL&P’s**
3 **distribution system.**

4 A. I disagree. In response to OSBA’s interrogatories, the Company provided its analysis in
5 Excel spreadsheet format to develop its minimum system classification factors for
6 secondary system assets. See OSBA-Pike-Electric-I-2. Witness Pavlovic states: “Based on
7 my inspection of PCLP’s response to OCA IR-8-4, the response clearly demonstrates that
8 the number of customers on PCLP distribution system plays no role in the design, planning,
9 and operation of PCLP’s plant recorded in accounts 364-368.”

10 Based on my review of OCA-IR-8-4, I find no evidence that supports Witness Pavlovic’s
11 claim that the demand for energy is the sole cause or driver of costs associated with
12 secondary voltage distribution plant. As part of its response, the Company states that “areas
13 of the system where new customer/load growth have occurred, electric distribution line
14 extensions are required or limited capacity conductors are upgraded to meet the load, and
15 possibly providing alternate electric distribution source under outage conditions.” This
16 indicates that both customer and demand growth drives costs associated with plant
17 accounts 364-368, consistent with the theoretical basis that I discussed above. Further,
18 PCL&P has consistently classified a portion of secondary voltage distribution plant costs
19 as customer-related, which represents additional evidence that the Company considers the
20 number of customers in designing and operating its distribution system.

21 **3. Revenue Allocation**

22 **Q. Do you agree with Witness Pavlovic’s proposed revenue allocation?**

23 A. Witness Pavlovic provides an alternative revenue allocation based on a COSS *without* the
24 minimum size classification. I conclude that Witness Pavlovic’s COSS modifications are
25 not consistent with cost causation. Therefore, Witness Pavlovic’s revenue allocation
26 proposal is not appropriate for this proceeding.

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

28 A. Yes, it does.

**BEFORE THE
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	:	
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	:	
Pike County Light & Power Company	:	
(Electric)	:	

VERIFICATION

I, Mark D. Ewen, hereby state that the facts set forth in the Rebuttal Testimony labelled OSBA Statement No. 1-R is true and correct to the best of my knowledge, information, and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: April 29, 2025



Mark D. Ewen

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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(Electric)	:	

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Date: May 1, 2025

/s/ Rebecca Lyttle

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Assistant Small Business Advocate
Attorney ID No. 201399

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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Date: June 4, 2025

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