



COMMONWEALTH OF PENNSYLVANIA

June 23, 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
(Gas) / Docket No. R-2024-3052357**

Dear Secretary Homsher:

Enclosed please find the Brief in Opposition to the Joint Petition for Non-Unanimous Full Settlement of Gas Base Rate Proceedings,, filed on June 9, 2025, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-referenced proceeding.

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

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Enclosures

cc: Mark D. Ewen
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission : **Docket Nos. R-2024-3052357**
:
: **v.** :
:
: **Pike County Light & Power Company** :
(Gas) :

**BRIEF IN OPPOSITION TO THE JOINT PETITION
FOR NON-UNANIMOUS FULL SETTLEMENT OF
GAS BASE RATE PROCEEDINGS
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

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Date: June 23, 2025

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I. INTRODUCTION

The Pennsylvania Office of Small Business Advocate ("OSBA") respectfully submits this brief opposing the Joint Petition for Non-Unanimous Full Settlement. The proposed settlement imposes an excessive and disproportionate rate burden on SC2 Commercial customers, fails to align with cost-causation principles, and undermines both regulatory precedent and economic equity.

II. SUMMARY OF OSBA'S OPPOSITION

Pike County Light & Power Company ("Pike" or "Company") did not stand by its own cost-of-service study ("COSS") results when it accepted the revenue allocation contained in the proposed settlement. Despite a reduction in the Company's proposed revenue requirement of \$117,000, small business customers would receive a higher rate increase under the proposed settlement relative to the Company's original filing. The proposed settlement imposes a total 75.9% rate increase on the SC2 General Service Commercial and Commercial Space Heating classes over two years, nearly tripling the Company's originally proposed approximate 28% increase at the Company's original revenue requirement. The settlement would unfairly reduce the SC1 Residential class increase from 99.6%, in the Company's original filing, to 75.9%.

SC2 commercial customers, representing just 106 accounts, are subsidizing over 1,100 SC1 residential customers, according to the Company's COSS results; Exhibit G-6, Schedule PMN-2-G shows that the SC2 Commercial classes have index rates of return well above the system average, while the SC1 class has an index rate of return below the system average. OSBA

also calculated revenue-to-cost ratios which confirmed that SC2 customers were over-recovering costs and should therefore receive a rate increase below the system average rate increase.

The proposed allocation violates Pennsylvania Public Utility Commission (“PUC” or “Commission”) standards of fairness under 66 Pa.C.S. § 1301. The Commission has repeatedly warned against rate shock and steep increases that disproportionately harm specific customer classes. It has consistently affirmed that gradualism, fairness, and cost causation must govern rate allocation and design, particularly where vulnerable or minority customer classes, such as small businesses, face stark and disproportionate impacts. The Commission has made clear that revenue allocation must be based on demonstrated cost-to-serve data, not expediency, legacy structures, or settlement convenience and that any burden shifts must be supported by credible, transparent evidence rather than unsupported compromise. These principles are embedded throughout the Commission’s adjudications. Compounding this burden, the increase comes at a time when U.S. inflation remains below 4% (Bureau of Labor Statistics, May 2025), making the 75.9% commercial increase nearly twenty times higher than prevailing economic conditions would support.

The OSBA respectfully urges the Commission to reject the proposed settlement. It lacks factual justification, disproportionately impacts small businesses, contradicts the Company’s own data, and undermines core regulatory principles intended to protect Pennsylvania ratepayers from discriminatory and unsupported utility rate design. Approving this settlement would set a dangerous precedent—signaling that it is acceptable to impose extreme rate increases on small, cost-efficient customer classes without clear justification or long-term public benefit. This would open the door for other utilities to replicate similar inequitable structures, effectively

institutionalizing unfair burden-shifting in future rate proceedings. Such a precedent would erode regulatory integrity and incentivize settlements based on expedient compromise over fair and evidence-based outcomes.

III. STATEMENT OF THE CASE

This proceeding arises from the base rate increase request submitted by Pike County Light & Power Company Gas Division, which was subsequently modified through a Joint Petition for Settlement. The proposed settlement agreement significantly raises rates for SC2 Commercial customers, nearly *tripling* the Company's originally proposed increase and surpassing all reasonable standards of gradualism and fairness. OSBA intervened to represent the interests of small business consumers adversely affected by the proposed rate allocation and structure.

IV. LEGAL STANDARDS

Under 66 Pa.C.S. § 1301, utility rates must be just, reasonable, and non-discriminatory. The burden of proving the reasonableness of proposed rates rests with the utility. Moreover, the Commission has emphasized principles such as cost causation, gradualism, and equity in rate design. In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. PUC, et al. v. The York Water Company*, Docket No. R-00049165 (Opinion and Order entered October 4, 2004); *Pa. PUC v. C. S. Water and Sewer Associates*, 74 Pa. P.U.C. 767 (1991).

V. ARGUMENT

A. Rate Base

The OSBA does not raise specific objections to the Company's calculation of rate base. It concurs with the inclusion of projected plant additions through September 30, 2025, and agrees that TCJA-related balances be properly reflected as deductions.

B. Revenues

1. Small Businesses Are Unfairly Penalized by Inter-Class Subsidization

It is not reasonable for the Company to accept the Office of Consumer Advocate's ("OCA") revenue allocation proposal because it is contrary to its own cost and revenue allocation methodology, which has guided the Company's revenue allocation and rate design in previous base rates proceedings. The OSBA agreed with Pike's original COSS methodology, (see OSBA St. No 1, pp. 3-7 and OSBA St. No. 1-R, pp. 1-4). In direct testimony, OSBA witness Mark Ewen noted that Pike's revenue allocation proposal was broadly consistent with its cost allocation methodology. Notably, Pike defended its COSS methodology in rebuttal testimony yet yielded to OCA during settlement negotiations. (see PCLP Statement No. 1-R, pp. 8-9). Although things change in a settlement, this difference is too big to ignore or accept.

2. Commercial Class Already Paying More Than The Cost To Serve Them

The Company's COSS demonstrates that SC2 Commercial customers have a current revenue-to-cost ratio exceeding 1.6, clearly indicating they are already paying significantly more than the cost to serve them. At the same time, the revenue-to-cost ratio for the SC1 Residential

Heating class is 0.92, indicating under-earning. The index rate of return metric shows the same divergence: the SC2 General Service class has an index rate of return of 4.63 and the SC2 Commercial Space Heating class has an index rate of return of 2.0, compared to the SC1 Residential Heating Class's index rate of return of 0.77 (see Pike Gas Filing, Exhibit G-6, Schedule PMN-2-G). Commercial customers' over-recovery invalidates any economic justification for assigning a uniform 75.9% rate increase to all rate classes. Rather than correcting an under-recovery, the proposed rate shift entrenches a systemic imbalance that penalizes the most cost-efficient customer classes.

The OSBA respectfully requests that the Commission reject this disproportionate shift and adopt a revenue allocation that does not force small businesses to subsidize the residential class.

3. Small Business is Disadvantaged by the Deliberate Allocation Structure

The revenue allocations confirm the structure by which the commercial class bears a significantly larger increase than the residential. This shift was not incidental or the result of modeling error—it was a deliberate allocation choice memorialized in the settlement language and table. This explicit allocation confirms the burden shift and underscores OSBA's concerns regarding disproportionate treatment. These conclusions are supported not only by the revenue allocation table itself but also by the cost-of-service data submitted by Pike, which demonstrates that SC2 Commercial customers already contribute more than their share of revenue relative to cost. (See Pike Gas Filing, Exhibit G-6, Schedule PMN-2-G).

The OSBA respectfully requests that the Commission reject this disproportionate rate increase and adopt a revenue allocation that reflects the Pike’s original COS.

4. Rate Increases Outpace Inflation and Violate Gradualism

With current U.S. inflation holding below 4% as of May 2025 (Bureau of Labor Statistics), the 75.9% increase applied to SC2 Commercial customers is nearly twenty times the rate of inflation. This rate shock is not only economically unjustified but also contrary to long-held Commission principles that caution against sudden and steep increases. It violates the principle of gradualism, which seeks to implement changes incrementally to avoid disrupting economic stability for ratepayers.

The OSBA respectfully requests that the Commission reject this settlement as small businesses cannot afford to pay increased rates that are twenty times the rate of inflation.

5. Preferential Treatment for Residential Class

Despite being under-recovering in relation to their cost-to-serve ratio (i.e., less than 1.0), the SC1 Residential class actually received a *reduction* in its proposed rate increase from 99.6% in the Company’s filing to 75.9% under the proposed settlement. In contrast, the SC2 Commercial class—already over-recovering—saw its increase surge to 75.9%. This inverse relationship between cost recovery and rate increase clearly favors the residential class and burdens the commercial class.

This outcome occurred despite the SC2 Commercial class already over-recovering their cost-to-serve, as confirmed by the Company’s cost-of-service study, which shows a revenue-to-

cost ratio exceeding 1.6 for SC2 Commercial customers, indicating that they are already paying well above what is needed to cover their cost to serve. The result is that a smaller, more cost-efficient class is subsidizing a much larger residential class, without any cost-based or evidentiary justification. Notably, the SC1 Residential class was under-recovering relative to cost yet received a substantial reduction in their proposed rate increase under the settlement, from 99.6% to 75.9%, despite their cost-to-serve ratio being below unity. This preferential treatment for a class already contributing less than its share directly contradicts foundational cost-causation principles and shifts a disproportionate burden onto the 106 commercial customers who were already overpaying.

The OSBA respectfully requests that the Commission not give preferential treatment to the Residential class and instead reject this settlement.

C. Settlement Fails the "Just and Reasonable" Standard

The proposed settlement, as it pertains to SC2 Commercial customers, fails the legal requirement that rates be "just and reasonable" under 66 Pa.C.S. § 1301. The allocation of a 75.9% increase to a small and already overpaying customer class—without cost justification or economic relief—violates long-standing Commission precedent prioritizing fairness, gradualism, and cost-causation. The Commission has consistently reaffirmed that revenue allocation must be grounded in demonstrable cost data, not expedient compromise. In contrast to these standards, the settlement imposes economic shock on SC2 Commercial customers and insulates residential customers from appropriate levels of cost recovery, absent credible explanation or justification in the record. This imbalance undermines the core legal requirement that all rates must be lawful, non-discriminatory, and firmly based on cost-of-service results.

The Office of Consumer Advocate supports the settlement while failing to challenge the inequitable burden placed on SC2 Commercial customers. In contrast, the OSBA contends that the settlement cannot be considered just and reasonable under 66 Pa.C.S. § 1301, given its significant deviation from cost-of-service results and disproportionate impact on small businesses. The absence of meaningful opposition from the OCA underscores the necessity of the Commission's independent scrutiny and intervention to ensure fair treatment for all ratepayers.

The following chart demonstrates the stark redistribution of rate increases under the proposed settlement. While Residential customers saw a substantial decrease, Commercial customers face a tripling of their rate increase.

Chart: Comparison of Rate Increases for Residential and Commercial Customers

Customer Class	Original Proposed Increase \$942,350 Revenue Requirement	Settlement Allocated Increase \$825,000 Revenue Requirement
SC1 Residential	99.6%	75.9% Original <i>Decreased</i> by 23.8 %
SC2 Commercial	27.7.0%	75.9% Original <i>Increased</i> by 170.3 %

This table underscores the inequity in the Company's rate allocation. While SC1 Residential customers—numbering over 1,100 accounts, received a substantially reduced increase, SC2 Commercial customers—of which there are only 106, were assigned a 75.9% increase under the settlement, nearly three times higher than the Company's originally proposed 27.7% increase.

D. Expenses

OSBA notes that OCA's passive acceptance fails to examine whether costs disproportionately impacting small businesses are warranted. Transparency around programmatic and electronic payment fees remain insufficient, risking unaccounted burdens on SC2 Commercial consumers.

E. Taxes

OSBA supports proper reflection of Protected and Non-Protected TCJA balances as deductions in accordance with amortization schedules.

F. Rate of Return

OSBA does not contest the proposed weighted average rate of return of 8.59% at this time, but notes that the Company has committed to presenting expert testimony on equity return in its next rate case.

G. Rate Structure and Design

The OSBA accepts the peak demand method with a customer component for main classification, consistent with prior Commission precedent. However, the resulting rate design places a disproportionate burden on SC2 Commercial customers. Despite already over-recovering, this class is subject to significantly higher charges, contradicting cost-causation principles. (See Direct Testimony Pike Gas 040325, pp. 6–8).

H. Alternative Ratemaking

OSBA supports the withdrawal of the Weather Normalization Adjustment (“WNA”) proposal in this proceeding. It reserves the right to evaluate any future WNA filings on their individual merits.

I. Class Customer Service And Assistance Are Not Equal

The OSBA notes a history of late payments and disconnections among SC2 Commercial customers—30 of 106 customers were late within the last three years, with four disconnections. The Company currently lacks a late payment program tailored to small businesses. OSBA encourages the Commission to require the implementation of such a plan.

J. Tariff Issues

No additional tariff concerns beyond those addressed in rate design and allocation.

K. Miscellaneous Issues

OSBA supports the provision to keep the DSIC at 0% until net plant thresholds are met.

VI. CONCLUSION

The Settlement imposes unprecedented burdens on SC2 Commercial customers, contradicts cost-of-service findings, violates principles of gradualism, and fails to deliver affirmative public benefit. The OSBA respectfully requests the Commission:

1. Reject the proposed revenue allocation and SC2 General Service Commercial and Commercial Space Heating rate increases;
2. Require a reallocation consistent with cost-causation and gradualism;
3. Direct that future filings include detailed impact analysis on all customer classes; and
4. Affirm its duty to ensure just and reasonable rates for all customer classes, especially where legislative protections are lacking.

Respectfully submitted,

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DATE: June 23, 2025

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2024-3052357
	:	C-2025-3052972
v.	:	
	:	
Pike County Light & Power Company	:	
(Gas)	:	

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).

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