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March 3, 2021

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA ELECTRONIC FILING

RE: Pennsylvania Public Utility Commission v. PECO Energy Company; Docket No. R-2020-3018929

Dear Secretary Chiavetta:

Attached for filing with the Pennsylvania Public Utility Commission is the Main Brief of the Philadelphia Area Industrial Energy Users Group ("PAIEUG") in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to these proceedings are being duly served via email only due to the current COVID-19 pandemic. Upon lifting of the aforementioned Emergency Order, we can provide parties with a hard copy.

Very truly yours,

McNEES WALLACE & NURICK LLC

By Charis Mincavage

Charis Mincavage

Counsel to the Philadelphia Area Industrial Energy Users Group

Attachments

c: Deputy Chief Administrative Law Judge Christopher P. Pell (via E-Mail)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of Section 1.54 (relating to service by a participant).

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Dated this 3rd day of March, 2021, in Harrisburg, Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2020-3018929
	:	
PECO Energy Company	:	

MAIN BRIEF OF THE
PHILADELPHIA AREA INDUSTRIAL ENERGY USERS GROUP

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GlaxoSmithKline
Merck & Co., Inc.
Saint Joseph's University
Thomas Jefferson University

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Dated: March 3, 2021

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I. INTRODUCTION

A. Description of Company

PECO Energy Company ("PECO" or "Company") provides natural gas service to approximately 534,000 retail customers and provides transportation service to approximately 1,800 Large Commercial and Industrial ("C&I") customers. PECO's natural gas service territory is located throughout a 1,900 square-mile area in southeastern Pennsylvania and comprises all or portions of Bucks, Chester, Delaware, Montgomery, and Lancaster Counties. PECO's total population served is approximately 2.5 million people.

B. Procedural History

On September 20, 2020, PECO filed with the Pennsylvania Public Utility Commission ("PUC" or "Commission") Tariff Gas – Pa. P.U.C. No. 4 ("Tariff No. 4"), requesting approval of an overall base rate increase of approximately $68.7 million over its present revenues, to become effective on November 29, 2020.[1]

On November 5, 2020, the Philadelphia Area Industrial Energy Users Group ("PAIEUG") filed a Complaint in this proceeding. PAIEUG is an *ad hoc* group of energy-intensive customers receiving transportation-related services from PECO, including service under Rate TS-I (Gas Transportation Service – Interruptible) and Rate TS-F (Gas Transportation Service – Firm). PAIEUG's membership is set forth on the cover of this Main Brief.

By Order entered October 29, 2020, the Commission suspended Tariff No. 4 by operation of law until June 29, 2021, and instituted an investigation into the lawfulness, justness and reasonableness of PECO's proposed Rate Case Filing. Additionally, the Commission assigned this proceeding to Deputy Chief Administrative Law Judge ("ALJ") Christopher P. Pell for the

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[1] *PECO Energy Company – General Base Rate Filing for Gas Operations*, Docket No. R-2020-3018929 (filed Sept. 30, 2020) ("Rate Case Filing").

purposes of scheduling hearings and the issuance of a Recommended Decision ("R.D."). On November 9, 2020, Deputy Chief ALJ Pell convened a Prehearing Conference, in which the procedural schedule for this proceeding was developed.

On September 20, 2020, PAIEUG received the Company's Direct Testimony. Pursuant to the procedural schedule, on December 22, 2020, PAIEUG submitted Direct Testimony and received Direct Testimony from the following parties: Office of Consumer Advocate ("OCA"); Office of Small Business Advocate ("OSBA"); Bureau of Investigation and Enforcement ("I&E"); and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA").

On January 19, 2021, PAIEUG submitted Rebuttal Testimony and received Rebuttal Testimony from the Company, OCA, and OSBA. On February 9, 2021, PAIEUG received Revised Rebuttal Testimony from the Company. On that same date, PAIEUG submitted Surrebuttal Testimony and received Surrebuttal Testimony from the following parties: OCA; OSBA; I&E; and CAUSE-PA.

Evidentiary hearings were held in this proceeding on February 17, 2021, for the purposes of presenting testimony and performing cross-examination. During the hearings, the parties confirmed the process for submitting briefs. Pursuant to the remaining procedural schedule, PAIEUG submits this Main Brief to address certain issues raised in this proceeding.

C. Overview of PECO's Filing

PECO is seeking approval of an overall base rate increase of approximately $68.7 million over its present revenues, to become effective on November 29, 2020. This request would translate to a system average increase of 17.5%. Additionally, PECO is not proposing any alternative ratemaking methods. Furthermore, PECO is proposing to continue collecting Universal Service Program costs from Residential customers only.

D. Burden of Proof

Section 332(a) of the Public Utility Code, 66 Pa. C.S. § 332(a), provides that the proponent of a rule or order has the burden of proof. Under Section 315, "[i]n any proceeding… involving any proposed or existing rate of any public utility… the burden of proof to show that the rate involved is just and reasonable shall be upon the utility."[2] As the proponent of a changes to its rates, terms and conditions of service for customers, PECO bears the burden of proof in this proceeding and, therefore, the duty to establish facts by a "preponderance of the evidence."[3] Additionally, any finding of fact necessary to support the Commission's adjudication must be based upon substantial evidence.[4] More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established.[5]

II. SUMMARY OF ARGUMENT

As set forth more fully in this Main Brief, PECO has a requested a rate increase of $68.7 million. In reviewing this request, the Commission must consider the unique circumstances the COVID-19 pandemic has affected with respect to changes in service, market forces, and the economy. Specifically, the PUC should review PECO's proposed requested rate increase in combination with the counter-arguments set forth by the OCA, OSBA and I&E and in light of the unique circumstances present today. Only in doing so can the PUC ensure that PECO's resulting rates are just, reasonable, and appropriate for all customers.[6]

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[2] *Id*. § 315(a).
[3] *Se-Ling Hosiery, Inc. v. Margulies*, 70 A.2d 854 (Pa. 1950); Samuel J. Lansberry, Inc. v. Pa. P. U. C., 578 A.2d 600 (Pa. Cmwlth. 1990).
[4] 2 Pa. C.S. §704; *Mill v. Pa. P. U. C.*, 447 A.2d 1100 (Pa. Cmwlth. 1982); *Edan Transportation Corp. v. Pa. P.U.C.*, 623 A.2d 6 (Pa. Cmwlth. 1993).
[5] *Norfolk and Western Ry. v. Pa. P. U. C.*, 413 A.2d 1037 (Pa. 1980); *Erie Resistor Corp. v. Unemployment Compensation Bd. of Review*, 166 A.2d 96 (Pa. Super. 1960); *Murphy v. Commonwealth, Dept. of Public Welfare, White Haven Center*, 480 A.2d 382 (Pa. Cmwlth. 1984).
[6] *See* Section III, *infra*.

Assuming *arguendo* that the Commission determines PECO should receive a rate increase in this proceeding, PECO's proposed use of the A&E methodology provides the most appropriate basis for determining class revenues and costs to serve. Conversely, the proposals by the OCA and OSBA to change and/or modify this methodology must be rejected, as these changes and modifications would be in direct contradiction with the manner in which PECO designs its system and incurs distribution main costs.[7]

Conversely, PECO's proposed revenue allocation of any resulting rate increase must be rejected. While PECO proposes to move all other classes closer to their cost to serve, Rate TS-F, which is already above its cost to service, would be moved farther away from cost under PECO's proposal. Rather, PAIEUG's proposed rate allocation appropriately moves all customer classes, including TS-F, closer to their cost to serve while also recognizing the parameters implemented in PECO's previous base rate proceedings. To that end, if PECO is granted less than its requested rate increase, a proportionate scale back based upon PAIEUG's rate allocation would be the most just and reasonable basis upon which to allocate any rate increase among the classes.[8]

In addition, Rates TS-F and TS-I currently include different volumetric charges for customers using above and below 18 mmcf of natural gas per year. As part of this proceeding, OSBA seeks to modify this differential between the classes, however, neither OSBA nor PECO provide the appropriate analysis to support this change. Moreover, because this change could result in larger customers facing significant rate shock (*i.e.*, upwards of 50%), the PUC should not consider such a change until at least PECO's next base rate proceeding, at which time all parties

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[7] *See* Section X.A., *infra*.
[8] *See* Section X.B., *infra*.

should be given ample opportunity to review the information needed to determine if or to what degree a change in the differential would be just and reasonable.[9]

Finally, although PECO does not propose any changes in its current allocation of Universal Service Program costs, both OCA and CAUSE-PA seek to allocate these costs to all customers. Because such allocation would run afoul of cost causation principles, not provide any direct benefit for non-residential customers, compound the economic hardships currently facing Large C&I customers, and ignore recent PUC precedent, the OCA and CAUSE-PA's proposal must be rejected. Rather, the PUC should allow for the status quo to continue with respect to the allocation of these USP costs on PECO's system.[10]

III. OVERALL POSITION ON RATE INCREASE REQUEST

In this proceeding, PECO is seeking to increase its natural gas revenues by $68.7 million. While PAIEUG did not present any testimony on this specific issue, PAIEUG recognizes that several other parties, including the OCA, OSBA, and I&E, have raised significant concerns regarding whether such an increase is appropriate. Specifically, these parties have questioned, among other things, whether PECO's proposed Return of Return, Return on Equity, and claimed expenses are appropriate, especially in light of the on-going COVID-19 pandemic.[11] PAIEUG agrees that the PUC must fully review PECO's request, including the issues raised by I&E, OCA, and OSBA to ensure that any rate increase request is just and reasonable.

Moreover, as noted by the PUC recently, the Commission has broad discretion in determining whether rates are reasonable, and the Commission is vested with the discretion to

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[9] *See* Section X.D.2.c., *infra*.
[10] *See* Section X.C., *infra*.
[11] *See* Bureau of Investigation and Enforcement Statement No. 1, *Direct Testimony of D.C. Patel* ("I&E Statement No. 1"), pp. 3-4; Office of Small Business Advocate Statement No. 1, *Direct Testimony of Robert D. Knecht* ("OSBA Statement No. 1"), pp. 6-14; Office of Consumer Advocate Statement No. 1, *Direct Testimony of Scott Rubi*n ("OCA Statement No. 1"), pp. 8-26

decide what factors it will consider in setting or evaluating a utility's rates.[12] To that end, the Commission is permitted to consider and weigh important factors in setting rates, including quality of service, gradualism, and rate affordability.[13] Accordingly, PAIEUG submits that the Commission must consider the unique circumstances the COVID-19 pandemic has effected with respect to changes in service, market forces, and the economy.[14] Specifically, the PUC should review PECO's proposed requested rate increase in combination with the arguments set forth by the OCA, OSBA and I&E and in light of the unique circumstances present today. Only in doing so can the PUC ensure that PECO's resulting rates are just, reasonable, and appropriate for all customers.

IV. RATE BASE

A. Fair Value

PAIEUG offers no position on this issue at this time.

B. Utility Plant in Service

PAIEUG offers no position on this issue at this time.

C. Depreciation Reserve – Annual/Accumulated

PAIEUG offers no position on this issue at this time.

D. Additions to Rate Base

PAIEUG offers no position on this issue at this time.

1. Projected Plant Additions

PAIEUG offers no position on this issue at this time.

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[12] *Pa. Pub. Util. Comm'n v. Columbia Gas of Pennsylvania, Inc.*; Docket No. R-2020-3018835 (Opinion and Order dated Feb. 19, 2021), p. 44 ("*Columbia*").
[13] *Id*. at 48.
[14] *Id.*

2. Pension Asset

PAIEUG offers no position on this issue at this time.

3. Uncontested Items

PAIEUG offers no position on this issue at this time.

E. Conclusion

V. REVENUES

A. Forfeited Discounts

PAIEUG offers no position on this issue at this time.

VI. EXPENSES

A. Payroll and Payroll Related Expense

PAIEUG offers no position on this issue at this time.

B. Contracting and Materials Expense

PAIEUG offers no position on this issue at this time.

C. Outside Services (including Exelon Business Service Company Charges)

PAIEUG offers no position on this issue at this time.

D. Other Post-Employment Benefits Expense

PAIEUG offers no position on this issue at this time.

E. Costs to Achieve Exelon/PHI Merger

PAIEUG offers no position on this issue at this time.

F. Regulatory Commission Expense (General Assessments)

PAIEUG offers no position on this issue at this time.

G. Research and Development Expenses

PAIEUG offers no position on this issue at this time.

H. Employee Activity Costs

PAIEUG offers no position on this issue at this time.

I. Travel, Meals and Entertainment

PAIEUG offers no position on this issue at this time.

J. Membership Dues

PAIEUG offers no position on this issue at this time.

K. Injuries and Damages

PAIEUG offers no position on this issue at this time.

L. Property Taxes

PAIEUG offers no position on this issue at this time.

M. Energy Efficiency and Conservation Program Costs

PAIEUG offers no position on this issue at this time.

N. Rate Case Expense Normalization

PAIEUG offers no position on this issue at this time.

O. Regulatory Initiatives

PAIEUG offers no position on this issue at this time.

P. Manufactured Gas Plant Remediation Expense

PAIEUG offers no position on this issue at this time.

Q. Depreciation Expense

PAIEUG offers no position on this issue at this time.

VII. TAXES

PAIEUG offers no position on this issue at this time.

VIII. RATE OF RETURN

A. Introduction

Per below, PAIEUG offers no position on this issue at this time.

B. Capital Structure

PAIEUG offers no position on this issue at this time.

C. Cost of Long-Term Debt

PAIEUG offers no position on this issue at this time.

D. Common Equity Cost Rate

PAIEUG offers no position on this issue at this time.

E. Business Risks and Management Performance

PAIEUG offers no position on this issue at this time.

F. Other Parties' Equity Cost Rate Recommendations and Principal Areas of Dispute

PAIEUG offers no position on this issue at this time.

IX. CUSTOMER PROGRAMS AND MISCELLANEOUS ISSUE(S)

A. Recommendations Related to the COVID-19 Emergency

PAIEUG offers no specific recommendations related to the COVID-19 emergency at this time.

B. Universal Service Programs

PAIEUG offers no position on this issue at this time.

C. Neighborhood Gas Pilot Rider

PAIEUG offers no position on this issue at this time.

D. Energy Efficiency and Conservation Programs

PAIEUG offers no position on this issue at this time.

E. Quality of Service

1. Distribution Integrity Management Program

PAIEUG offers no position on this issue at this time.

2. Leaks and Excavation Damage

PAIEUG offers no position on this issue at this time.

X. RATE STRUCTURE

A. Cost of Service

1. PECO Revised Gas Cost of Service Study

PAIEUG supports the Company's class cost of service study ("CCOSS") and agrees that it should be used to inform class revenue allocation in this proceeding.[15] The purpose of a CCOSS is to assign a Natural Gas Distribution Company's ("NGDC's") revenue requirement to rate classes to cover the costs associated with the NGDC serving that rate class.[16] As the "polestar" of utility ratemaking, cost of service provides the basis for allocating revenue to rate classes.[17] Revenue allocation is not an exact science, which results in parties proposing different CCOSS approaches.[18] The primary objective of a CCOSS, however, is to allocate costs in the manner they are incurred consistent with cost causation principles.[19]

As part of its Rebuttal Testimony, PECO submitted a revised CCOSS, which corrected an error related to each class's proposed relative rate of return ("ROR") within the original study.[20]

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[15] PAIEUG Statement No. 1, *Direct Testimony of Billie S. LaConte*, ("PAIEUG Statement No. 1"), pp. 3-4; *see also* PECO Exhibit JD-6R. After submitting Direct Testimony, PECO modified its original CCOSS and circulated its revised CCOSS to parties through discovery and with Rebuttal Testimony. References to PECO's CCOSS in this Main Brief are referring to PECO's revised CCOSS.
[16] PAIEUG Statement No. 1, p. 3.
[17] *Lloyd v. Pa. Publ. Util. Comm'n*, 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006) ("*Lloyd"*).
[18] *Colorado Interstate Gas Co. v. Fed. Power Comm'n*, 324 U.S. 581, 589 (1945).
[19] *See id*.; see also Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp., Docket No. R-2010-2161694 (Opinion and Order dated October 15, 2010), p. 63; *see also Pa. Pub. Util. Comm'n v. Metro. Edison Co. and Pa. Elec. Co.*, Docket Nos. R-00061366 and R-00061367 (Opinion and Order dated Jan. 11, 2007), p. 234.
[20] PECO Statement No. 6-R, *Rebuttal Testimony of Jiang Ding*, ("PECO Statement No. 6-R"), p. 3.

As part of the CCOSS, the Company: (a) determined the function of each component of its distribution system (*e.g.*, distribution, production, storage, commodity, meter, customer accounts, etc.); (b) classified the costs associated with each component based on how they are incurred (*e.g.*, capacity, customer-related, commodity, etc.); and, finally, (c) allocated the costs among the rate classes based on how each rate class contributes to those costs based on the demands, load profiles, and usage characteristics of the classes.[21] PECO was able to directly assign some costs, including a small portion of mains costs, to the classes who are served by those mains and therefore, who caused the costs associated with those mains to be incurred. The vast majority of PECO's operating costs, however, are jointly incurred by multiple customer classes, and the CCOSS identifies how to apportion these costs among the different classes.[22] PAIEUG reviewed PECO's revised CCOSS and generally agrees that PECO's approach was reasonable and consistent with cost causation principles.[23]

As part of the CCOSS, PECO classifies and allocates its distribution mains using the average and excess ("A&E") methodology.[24] The A&E methodology uses a class's average demand (*i.e.*, average throughput) and a class's excess demand, which add together to equal the class's peak demand, to determine the appropriate class allocation of distribution main costs.[25] Specifically, the percentage of mains equal to the system load factor is allocated based on average demand.[26] The remaining mains are allocated based on excess demand, which represents the difference between peak demand and average demand.[27]

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[21] PECO Statement No. 6, *Direct Testimony of Jiang Ding*, ("PECO Statement No. 6"), pp. 8-10.
[22] PECO Statement No. 6, p. 11.
[23] PAIEUG Statement No. 1, p. 3.
[24] PECO Statement No. 6, p. 13.
[25] PECO Statement No. 6-R, p. 6.
[26] *Id.*
[27] *Id.*

The A&E methodology is reasonable and consistent with cost causation principles because it aligns with the manner in which PECO designs its system and incurs distribution main costs. The Company's distribution mains are "designed to meet system peak demands on a design day that all firm customers can be served."[28] Although daily throughput often does not reach peak demand, the system must be designed and constructed as if peak demand could be reached on any given day.[29] PECO only incurs distribution main-related costs when it needs to expand or upgrade the distribution system as a result of potential peak operating conditions.[30] Therefore, peak demand is the driver of main costs, while average demand or throughput is simply a byproduct.[31] Applying a weighting based on PECO's system load factor, which results in a higher percentage of mains being allocated based on excess demand and a lower percentage of mains being allocated based on average demand, recognizes that peak demand is the driver of main costs.[32] Allocating main costs based on a class's contribution to peak demand (or average plus excess demand), including a system load factor weighting, is consistent with cost causation principles because main costs are being allocated based on how they are incurred by PECO.

The A&E methodology has been endorsed by the American Gas Association and the National Association of Regulatory Utility Commissioners ("NARUC"); is commonly used by NGDCs in Pennsylvania; and has been approved by the PUC to allocate distribution mains.[33]

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[28] *See* PECO Statement No. 6-R, p. 7.
[29] PAIEUG Statement No. 1-R, *Rebuttal Testimony of Billie S. LaConte*, ("PAIEUG Statement No. 1-R"), p. 4.
[30] *See* PECO Statement No. 6-R, p. 7.
[31] *Id.*; *see also* PAIEUG Statement No. 1-R, p. 4.
[32] PAIEUG Statement No. 1-R, p. 4; *see also* PECO Statement No. 6-R, p. 7 ("It is inappropriate and in conflict with cost causation principles to treat the cost of excess capacity as an incremental cost instead of the primary cost driver.")
[33] PECO Statement No. 6-R, p. 6; PAIEUG Statement No. 1-R, pp. 4-5; *Pa Pub. Util. Comm'n v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Opinion and Order dated Feb. 8, 2007), pp. 176-178; *Pa Pub. Util. Comm'n v. Phila. Gas Works*, Docket No. R-00061931 (Opinion and Order dated Sept. 28, 2007); *see generally Pa Pub. Util. Comm'n v. PECO Energy Company*, Docket No. R-2010-2161592 (Opinion and Order dated Dec. 16, 2010); *Pa Pub. Util. Comm'n v. Philadelphia Gas Works*, Docket No. R-2020-3017206 (Opinion and Order dated Nov. 19, 2020); *Pa Pub. Util. Comm'n v. UGI Central Penn Gas, Inc.*, Docket No. R-2010-2214415 (Recommended Decision dated Jul. 15, 2011).

Similarly, PECO's use of system load factor as part of the A&E methodology for the weighting of average demand also represents common industry practice and is consistent with Commission precedent.[34]

In this proceeding, PAIEUG, I&E, and OSBA[35] support PECO's CCOSS and PECO's use of an A&E methodology. Accordingly, the Commission should approve PECO's proposed A&E methodology because it is based on cost causation, aligns with how PECO designs and incurs costs related to its distribution system, and is consistent with Commission precedent and industry standards.

2. Opposing Party Recommendations

OCA is the only party to this proceeding that challenges PECO's use of the A&E methodology. OCA suggests that a different methodology, the peak and average ("P&A") methodology be used instead of the A&E methodology, including a 50% weighting for the peak and average demand components.[36] Given the united support for the A&E methodology among the other parties, OCA's proposed P&A methodology should be rejected. In addition, while OSBA agrees that the A&E methodology is reasonable, OSBA initially recommended that PECO apply a 50% weighting to average and excess demand rather than weighting based on system load factor.[37] For the following reasons, each of these proposals should be rejected in favor of the Company's proposed methodology.

[34] PAIEUG Statement No. 1-R, pp. 4-5; *Pa Pub. Util. Comm'n v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Opinion and Order dated Feb. 8, 2007), p. 176 ("PPL Gas used and average and excess (A&E) method to allocate demand costs. The Company allocated 40% of demand costs based upon commodity usage and 60% based on excess demand (demand in excess of average demand) PPL Gas stated that the 40% for commodity was based upon system average load factors for 2004 and 2005 of 39.1% and 39.8% respectively….The excess demand was allocated using non-coincidental peak factors for each classification.").
[35] As discussed further below, OSBA initially supports an A&E methodology using a 50% weighting, but in Surrebuttal Testimony, OSBA offers an alternative A&E methodology similar to PECO's. OSBA Statement No. 1-S, *Surrebuttal Testimony of Robert D. Knecht*, ("OSBA Statement No. 1-S"), p. 6.
[36] OCA Statement No. 4, *Direct Testimony of Glenn A. Watkins* ("OCA Statement No. 1"), p. 21.
[37] OSBA Statement No. 1, p. 24.

The allocation of distribution mains is commonly the subject of debate in utility base rate proceedings because the chosen allocation methodology can have a significant impact on how costs are allocated among the classes. Although the A&E and the P&A methodologies are the only two methodologies at issue in this proceeding, a few other methodologies are also used to allocate distribution main costs. OCA identifies the customer/demand methodology, which evaluates both customer count and peak demand, as another allocation methodology used in the natural gas industry.[38] A customer/demand methodology is different from the A&E and P&A models because it considers customer count by class when allocating distribution main costs rather than only considering class demand.[39] Proponents of a customer/demand methodology argue that the methodology is reasonable because a portion of main costs are incurred per customer, such as the costs associated with connecting individual customers to the system.[40] A customer/demand methodology often results in a lower revenue allocation to commercial and industrial classes, because there are fewer customers in those classes.[41]

By contrast, the P&A methodology typically results in a lower revenue allocation for residential customers and a higher revenue allocation for industrial customers because it significantly relies on average demand, which is synonymous with average throughput, within the calculation.[42] In fact, average demand is counted twice within the calculation: both for the average demand component of the calculation and within the peak demand component of the calculation again (since peak demand includes all average and excess demand for a particular class).[43] Importantly, PECO does not design or incur costs related to its distribution system in response to

[38] *Id.* at 6-7.
[39] *Id.*
[40] See *Id.*
[41] OSBA Statement No. 1-R, *Rebuttal Testimony of Robert D. Knecht*, ("OSBA Statement No. 1-R"), p. 6.
[42] *See* OSBA Statement No. 1, pp. 21-22.
[43] PAIEUG Statement No. 1-R, p. 6; *see also* PECO Statement No. 6-R, p. 8.

average demand.[44] Rather, PECO's system planning is driven by peak demand, thereby rendering the P&A methodology inappropriate for purposes of this proceeding.[45]

When comparing the A&E and P&A methodologies, PECO's proposed A&E methodology is the most reasonable solution because it is based most closely on PECO's cost causation and it has a balanced impact on customer classes. The Company's A&E methodology with a system load factor weighting recognizes that the primary driver of PECO's main costs is peak demand.[46] Excess demand, which is calculated as the difference between peak and average demand, has a higher weighting than average demand because excess demand triggers whether PECO needs to construct or upgrade its distribution system.[47] In addition, the P&A methodology (similar to the customer/demand methodology) is known to produce a more favorable result for certain classes as opposed to others.[48] The A&E methodology avoids this class favoritism and offers the most balanced methodology for all customer classes consistent with cost causation principles.

Conversely, OCA is the only party to propose a P&A methodology in this proceeding. OCA's P&A methodology is problematic for two reasons: (1) it double counts average demand; and (2) it utilizes a 50% weighting of peak demand and average demand. With respect to the first issue, the P&A methodology significantly overemphasizes the importance of average demand by double counting average demand in both the average demand component of the calculation and the peak demand component of the calculation.[49] The following chart demonstrates this phenomenon:

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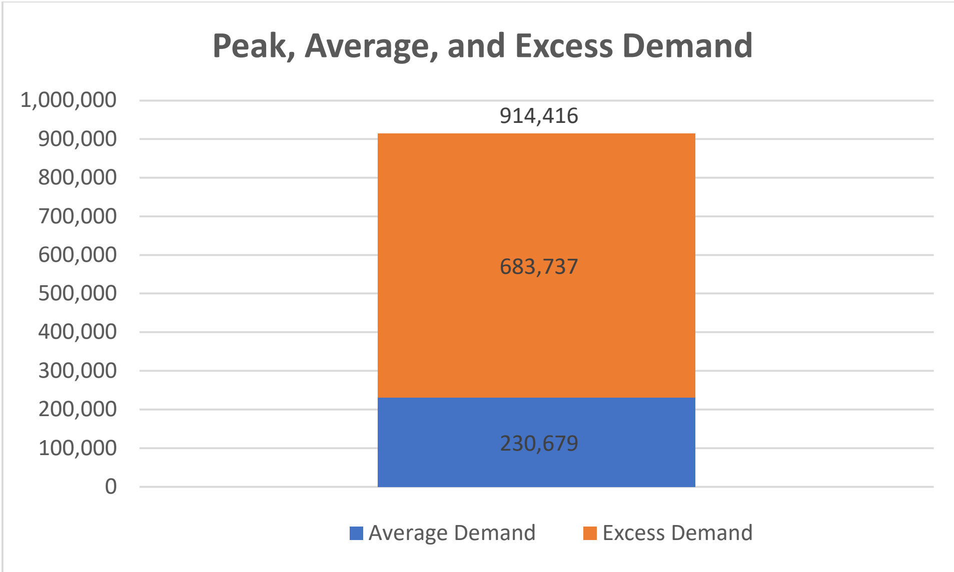
[44] PECO Statement No. 6-R, p. 7.
[45] PECO Statement No. 6, p. 7; PAIEUG Statement No. 1-R, p. 4.
[46] PECO Statement No. 6-R, p. 7.
[47] *Id.* at 8; *see also* PAIEUG Statement No. 1-R, pp. 3-5.
[48] *See* OSBA Statement No. 1, pp. 21-22; OSBA Statement No. 1-R, p. 6.
[49] PAIEUG Statement No. 1-R, p. 6; *see also* PECO Statement No. 6-R, p. 8.



This chart reflects the peak, average, and excess demand information for the Company.[50] As indicated by this chart, if, as proposed by OCA, 50% of main costs are allocated based on peak demand and the other 50% of main costs are allocated based on average demand, the peak demand calculation will include all of the average demand as well resulting in a double counting of average demand.[51] By not subtracting average demand from peak demand for this calculation, OCA is significantly overweighting its methodology in favor of low load factor customers like residential customers.[52] The A&E methodology avoids this double counting because it applies the percentage of mains equal to the system load factor to average demand and the remaining percentage of mains to excess demand.[53] Because excess demand specifically subtracts average demand from peak demand, no double counting of average demand occurs as part of the A&E methodology.[54]

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[50] PECO Exhibit JD-6R; *see also* PAIEUG Statement No. 1-R, p. 6.
[51] PAIEUG Statement No. 1-R, p. 6.
[52] OSBA Statement No. 1-R, p. 7.
[53] PAIEUG Statement No. 1-R, p. 6.
[54] *Id.* OCA falsely claims that PAIEUG's and PECO's claims of double counting are "red herrings" and "misleading," because average demand and peak demand are measured differently. OCA Statement No. 4-S, *Surrebuttal Testimony of Glenn A. Watkins*, ("OCA Statement No. 4-S"), p. 2. Average demand is synonymous with average throughput, however, class peak demand still would include all of a class's average demand and create this double counting issue. OCA Statement No. 4, p. 6; *see also* OSBA Statement No. 1, p. 21; *cf.* PAIEUG Statement No. 1-R, p. 6.

Regarding the second issue, the OCA proposes to use an inappropriate 50% weighting of peak demand and average demand. In order to reflect cost causation, the allocation methodology must use a system load factor weighting rather than weighting average and excess (or peak) demand equally as proposed by OCA. Preliminarily, NARUC has explained that an NGDC's system load factor should be used as the weighting for either the A&E or the P&A methodology.[55] PECO's system load factor weighting creates a higher weighting for excess demand, which represents the difference between a class's peak and average demand, and a lower weighting for average demand, which is appropriate and consistent with cost causation principles because peak demand is what causes PECO to incur additional main costs.[56]

OCA proposes a 50% weighting as part of its proposed CCOSS methodology, giving equal weight to average demand and peak demand.[57] OCA argues that PECO's system is designed to meet both annual demand and peak demand,[58] which is clearly contradicted by the evidentiary record. PECO evaluates peak demand, rather than annual throughput, when considering system projects.[59] PECO's list of factors for sizing mains includes "projected customer demand on a design day for the distribution system," and has no reference to average demand at all.[60] As a result, giving average demand an equal weighting to excess demand would be arbitrary with no basis in cost causation.[61]

OCA further submits that average demand should have an equal weighting to peak demand because, as the size of mains increase to serve peak demand, the corresponding cost increases at a

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[55] PAIEUG Statement No. 1-R, pp. 5-6.
[56] PECO Statement No. 6-R, p. 7; PAIEUG Statement No. 1-R, pp. 3-5.
[57] OCA Statement No. 4, p. 21.
[58] *Id.* at 12.
[59] PECO Statement No. 6-R, p. 7.
[60] PAIEUG Statement No. 1-R, pp. 5-6.
[61] PAIEUG Statement No. 1-R, p. 3.

decreased rate.[62] In other words, according to the OCA, there are economies of scale created when constructing a new main and an equal weighting of peak and average demand would reflect this reality.[63] PECO refutes this argument, however, explaining that, as main size increases, different main materials and labor may be required that could significantly increase the price point of serving peak demand.[64] Either way, excess demand must have a higher weighting than average demand because it reflects how costs are incurred by PECO.[65] Even if the system experiences average demand the majority of the time, PECO must construct its system to serve the peak demand of all customer classes.[66] Peak demand drives main costs, and the portion of demand related to the peak should be weighted higher in the allocation methodology to reflect cost causation.

Although OSBA agrees that a 50% weighting is arbitrary, OSBA initially proposes a 50% weighting for the A&E methodology because OSBA claims it is trying to adhere to Commission precedent.[67] In a prior Philadelphia Gas Works' ("PGW") base rate proceeding, the Commission held that both annual and peak demand should be included in PGW's allocation methodology.[68] OSBA believes that an A&E methodology using a system load factor weighting only considers peak demand, which, in OSBA's view, would be contrary to this PGW decision.[69] However, in another previous Commission decision related to PPL Gas Utilities Corporation, the Commission

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[62] OCA Statement No. 4, p. 16.
[63] *Id.* at 16-17.
[64] PECO Statement No. 6-R, p. 7.
[65] PECO Statement No. 6-R, p. 7; PAIEUG Statement No. 1-R, pp. 3-5.
[66] *See* OSBA Statement No. 1-R, pp. 6-7.
[67] OSBA Statement No. 1-S, pp. 5-6.
[68] *See id.*; *see also Pa Pub. Util. Comm'n v. Phila. Gas Works*, Docket No. R-00061931 (Opinion and Order dated Sept. 28, 2007), pp. 123-124.
[69] OSBA Statement No. 1-S, pp. 5-6.

approved an A&E methodology using system load factor weighting.[70] Therefore, PECO's proposed A&E methodology using system load factor weighting is consistent with Commission precedent as well. Ultimately, in Surrebuttal Testimony, OSBA proposes an alternate CCOSS also using an A&E methodology with system load factor weighting for the Commission's consideration.[71] By doing so, OSBA is recognizing that PECO's proposed methodology is just and reasonable.

Although the Commission approved the P&A methodology as part of Columbia's recent base rate proceeding, distinguishing factors warrant a different result in this proceeding.[72] In *Columbia*, the Commission specifically found that no party presented the A&E methodology for the Commission's consideration.[73] Instead, the Commission was required to decide among a customer/demand methodology, a P&A methodology, and an average of the two.[74] Without being able to compare the A&E methodology to the P&A methodology in *Columbia*, the Commission did not have an opportunity to evaluate whether the A&E methodology is reasonable and consistent with cost causation principles.

In addition, PECO presented clear record evidence that, based on its system planning, the primary driver of its main costs is peak demand.[75] By allocating a larger portion of main costs to excess demand and a smaller portion of main costs to average demand through the A&E methodology, PECO is recognizing that peak demand is the primary driver of main costs consistent

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[70] *Pa Pub. Util. Comm'n v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Opinion and Order dated Feb. 8, 2007), p. 176. OSBA's Witness Knecht states that his notes from this proceeding indicate a different system load factor than what is referenced in the Commission's order. Nevertheless, it is apparent from the plain language of the order that the Commission believed it was approving a system load factor weighting. Witness Knecht agrees that it is possible that the Commission believed this was the weighting factor being used as well. OSBA Statement No. 1-S, p. 5.
[71] OSBA Statement No. 1-S, p. 6.
[72] *Columbia* at 214.
[73] *Id.*
[74] *Id.* at 215.
[75] PECO Statement No. 6-R, p. 7.

with cost causation principles.[76] Because a different proposed allocation methodology and evidentiary record exist in this case, the Commission's recent order in *Columbia* does not prevent the Commission from approving the use of the A&E methodology in this proceeding.

The Commission should approve PECO's proposed A&E methodology because it results in the most reasonable allocation of distribution main costs among customer classes consistent with cost causation principles on PECO's system. The A&E methodology avoids double counting of average demand and complements PECO's system planning procedures. PECO's weighting based on system load factor appropriately recognizes that peak demand is the primary driver of main costs. The A&E methodology including a system load factor weighting is recognized within the natural gas industry as a reasonable allocation methodology for distribution mains and consistent with Commission precedent. Accordingly, PECO's proposed CCOSS, including its proposed methodology for the allocation of distribution main costs, should be approved by the Commission.

B. Revenue Allocation

1. PECO Revised Revenue Allocation

In the Company's initial filing, PECO's original revenue allocation included several errors: (1) PECO overstated the calculated RORs from the classes that are currently below cost and understated the RORs from classes currently above cost; (2) PECO moved all classes away from their cost of service; (3) PECO proposed revenue increases that were inappropriate based on these classes' relative RORs; and (4) PECO's methodology did not consider gradualism.[77] All parties pointed out these issues in their Direct Testimony, and PECO proposed a revised revenue allocation in Rebuttal Testimony. PECO's revised revenue allocation is more reasonable, but still

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[76] *Id.* at 8.
[77] PAIEUG Statement No. 1, pp. 5, 8, 9, 11.

requires further adjustment because PECO is proposing to significantly increase the distribution rate for Rate TS-F, a rate class which is already paying above its cost of service. This element of PECO's revised revenue allocation violates Section 1304 of the Public Utility Code and related precedent.

The Public Utility Code, Commonwealth Court precedent, and Commission precedent establish several requirements for revenue allocation. Pursuant to Section 1304 of the Public Utility Code, NGDCs have an overarching obligation not to "establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[78] In order to survive a challenge under Section 1304 of the Public Utility Code, the Commonwealth Court held that a "utility must show that the differential can be justified by the difference in costs required to deliver service to each class."[79] For a revenue allocation to be found reasonable, Commission precedent further explains that the revenue allocation should move all rate classes closer to the system average ROR, *i.e.*, closer to their cost of service, while also recognizing principles of gradualism.[80] Principles of gradualism require "phasing in rates or closing rate differentials over a longer period of time allowing consumers to gradually make the adjustments in the 'elastic' part of their spending so as to pay for increased utility costs."[81] While principles of gradualism should be considered, they "do not justify allowing one class of customers to subsidize the cost of service for another class of customers over an extended period of time."[82]

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[78] 66 Pa. C.S. § 1304.
[79] *Phila. Suburban Water Co. v. Pa. Pub. Util. Comm'n*, 808 A.2d 1044, 1060 (Pa. Commw. Ct. 2002); see also Lloyd at 1016.
[80] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012).
[81] *Lloyd* at fn. 14.
[82] *Lloyd* at 1020.

PECO's proposed revenue allocation does not survive a challenge under Section 1304 of the Public Utility Code.[83] Although PECO's revised revenue allocation resolves many of the errors from its original allocation, PECO is proposing a substantially above average rate increase for Rate TS-F, even though this class is already paying an above system average relative ROR.[84] By doing so, Rate TS-F is the only class with an above system average relative ROR that would receive an above system average rate increase.[85]

PECO offers no cost-based rationale for its proposed allocation to Rate TS-F.[86] Rather, PECO appears to have arbitrarily chosen Rate TS-F to be allocated the additional dollars necessary to reach PECO's proposed revenue requirement. By singling out Rate TS-F in this manner without offering any cost-based justification for the rate increase, PECO's proposed revenue allocation violates Section 1304 of the Public Utility Code and related Commission precedent.

Other than PECO's proposed increase for Rate TS-F, however, PAIEUG generally agrees with PECO's revised revenue allocation. PECO moves all classes closer to their cost of service other than Rate TS-F.[87] PECO also proposes to eliminate the difference between the system average ROR and the class ROR for Rate GC and Rate L, which effectively moves the rates for these classes to their cost of service.[88] As part of PECO's 2008 base rate settlement, PECO agreed to adopt this change over the course of its next two base rate cases.[89] Because this is PECO's

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[83] 66 Pa. C.S. § 1304. PECO significantly modified its proposed revenue allocation in Rebuttal Testimony. *See* PECO JAB-1 Revised.
[84] PECO Statement No. 7-R, p. 5; PAIEUG Statement No. 1-S, *Surrebuttal Testimony of Billie S. LaConte*, ("PAIEUG Statement No. 1-S"), pp. 3-4.
[85] PAIEUG Statement No. 1-S, pp. 3-4.
[86] *See* OSBA Statement No. 1-S, p. 12.
[87] PECO Statement No. 7-R, p. 5.
[88] PECO Statement No. 7-R, pp. 4-5.
[89] PECO Statement No. 7-R, p. 12; *Pa. Pub. Util. Comm'n v. PECO Energy Co.,* Docket No. R-2008-2028394 (Joint Petition for Settlement dated Aug. 21, 2008), pp. 5-6.

second base rate case since making that commitment, PECO was required to propose to move these classes to cost in this proceeding to comply with the 2008 settlement.[90]

PAIEUG agrees that PECO should be bound by the terms of its prior settlement, which was approved by the Commission. Although the proposed rate increase and decrease for Rates L and GC may appear substantial, cost of service, rather than gradualism, remains the most important factor in any revenue allocation.[91] Under Commonwealth Court precedent, principles of gradualism "do not justify allowing one class of customers to subsidize the cost of service for another class of customers over an extended period of time."[92] If Rates GC and L are not moved to the system average ROR in this proceeding, the prolonged cross-subsidization that has existed since PECO's 2008 rate case will continue. To adhere to Commonwealth Court precedent, Rates GC and L must move to their cost of service in this proceeding without regard for principles of gradualism.[93]

Accordingly, PECO's revised revenue allocation would be reasonable, except for the unjustified rate increase imposed upon Rate TS-F customers, which violates Section 1304 of the Public Utility Code. For this reason, the Commission should order PECO to modify its revenue allocation to reduce the rate increase imposed on Rate TS-F. As discussed in the next section, PAIEUG offers a more reasonable proposed revenue allocation that ensures *all* customer classes receive just and reasonable rates.

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[90] *See id*.
[91] *See id*.
[92] *Lloyd* at 1020.
[93] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.,* Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012).

2. Opposing Party Alternative Revenue Allocations

The Commission should adopt PAIEUG's proposed revenue allocation, which is consistent with the Public Utility Code, Commonwealth Court and Commission precedent, and adheres to principles of cost causation and gradualism. PAIEUG's proposed revenue allocation moves all classes closer to the system average ROR while also acknowledging principles of gradualism.[94] As discussed further below, PAIEUG's proposed revenue allocation offers the most equitable solution for all classes as compared to other parties' proposed revenue allocations in this proceeding.

PAIEUG's proposed revenue allocation is illustrated as follows:[95]

PECO ENERGY COMPANY
PAIEUG Recommended Class Revenue Allocation
For the Fully Projected Future Test Year Ended June 30, 2022
(Dollar Amounts in Thousands)

Line	Rate Class	Present RROR	Target Increase Percent	Target Increase Amount	Adjusted Delivery Revenues	Gross Revenue Conversion Factor	PAIEUG Recommended Rates Operating Income	PAIEUG Recommended Rates Rate of Return	PAIEUG Recommended Rates Relative ROR
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Residential	0.83	28.0%	$65,658	$300,152	1.41376	$126,760	7.50%	0.99
2	General Service	1.40	-4.0%	(3,969)	96,061	1.41376	45,309	7.58%	1.00
3	Large High Load Factor	(0.36)	389.8%	293	368	1.41376	163	7.67%	1.01
4	Motor Vehicle Service Firm	2.13	-24.5%	(115)	355	1.41376	170	8.28%	1.09
5	Motor Vehicle Service Interruptible	3.48	-19.4%	(1)	2	1.41376	2	7.64%	1.01
6	Interruptible Service	1.62	-5.5%	(2)	33	1.41376	16	8.55%	1.13
7	Temperature Controlled Service	7.51	-75.4%	(514)	168	1.41376	111	10.06%	1.33
8	Gas Transportation Firm	1.17	15.3%	2,536	19,101	1.41376	9,590	8.23%	1.09
9	Gas Transportation Interruptible	1.47	-0.5%	(45)	9,216	1.41376	4,432	8.37%	1.10
10	Total Gas Division	1.00	17.8%	$63,842	$425,456	1.41376	$186,552	7.57%	1.00

Recognizing that Rate TS-F is already paying above the system average ROR, PAIEUG is proposing a below system average increase for this class.[96] In addition, PAIEUG moves Rates GC and L to the system average ROR consistent with PECO's settlement obligations and

94 PAIEUG Statement No. 1-S, p. 5.
95 PAIEUG Exhibit BSL-1S.
96 PAIEUG Statement No. 1-S, p. 5.

corresponding Commission precedent.[97] To comport with principles of gradualism, PAIEUG capped the increase to all other classes at no more than 1.5 times the system average increase.[98] Finally and most importantly, under PAIEUG's proposed allocation, all classes are moving towards the system average ROR consistent with Commonwealth and Commission precedent.[99]

I&E's proposed revenue allocation also has some positive elements. I&E proposes a more reasonable increase for Rate TS-F, which would bring the class closer to the system average ROR.[100] I&E moves many classes closer to their cost of service, although I&E is trying to avoid rate decreases.[101] However, I&E does not propose to move Rates GC and L to their cost of service consistent with PECO's 2008 settlement commitments.[102] As already discussed, choosing to continue the cross-subsidization among these classes is inconsistent with Commonwealth Court precedent, which requires cost of service to be the primary goal of revenue allocation rather than gradualism.[103]

OSBA proposes two different revenue allocations: the first is based on OSBA's CCOSS using an A&E methodology with 50% weighting and the second is based on OSBA's alternate CCOSS using an A&E methodology with a system load factor weighting as proposed by PECO.[104] OSBA's second proposed revenue allocation is significantly more reasonable than the first. Although OSBA's second proposed revenue allocation does not recommend rate decreases, it

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[97] *Id.*

[98] *Id.*; *see also Columbia* at 233 ("The record indicates that although there are no definitive rules for determining what kind of rate increase would violate the principle of gradualism, limiting the maximum average rate increase for any particular class to 1.5 to 2.0 times the system average increase is one common metric that has been used by experts in the Commonwealth.")

[99] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.,* Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012); *see also Lloyd* at 1020.

[100] I&E Statement No. 3-S, *Surrebuttal Testimony of Ethan H. Cline*, ("I&E Statement No. 3-S"), p. 21.

[101] *Id.* at 19.

[102] *Id.*

[103] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.,* Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012); *see also Lloyd* at 1020; *Pa. Pub. Util. Comm'n v. Metro. Edison Co. and Pa. Elec. Co.,* Docket Nos. R-00061366 and R-00061367 (Opinion and Order dated Jan. 11, 2007), p. 234.

[104] OSBA Statement No. 1-S, pp. 12-15.

generally moves classes closer to their cost of service.[105] Unlike PECO's revenue allocation, it does not impose the same unreasonably high rate increase on Rate TS-F.[106] The only downside associated with OSBA's second proposed revenue allocation is that it does not assign any rate reductions,[107] which is contrary to cost causation principles because many classes are currently paying rates significantly above the system average ROR.

By contrast, OSBA's first propose revenue allocation includes a number of issues because it is based on a CCOSS utilizing an A&E methodology with 50% weighting. As demonstrated *supra*, a 50% weighting overemphasizes average demand in the A&E calculation, which is inconsistent with cost causation principles because peak demand, rather than average demand, drives PECO's distribution main costs.[108] As a result, OSBA's revenue allocation based on this methodology includes unreasonable increases to the distribution rates for the Rates TS-I and TS-F classes.[109] As such, OSBA's first proposed revenue allocation should be rejected because it was based on an incorrect CCOSS.

OCA's proposed "business as usual" revenue allocation has the same fundamental problem.[110] OCA's allocation is based on a CCOSS using a P&A methodology with a 50% weighting, which double counts average demand in the calculation, causing the results of the CCOSS to skew in favor of low load factor customers contrary to cost causation.[111] As a result of using this methodology, OCA's revenue allocation proposes rate increases for several classes above 25% when many other parties to the case are recommending either small increases or rate

[105] *Id.* at 15.
[106] *Id.*
[107] I*d*.
[108] PECO Statement No. 6-R, pp. 7-8.
[109] *Id.* at 15.
[110] OCA is proposing that no rate increase be approved in this proceeding; however, if the Commission permits a rate increase, OCA's "business as usual" revenue allocation is the methodology recommended by OCA. OCA Statement No. 4, p. 24.
[111] PAIEUG Statement No. 1-R, p. 6; *see also* PECO Statement No. 6-R, p. 8; OSBA Statement No. 1-R, p. 7.

decreases for the same classes.[112] Similar to OSBA's first proposed revenue allocation, OCA's proposed allocation cannot be accepted because it relies on an inappropriate CCOSS.

In addition, to support OCA's decision not to move Rate GC to cost, OCA states that its goal is to minimize the rate increase for the residential class based on the hardships imposed by the pandemic.[113] However, the record demonstrates that all customer classes are struggling to recover from the pandemic.[114] Under such circumstances, the Commission should not pick and choose winners and losers among the customer classes, but instead be guided by its precedent and traditional revenue allocation principles.[115] The Commission should approve a revenue allocation that continues to move classes towards their cost of service and eliminates cross-subsidies between classes, which does not occur when increases are being minimized for certain classes and not others.

Accordingly, the most reasonable path forward for the Commission is to adopt PAIEUG's proposed revenue allocation, under which: (a) all customer classes move closer to the system average ROR; (b) PECO adheres to its settlement commitments related to Rates GC and L as approved by the Commission; and (c) principles of gradualism are applied for all other customer classes. The Commission's adherence to principles of cost causation is even more necessary due to the economic hardships presented to all customers from the COVID-19 pandemic. To ensure that rates are increased in an equitable and non-discriminatory manner, no customer class should be moved away from its cost of service in this proceeding. For these reasons, PAIEUG's proposed revenue allocation methodology should be adopted by the Commission.

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[112] OCA Statement No. 4-R, p. 12.
[113] OCA Statement No. 4, p. 25.
[114] OSBA Statement No. 1, pp. 6-7; PAIEUG Statement No. 1-R, p. 12.
[115] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012); *see also Lloyd* at 1020; *Pa. Pub. Util. Comm'n v. Metro. Edison Co. and Pa. Elec. Co.*, Docket Nos. R-00061366 and R-00061367 (Opinion and Order dated Jan. 11, 2007), p. 234.

3. Scale Back of Rates

If the Commission approves a lower revenue increase for PECO than requested, PAEIUG recommends a proportional scale back of rates for all customer classes, in which the proposed rate changes would be reduced proportionally to the overall reduction in PECO's revenue increase.[116] In other words, if the Commission determines that a specific revenue allocation is reasonable, that same allocation should be applied whether or not PECO is authorized its full revenue increase. In that instance, a proportional scale back based on PAIEUG's proposed revenue allocation is reasonable and consistent with Commission precedent.[117]

PECO, OCA, and I&E all propose proportional scale backs with limited exceptions. PECO proposes a proportional scale back of revenue increases among the classes with the exclusion of customer charges.[118] OCA recommends a proportional scale back with the exception of Rates GC, OL, MV-I, and TCS, because OCA is proposing no rate increases for those classes.[119] I&E proposes a proportional scale back for all classes that receive an increase.[120] Further, I&E disagrees with the Company's proposal to leave customer charges out of any scale back.[121]

OSBA's proposal is significantly different from the typical proportional scale back approach. OSBA proposes a hybrid approach that factors in both the share of the proposed increase and the share of revenues for each class to determine a list of class-specific scale back percentages.[122] OSBA proposes this approach in an effort to ensure classes receiving rate

[116] PAIEUG Statement No. 1-S, p. 11.
[117] *Columbia* at 234; *see also Pa. Pub. Util. Comm'n v. UGI Utilities, Inc.*, Docket No. R-00932862 (Opinion and Order dated May 23, 1994), pp. 128-129.
[118] PECO Statement No. 7-R, p. 6.
[119] OCA Statement No. 4, p. 29.
[120] I&E Statement No. 3-S, p. 26.
[121] *Id.*
[122] OSBA Statement No. 1-R, pp. 19-20.

decreases, such as Rate GC, can benefit from any scale back, which in this proceeding could be significant.[123]

Given the significant divergence of OSBA's proposal from Commission precedent and other parties' proposals, significant concerns arise with this approach. The remaining parties generally agree that a proportional scale back is appropriate where a customer class would receive a revenue increase under the revenue allocation methodology adopted by the Commission. For any classes receiving a revenue decrease, those decreases could remain the same in any scale back.

Alternatively, the scale back could be applied to each class's adjusted delivery revenues, which would include all classes in the scale back, even those who receive no increase or decreases.[124] Because the Company does not offer any justification for excluding customer charges from the scale back, PAIEUG recommends including customer charges in any scale back approved by the Commission.

Accordingly, consistent with Commission precedent, if the Commission does not approve PECO's full revenue increase, a proportional scale back of rates based upon PAIEUG's proposed revenue allocation should occur as described herein. Moreover, this scaleback should apply to both volumetric charges and customer charges.

C. Allocation of Universal Service Program Costs

Currently, PECO's Universal Service Programs ("USP") are funded by the residential customer class, as only this class of customers is eligible to participate in the Company's low-income assistance programs.[125] Although PECO did not propose to change the manner in which these programs are funded for purposes of this proceeding, CAUSE-PA and OCA seek to expand

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[123] *Id.*
[124] PAIEUG Statement No. 1-S, p. 11.
[125] PECO Statement No. 10-R, *Rebuttal Testimony of Kelly Colarelli* ("PECO Statement No. 10-R"), p. 12.

the allocation of USP costs to all rate classes.[126] As discussed more fully herein, because allocating USP costs to non-residential classes violates cost-causation principles, does not provide any direct benefit for non-residential classes, compounds the economic hardships commercial and industrial customers are experiencing due to the COVID-19 pandemic, and ignores recent PUC precedent, the Commission must reject CAUSE-PA's and OCA's proposal. Instead, the Commission should maintain the status quo with respect to USP cost allocation on PECO's system.

Expanding the allocation of USP costs to all customer classes would ignore the well-established principles of cost-causation. The Commonwealth Court of Pennsylvania has previously indicated that the principle of cost causation is the polestar for ratemaking purposes.[127] Adherence to the principles of cost-causation means that only those customers who benefit from and are eligible for certain programs should fund such programs.[128] In fashioning the proper cost allocation for PECO's USP, the Commission must consider the purpose of the program. In this instance, the Company's USP are "a cost incurred to serve [the residential] class,"[129] as, under PECO's Tariff, the residential customer class is the only class that can receive assistance from the Company's low-income programs.[130] Therefore, allocating USP costs to all customer classes would be "contrary to the Commission's cost-of-service philosophy."[131]

In an effort to expand cost causation principles to fit their claims, OCA and CAUSE-PA inappropriately argue that PECO's USP provides an indirect benefit to non-residential classes.[132] In order to fully understand this claim, the PUC must consider the two different models that can

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[126] *Id.;* OCA Statement No. 5, *Direct Testimony of Roger D. Colton* ("OCA Statement No. 5"), pp. 71-90; CAUSE-PA Statement No.1, *Direct Testimony of Mitchell Miller* ("CAUSE-PA Statement No. 1"), pp. 48-54.
[127] *Lloyd* at 1016.
[128] OSBA Statement No. 1-R, p. 24.
[129] PAIEUG Statement No. 1-R, p. 12.
[130] *Id.*; *see also* OSBA Statement No. 1-R, p. 24.
[131] PAIEUG Statement No. 1-R, p. 12.
[132] OCA Statement No. 5, pp. 71-90; CAUSE-PA Statement No. 1, pp. 48-54.

be used for recovery of low-income assistance program costs.[133] The first model, of which PAIEUG is a proponent, is the insurance model, in which USP in general, are said to be a "form of insurance, in which residential gas customers are paying premiums to the utility so that they will be eligible for cash benefits in the event they have an unfortunate turn in their economic circumstances."[134] PECO's current collection of USP costs from only the residential customer class adheres to this model.

The second model is the government/public policy tax model, which is based on the contention that society benefits indirectly from assisting low-income residents.[135] By proposing to expand the allocation of USP costs to all customer classes, OCA and CAUSE-PA seek to advance the public policy tax model. This model contends that, because society *indirectly* benefits from low-income assistance programs, such cost should be spread to those that do not directly benefit. Such a taxation model, however, would be exceedingly difficult to implement in a way that acknowledges indirect benefits received through USP.[136] Under the public policy tax model, all customers in PECO's service territory would receive an indirect benefit, regardless of whether the customers actually use these programs; whereas, in the insurance model, residential customers pay for the programs and benefit from these programs should the need arise.[137] Because the insurance model adheres to cost-causation principles, the PUC should continue to utilize this model and maintain the status quo for collection of USP costs on PECO's system.

In addition, applying the public or societal benefit concept from the public policy tax model would cause confusion and unnecessary complexity in regulatory matters.[138] If the Commission

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[133] OSBA Statement No. 1-R, p. 23.
[134] *Id.*
[135] *Id.*
[136] OSBA Statement No. 1-R, p. 24.
[137] *Id.*
[138] *Id.*

were to allocate USP costs on the amorphous basis of a public or societal benefit, future proceedings could find numerous parties requesting discounts, subsidies, credits, or free service based upon the same public benefits offered.[139] In the end, because even businesses provide societal benefits through wages, no funding source will exist for all of the free service given for alleged public benefits. Because of the slippery slope that could result from the use of the second tax model, the Commission should continue to apply the insurance model in the instant case.[140]

Further, even if the Commission were to consider OCA's and CAUSE-PA's claim of a "public benefit" for purposes of cost causation, no such public benefit can be found, especially in light of the hardships currently faced by Large C&I customers due to the COVID-19 pandemic.[141] For example, many Large C&I customers are experiencing significant reductions in revenues due to the COVID-19 outbreak, including hospitals, which are overwhelmed with patients due to COVID-19 and are unable to perform high-end elective procedures, which are more profitable.[142] As a result, shifting costs for the USP to rate classes that inure no benefit from the program "would result in unnecessary and inappropriate subsidies," which would be "counterproductive, particularly during the current pandemic."[143]

In an effort to further justify their proposal, CAUSE-PA and OCA rely on the Commission's *Final CAP Policy Statement*.[144] Specifically, OCA and CAUSE-PA claim that the Commission's statements indicating a willingness to consider arguments to include non-residential classes in the allocation of USP costs translates to the PUC's automatic support to change PECO's

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[139] *Id*.
[140] *Id*.
[141] PAIEUG Statement No. 1-R, pp. 12-13.
[142] *Id*.
[143] PAIEUG Statement No. 1-R, p. 12.
[144] *2019 Amendments to Policy Statement on Customer Assistance Program 52 Pa. Code § 69.261-69.267*, Docket No. M-2019-3012599, Final Policy Statement and Order (Opinion and Order entered November 5, 2019) ("*Final CAP Policy Statement*").

USP cost allocation.[145] However, in *Columbia*, where OCA and CAUSE-PA made similar arguments, the Commission not only maintained the status quo of cost allocation for Columbia's universal service program but also noted the non-precedential nature of the *Final CAP Policy Statement*.[146]

In *Columbia*, the Commission acknowledged that the historical approach to approving recovery of UPS costs was based on the narrowly tailored nature of these programs and the potential negative impact on Pennsylvania's businesses if these costs were recovered from all ratepayer classes.[147] In the *Final CAP Policy Statement*, noting the burden that current cost recovery methods tend to place on residential customer bills, the PUC deemed it necessary to revise its approach to no longer "routinely exempt non-residential classes from universal service obligations."[148] However, "while [the Commission] stated that [Customer Assistance Program] cost recovery from all ratepayer classes should be *considered* in rate cases" the Commission was also careful to note that it was "not making a precedential decision concerning cost recovery within the Final CAP Policy Statement Order."[149]

Accordingly, the Commission considered USP cost allocation in *Columbia* based on "the substantial evidence in the record and whether or not the OCA and CAUSE-PA have satisfied their burden of proving that USP costs should be distributed among all the classes."[150] The Commission concluded that OCA and CAUSE-PA failed to satisfy this burden, recognizing that parties who opposed changing the status quo of cost allocation for USP presented enough evidence to show that adopting this proposal would flout the principles of cost-causation.[151] Further, the

[145] OCA Statement No. 5, pp. 56-58; CAUSE-PA Statement No. 1, pp. 48-49.
[146] *Columbia* at 258-60.
[147] *Columbia* at 258.
[148] *Id.* at 259 (citing *Final CAP Policy Statement Order*, p. 97).
[149] *Id.* at 259-260 (citing *Final CAP Policy Statement Order* at n. 150).
[150] *Id.* at 260.
[151] *Id.*

Commission recognized the "economic impacts commercial and industrial customers are experiencing due to the COVID-19 pandemic" as one of the factors weighing in favor of maintaining the status quo for allocation of USP costs.[152]

In the instant proceeding, OCA and CAUSE-PA set forth substantially similar arguments to those presented in *Columbia*. Moreover, PAIEUG, along with OSBA, has presented similar evidence in this proceeding confirming that cost-causation principles require only residential customers to continue to fund USP.[153] Further, Large C&I customers in PECO's service territory continue to face harsh economic impacts in light of the continuing COVID-19 pandemic.[154] Accordingly, the Commission's findings in *Columbia* would be equally applicable in this proceeding, which would result in the PUC maintaining the status quo for collection of PECO's USP costs.

In addition, and as previously mentioned, PECO did not propose to change the status quo with respect to USP cost allocation in this proceeding.[155] Instead, PECO contends that the instant proceeding is not the correct place to consider cost allocation proposals for USP because "PECO's gas-only [Customer Assistance Program] population is an exceedingly small part of its total [Customer Assistance Program] population."[156] Accordingly, PECO does not support changing the USP allocation as part of this proceeding,[157] as this matter would be more appropriately addressed in PECO's next electric base rate proceeding.

Finally, assuming, *arguendo*, that the Commission modifies the collection of USP costs on PECO's natural gas system, the Commission must also determine the appropriate methodology for

[152] *Id*. at 261.
[153] OSBA Statement No. 1-R, p. 23.
[154] PAIEUG Statement No. 1-R, p. 12.
[155] PECO Statement No. 10-R, p. 12.
[156] *Id.*
[157] *Id.*

collection of these costs. In this instance, the PUC should adopt PAIEUG's proposal for cost allocation, as it provides the most just and reasonable basis for such allocation. Importantly, although CAUSE-PA and OCA propose a change in cost allocation, CAUSE-PA proposes no accompanying methodology for the collection of these costs from all customers.[158] While OCA propose a methodology, its proposal is very general and lacks any meaningful detail by which the PUC can determine its appropriateness. Specifically, OCA proposes that costs be allocated on a "competitively neutral basis" and that the allocation should be based on "the percentage of revenue provided by each customer class at base rates."[159] Based on the limited information provided, OCA's proposal appears to be unreasonable in that it ignores the basic rate making principle of cost-causation by tying customer class revenue to the funding of a program for which not all customers benefit. Conversely, PAIEUG's proposes that the Commission require that the Commission allocate costs based on the number of customers. Specifically, PECO's total USP costs of $5.9 million should be divided by the total number of PECO customers.[160] Using this methodology, no customer would pay more than $10.85 per year, which would ensure no undue hardship on customers.[161]

Accordingly, because the proposal to allocate USP costs to all customer classes violates the principles of cost-causation, provides no direct benefit to customers outside of the residential class, and would place an undue burden on customers already suffering from the ongoing effects of the COVID-19 pandemic, the Commission should uphold the status quo of cost allocation for USP on PECO's system, similar to the conclusion reached by the PUC in *Columbia*. If, assuming *arguendo*, the Commission decides further consideration must be given to the allocation of USP

[158] CAUSE-PA Statement No. 1, pp. 48-54.
[159] OCA Statement No. 5, p. 90.
[160] PAIEUG Statement No. 1-R, p. 13.
[161] *Id*.

costs on PECO's system, the more appropriate proceeding in which to undertake such review would be in PECO's next electric base rate case. Assuming *arguendo*, however, that the Commission chooses to modify the allocation of USP costs in this proceeding, the Commission should adopt PAIEUG's proposed method of cost allocation, as this methodology would ensure no undue hardship is placed on those customers who are not able to receive any low-income assistance from PECO.

D. Tariff Structure

1. Residential Customer Charge

PAIEUG offers no position on this issue at this time.

2. Non-Residential Customer Rate Design

a. Rate GC Customer Charge

PAIEUG offers no position on this issue at this time.

b. Rate GC Declining Block Volumetric Charge Differential

PAIEUG offers no position on this issue at this time.

c. Rate TS-F and TS-I Volumetric Charge Differential

PAIEUG recommends that the Commission reject OSBA's proposed changes to the volumetric differentials in the rate designs for Rates TS-F and TS-I.[162] PECO offered conflicting testimony on whether or not it supports OSBA's proposal.[163] Specifically, in the testimony that seemingly supports OSBA's proposal, PECO provided no analysis of OSBA's proposed changes in testimony and failed to explain how these changes would impact the rates for Rate TS-F and TS-I customers.[164] OSBA likewise did not analyze any cost-of-service information related to the

[162] OSBA Statement No. 1, pp. 53-56.
[163] PECO Statement No. 7-R, p. 15; *see also* PECO Statement No. 6-R, pp. 23-24.
[164] PECO Statement No. 7-R, p. 15.

smaller and larger customers within these classes before suggesting changes to the rate designs.[165] Given the lack of data available to support these changes and the conflicting positions taken by PECO, the Commission should reject OSBA's proposed rate design changes for Rates TS-F and TS-I in this proceeding.

Currently, Rates TS-F and TS-I include different volumetric charges for customers using above and below 18 mmcf per year.[166] OSBA is proposing to shrink the differential between the charges for both classes and completed its own load factor analysis to support the TS-F change.[167] However, OSBA explains that the Company did not provide cost-of-service information to allow OSBA to evaluate the reasonableness of the current volumetric differentials in Rates TS-F or TS-I.[168] Although OSBA offers its own theories about shrinking these differentials, these theories were not based on a review of any specific cost-of-service information from PECO, which gives them less credibility.

PECO offered conflicting testimony in response to OSBA's proposal. PECO's Witness Bisti accepts OSBA's proposal but offers no analysis to support its reasonableness.[169] By contrast, PECO's Witness Ding disagrees with OSBA and explains that different service characteristics for smaller and larger Rate TS-F and TS-I customers justify the current rate differentials.[170] Given this conflicting testimony from PECO, it is entirely unclear whether OSBA's proposal is reasonable.

Moreover, when PAIEUG attempted to conduct an analysis of OSBA's proposed rate design changes, PECO did not provide data to PAIEUG in a working format, which hindered

[165] OSBA Statement No. 1, p. 53.
[166] *Id.* at 53-56.
[167] *Id.*
[168] *Id.* at 53.
[169] PECO Statement No. 7-R, p. 15.
[170] PECO Statement No. 6-R, pp. 23-24.

PAIEUG's ability to conduct this analysis.[171] Based on the information PAIEUG had access to, PAIEUG determined that the proposed changes to Rate TS-F would result in a 56.2% increase in rates for large TS-F customers.[172] Such a change would create rate shock for large TS-F customers when they are already paying above the system average ROR and PECO is proposing an even higher revenue increase for the class in its proposed revenue allocation.[173] As large consumers of natural gas, PECO's rate has a significant impact on Rate TS-F customers' total operational budgets.[174] In recognition of the additional economic hardships imposed by the pandemic, the Commission should not approve any rate design changes that would increase customer rates by such a significant percentage.[175]

Because the current volumetric differentials for Rates TS-F and TS-I are included in PECO's tariff, which was approved by the Commission, they are deemed *prima facie* reasonable.[176] In this proceeding, OSBA has the heavy burden of demonstrating that facts and circumstances have changed so drastically that the current differentials for Rates TS-F and TS-I within the tariff are unreasonable and must be replaced with OSBA's proposed differentials.[177] Given the lack of supporting data for the proposed rate design changes and the conflicting testimony from PECO, OSBA fails to meet its burden of proof in this proceeding and no change to the volumetric differentials for Rates TS-F or TS-I should occur. The current volumetric differentials were

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[171] PAIEUG Statement No. 1-S, p. 7. If PECO seeks to propose changes to the rate design for these classes in a future base rate proceeding, PECO must provide cost data in a working format to all parties at the outset of the proceeding to allow parties to evaluate the reasonableness of the proposal.
[172] *Id.*; *see also* PAIEUG Exhibit BSL-2S.
[173] PAIEUG Statement No. 1-S, p. 7.
[174] PAIEUG Statement No. 1-R, p. 4.
[175] *Id.* at 12.
[176] 66 Pa.C.S. § 316 ("Whenever the Commission shall make any rule, regulation, finding, determination or order, the same shall be prima facie evidence of the facts found and shall remain conclusive upon all parties affected thereby."); *see also Shenango Township Board of Supervisors v. Pa. Pub. Util. Comm'n*, 686 A.2d 910, 914 (Pa. Commw. Ct. 1996).
[177] *Shenango Township Board of Supervisors v. Pa. Pub. Util. Comm'n*, 686 A.2d 910, 914 (Pa. Commw. Ct. 1996).

previously approved by the Commission and remain reasonable. If the PUC believes that further review of this issue is warranted, in the alternative, the Commission can direct PECO to address this issue in its next natural gas base rate proceeding, along with requiring PECO to provide the analysis and information needed for the parties to determine whether such a change is warranted.

d. Elimination of Rate IS Margin Sharing

PAIEUG offers no position on this issue at this time.

e. Elimination of Rate IS, MV-I and TCS

PAIEUG offers no position on this issue at this time.

3. DSIC Cost Allocation

PAIEUG offers no position on this issue at this time.

4. Negotiated Gas Service

PAIEUG offers no position on this issue at this time.

5. Theft/Fraud Investigation Charge

PAIEUG offers no position on this issue at this time.

E. Summary and Alternatives

As discussed more fully herein, PECO's use of the A&E methodology for CCOSS provides the most appropriate basis for determining class revenues and costs, as the A&E methodology most closely resembles PECO's system. Conversely, the OCA's proposed CCOSS and OSBA's proposed changes to PECO's A&E CCOSS must be rejected, as they would be in direct contradiction with the way in which PECO designs its system and incurs distribution main costs.

Conversely, PECO's resulting revenue allocation must be rejected. While PECO proposes to move all of the other classes move closer to their cost to serve, Rate TS-F, which is already above its cost to service, would be moved farther away from cost under PECO's proposal. Rather, PAIEUG's proposed rate allocation appropriately moves all customer classes, including TS-F, closer to their cost to serve while also recognizing the parameters implemented in PECO's previous base rate proceedings. To that end, if PECO is granted less than its requested rate increase, a proportionate scale back based upon PAIEUG's rate allocation would be the most just and reasonable basis upon which to allocate any rate increase among the classes.

In addition, Rates TS-F and TS-I currently include different volumetric charges for customers using above and below 18 mmcf of natural gas per year. As part of this proceeding, OSBA seeks to modify this differential between the classes, however, neither OSBA nor PECO provide the appropriate analysis to support this change. Moreover, because this change could result in larger customers facing significant rate shock (*i.e.*, upwards of 50%), the PUC should not allow for such a change until at least PECO's next base rate proceeding, at which time all parties should be provided ample opportunity to review the information needed to determine whether such a change is just and reasonable.

Finally, although PECO does not propose any changes in its current allocation of USP costs, both OCA and CAUSE-PA seek to allocate these costs to all customers. Because such allocation would run afoul of cost causation principles, not provide any direct benefit for non-residential customers, compound the economic hardships currently facing Large C&I customers, and ignore recent PUC precedent, the OCA's and CAUSE-PA's proposal must be rejected. Rather, the PUC should allow for the status quo to continue with respect to the allocation of these program costs.

XI. CONCLUSION

WHEREFORE, the Philadelphia Area Industrial Energy Users Group respectfully requests that the Pennsylvania Public Utility Commission:

(1) Only grant PECO a requested rate increase in the amount necessary, if any, to ensure just and reasonable rates for all PECO customers;

(2) Accept PECO's proposed Class Cost of Service Study based upon the Average & Excess methodology for purposes of this proceeding;

(3) Allocate any resulting rate increase based upon PAIEUG's rate allocation proposal, as it appropriately moves all customer classes closer to their cost to serve;

(4) If PECO is granted less than its requested rate increase, scale back PAIEUG's rate allocation proposal for purposes of implementing any approved rate increase;

(5) Reject OSBA's proposal to modify the differential between TS-F and TS-I customers;

(6) In the alternative, reject OSBA's proposal for purposes of this proceeding and require PECO to address this issue in its next natural gas base rate proceeding, along with requiring PECO to provide the analysis and information needed for the parties to determine whether such a change is warranted; and

(7) Reject OCA's and CAUSE-PA's proposals to modify PECO's allocation of universal service program costs, and instead, retain the status quo of collecting these costs only from the residential class.

Respectfully submitted,

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Dated: March 3, 2021

APPENDIX A

PROPOSED FINDINGS OF FACT

1. The purpose of a class cost of service study ("CCOSS") is to assign an NGDC's revenue requirement to rate classes to cover the costs associated with the NGDC serving those rate classes.[178]

2. Within its proposed CCOSS, PECO classifies and allocates its distribution mains using the average and excess ("A&E") methodology.[179]

3. The A&E methodology uses a class's average demand (*i.e.*, average throughput) and a class's excess demand, which add together to equal the class's peak demand, to determine the appropriate class allocation of distribution main costs. Specifically, the percentage of mains equal to the system load factor is allocated based on average demand. The remaining mains are allocated based on excess demand, which represents the difference between peak demand and average demand.[180]

4. The Company's distribution mains are "designed to meet system peak demands on a design day that all firm customers can be served."[181]

5. Although daily throughput often does not reach peak demand, the system must be designed and constructed as if peak demand could be reached on any given day.[182]

6. PECO only incurs distribution main-related costs when it needs to expand or upgrade the distribution system as a result of potential peak operating conditions.[183]

7. Peak demand is the driver of PECO's system planning and main costs, while average demand or throughput is simply a byproduct.[184]

8. Applying a weighting based on PECO's system load factor, which results in a higher percentage of mains being allocated based on excess demand and a lower percentage of mains being allocated based on average demand, is consistent with cost causation principles because it recognizes that peak demand is the driver of main costs.[185]

9. The A&E methodology has been endorsed by the American Gas Association and the National Association of Regulatory Utility Commissioners ("NARUC").[186]

10. PECO's use of system load factor as part of the A&E methodology for the weighting of average demand also represents common industry practice.[187]

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[178] PAIEUG Statement No. 1, p. 3.
[179] PECO Statement No. 6, p. 13.
[180] PECO Statement No. 6-R, p. 6.
[181] *See id.* at 7.
[182] PAIEUG Statement No. 1-R, p. 4.
[183] *See* PECO Statement No. 6-R, p. 7.
[184] *Id.*; *see also* PAIEUG Statement No. 1-R, p. 4.
[185] PAIEUG Statement No. 1-R, p. 4; *see also* PECO Statement No. 6-R, p. 7 ("It is inappropriate and in conflict with cost causation principles to treat the cost of excess capacity as an incremental cost instead of the primary cost driver.")
[186] PECO Statement No. 6-R, p. 6; PAIEUG Statement No. 1-R, pp. 4-5.
[187] PAIEUG Statement No. 1-R, pp. 4-5.

11. A customer/demand methodology, which is another methodology used in the natural gas industry for allocating distribution mains, is different from the A&E and Peak & Average ("P&A") models because it considers customer count by class when allocating distribution main costs rather than only considering class demand.[188]

12. A customer/demand methodology often results in a lower revenue allocation to commercial and industrial classes because there are fewer customers in those classes.[189]

13. The P&A methodology typically results in a lower revenue allocation for residential customers and a higher revenue allocation for industrial customers because it significantly relies on average demand within the calculation.[190]

14. PECO does not design or incur costs related to its distribution system in response to average demand.[191]

15. Both the customer/demand and P&A methodologies are known to produce more favorable results for certain classes as opposed to others.[192]

16. NARUC explained that an NGDC's system load factor should be used as the weighting for either the A&E or the P&A methodology.[193]

17. PECO's list of factors for sizing mains includes "projected customer demand on a design day for the distribution system," and has no reference to average demand at all.[194]

18. As main size increases, different main materials and labor may be required that could significantly increase the price point of serving peak demand.[195]

19. Excess demand must have a higher weighting than average demand because it reflects how costs are incurred by PECO.[196]

20. By not subtracting average demand from peak demand, OCA is significantly overweighting its allocation methodology in favor of low load factor customers like residential customers.[197]

21. PECO is proposing a substantially above average rate increase for Rate TS-F, even though this class is already paying an above system average relative rate of return ("ROR").[198]

22. PECO offers no cost-based rationale for its proposed allocation to Rate TS-F.[199]

23. Under PECO's revenue allocation proposal, Rate TS-F is the only class with an above system average relative ROR that would receive an above system average rate increase.[200]

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[188] OCA Statement No. 4, p. 21.
[189] OSBA Statement No. 1-R, p. 6.
[190] *See* OSBA Statement No. 1, pp. 21-22.
[191] PECO Statement No. 6-R, p. 7.
[192] *See* OSBA Statement No. 1, pp. 21-22; OSBA Statement No. 1-R, p. 6.
[193] PAIEUG Statement No. 1-R, pp. 5-6.
[194] I*d*.
[195] PECO Statement No. 6-R, p. 7.
[196] *Id.*; PAIEUG Statement No. 1-R, pp. 3-5.
[197] OCA Statement No. 4-R, p. 3.
[198] PECO Statement No. 7-R, p. 5; PAIEUG Statement No. 1-S, pp. 3-4.
[199] *See* OSBA Statement No. 1-S, p. 12.
[200] PAIEUG Statement No. 1-S, pp. 3-4.

24. PAIEUG's proposed revenue allocation moves all classes closer to the system average ROR while also acknowledging principles of gradualism.[201]

25. Recognizing that Rate TS-F is already paying above the system average ROR, PAIEUG is proposing a below system average increase for this class.[202]

26. PAIEUG's revenue allocation moves Rates GC and L to the system average ROR consistent with PECO's settlement obligations.[203]

27. To comport with principles of gradualism, PAIEUG capped the increase to all other classes at no more than 1.5 times the system average increase.[204]

28. The COVID-19 pandemic presents challenging economic conditions to non-residential customers.[205]

29. OCA admits that one of its revenue allocation objectives is to minimize the rate increase for the residential class.[206]

30. OCA and I&E do not propose to move Rates GC and L to their cost of service.[207]

31. OSBA proposes two different revenue allocations: the first is based on OSBA's CCOSS using an A&E methodology with 50% weighting and the second is based on OSBA's alternate CCOSS using an A&E methodology with a system load factor weighting as proposed by PECO.[208]

32. For OSBA's first revenue allocation, OSBA relies on a CCOSS utilizing an A&E methodology that overemphasizes average demand, which results in unreasonable increases to the distribution rates for the Rates TS-I and TS-F classes.[209]

33. OSBA's second proposed revenue allocation does not impose the same unreasonably high rate increase on Rate TS-F as PECO's.[210]

34. PAEIUG recommends a proportional scale back of rates for all customer classes, in which the proposed rate changes would be reduced proportionally to the overall reduction in PECO's revenue increase.[211]

35. Other parties, with the exception of OSBA, propose proportional scale backs with limited exceptions.[212]

[201] PAIEUG Statement No. 1-S, p. 5.
[202] *Id.*
[203] *Id.*
[204] *Id.*
[205] OSBA Statement No. 1, pp. 6-7.
[206] OCA Statement No. 4, p. 25.
[207] *Id.*; OCA Statement No. 4-R, p. 12; OCA Schedule GAW-3R; I&E Statement No. 3-S, p. 19.
[208] OSBA Statement No. 1-S, pp. 12-15.
[209] *Id.* at 15.
[210] *Id.*
[211] PAIEUG Statement No. 1-S, p. 11.
[212] PECO Statement No. 7-R, p. 6; OCA Statement No. 4, p. 29; I&E Statement No. 3-S, p. 26.

36. OSBA proposes a hybrid approach for any revenue scale back that factors in both the share of the proposed increase and the share of revenues for each class to determine a list of class-specific scale back percentages.[213]

37. Rates TS-F and TS-I include different volumetric charges for customers using above and below 18 mmcf per year.[214]

38. OSBA is proposing to shrink the differential between the charges for both classes and completed its own load factor analysis to support the TS-F change.[215]

39. The Company did not provide cost-of-service information to allow OSBA to evaluate the reasonableness of the current volumetric differentials in Rates TS-F or TS-I.[216]

40. PECO's Witness Bisti accepts OSBA's proposal to reduce the volumetric differentials for Rates TS-F and TS-I but offers no analysis to support its reasonableness.[217]

41. PECO's Witness Ding disagrees with OSBA and explains that different service characteristics for smaller and larger Rate TS-F and TS-I customers justify the current rate differentials.[218]

42. PECO did not provide data to PAIEUG in a working format regarding the current rate differentials for Rates TS-F and TS-I, which hindered PAIEUG's ability to conduct its analysis.[219]

43. The proposed changes to Rate TS-F would result in a 56.2% increase in rates for large TS-F customers.[220]

44. A 56.2% rate increase would create rate shock for large TS-F customers when they are already paying above the system average ROR and PECO is proposing an even higher revenue increase for the class in its proposed revenue allocation.[221]

45. As large consumers of natural gas, PECO's rate has a significant impact on Rate TS-F customers' total operational budgets.[222]

46. In recognition of the additional economic hardships imposed by the pandemic, the Commission should not approve any rate design changes that would increase customer rates by 56.2%.[223]

47. Currently, the costs of PECO's Universal Service Program ("USP") are funded by the residential customer class, as these customers are the sole class eligible to receive service under the USP.[224]

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[213] OSBA Statement No. 1-R, pp. 19-20.
[214] OSBA Statement No. 1, pp. 53-56.
[215] *Id.*
[216] *Id.* at 53.
[217] PECO Statement No. 7-R, p. 15.
[218] PECO Statement No. 6-R, pp. 23-24.
[219] PAIEUG Statement No. 1-S, p. 7.
[220] *Id.*; *see also* PAIEUG Exhibit BSL-2S.
[221] PAIEUG Statement No. 1-S, p. 7.
[222] PAIEUG Statement No. 1-R, p. 4.
[223] *Id.* at 12.
[224] PECO Statement No. 10-R, p. 12.

48. PECO did not propose to change the status quo with respect to cost allocation in this proceeding.[225]

49. Adherence to the principles of cost-causation means that only those customers who benefit from and are eligible for certain programs should be made to fund such programs.[226]

50. Under PECO's Tariff, the residential customer class is the only class that can receive assistance under low-income programs.[227]

51. Applying the societal benefit concept for USP allocation purposes would cause confusion and unnecessary complexity in regulatory matters.[228]

52. If the Commission were to allocate USP costs on the amorphous basis of a public or societal benefit, future proceedings could find numerous parties requesting discounts, subsidies, credits, or free service based upon the same public benefits offered.[229]

53. Even if the Commission were to consider the OCA and CAUSE-PA's claim of a "public benefit" for purposes of cost causation, no such public benefit can be found, especially in light of the hardships currently faced by large commercial and industrial customers due to the COVID-19 pandemic.[230]

54. Some transportation customers are experiencing significant reductions in revenues due to the COVID-19 outbreak. For example, hospitals are overwhelmed with patients due to COVID-19 and are unable to perform high-end elective procedures, which are more profitable.[231]

55. Shifting costs for the USP to rate classes that inure no benefit from the program "would result in unnecessary and inappropriate subsidies," which would be "counterproductive, particularly during the current pandemic."[232]

56. Along with PAIEUG, the OSBA has provided testimony noting that cost-causation principles support residential customers continuing to fund USP because that class is the sole class that benefits from the low-income assistance programs.[233]

57. PECO contends that the instant proceeding is not the correct place to consider cost allocation proposals for the USP because "PECO's gas-only CAP population is an exceedingly small part of its total CAP population."[234]

58. Assuming *arguendo* that the PUC seeks to change the status quo for USP cost collection in this proceeding, CAUSE-PA proposes no methodology by which to undertake such a change.[235]

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[225] *Id.*
[226] OSBA Statement No. 1-R, p. 24
[227] PAIEUG Statement No. 1-R, p. 12; *see also* OSBA Statement No. 1-R, p. 24
[228] *Id.*
[229] OSBA Statement No. 1-R, p. 23.
[230] PAIEUG Statement No. 1-R, pp. 12-13.
[231] *Id.*
[232] *Id.* at p. 12.
[233] *See* PAIEUG Statement No. 1-R, p. 12-13; OSBA Statement No. 1-R, p. 24
[234] PECO Statement No. 10-R, p. 12
[235] *See* CAUSE-PA Statement No. 1.

59. The OCA proposes a cost allocation methodology, assuming *arguendo* that the PUC modifies the cost allocation status quo in this proceeding, but OCA's proposal is general and lacks any meaningful detail with which the parties could determine the justness and reasonableness of this proposal.[236]

60. Assuming, *arguendo*, that the PUC changes the USP cost allocation in this proceeding, PAIEUG presents a methodology that is reasonable and would place no undue hardship on non-residential customers. Specifically, the Commission should take PECO's total customer assistance costs of $5.9 million and divide that by the total number of customers. This allocation would ensure that no customer pays more than $10.85 per year.[237]

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[236] *See* OCA Statement No. 5, p. 90.
[237] PAIEUG Statement No. 1-R, p. 13.

APPENDIX B

PROPOSED CONCLUSIONS OF LAW

1. As the "polestar" of utility ratemaking, cost of service provides the basis for allocating revenue to rate classes.[238]
2. Revenue allocation is not an exact science, which results in parties proposing different CCOSS approaches.[239]
3. The primary objective of a CCOSS is to allocate costs in the manner they are incurred consistent with cost causation principles.[240]
4. PECO's proposed CCOSS is reasonable and consistent with cost causation principles.
5. The A&E methodology is commonly used by NGDCs in Pennsylvania and approved by the PUC to allocate distribution mains.[241]
6. PECO's use of system load factor as part of the A&E methodology for the weighting of average demand is consistent with Commission precedent.[242]
7. The Commission should approve PECO's proposed A&E methodology because it is based on cost causation, aligns with how PECO designs and incurs costs related to its distribution system, and is consistent with Commission precedent and industry standards.
8. The A&E methodology is the most reasonable allocation methodology for distribution main costs because it is based most closely on cost causation and it has a balanced impact on customer classes.
9. Giving average demand an equal weighting to excess demand would be arbitrary with no basis in cost causation.

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[238] *Lloyd v. Pa. Publ. Util. Comm'n*, 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006) ("*Lloyd*").
[239] *Colorado Interstate Gas Co. v. Fed. Power Comm'n*, 324 U.S. 581, 589 (1945).
[240] *Lloyd* at 1020; *see also Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2010-2161694 (Opinion and Order dated October 15, 2010), p. 63; *see also Pa. Pub. Util. Comm'n v. Metro. Edison Co. and Pa. Elec. Co.*, Docket Nos. R-00061366 and R-00061367 (Opinion and Order dated Jan. 11, 2007), p. 234.
[241] *Pa Pub. Util. Comm'n v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Opinion and Order dated Feb. 8, 2007), pp. 176-178; *Pa Pub. Util. Comm'n v. Phila. Gas Works*, Docket No. R-00061931 (Opinion and Order dated Sept. 28, 2007); *see generally Pa Pub. Util. Comm'n v. PECO Energy Company*, Docket No. R-2010-2161592 (Opinion and Order dated Dec. 16, 2010); *Pa Pub. Util. Comm'n v. Philadelphia Gas Works*, Docket No. R-2020-3017206 (Opinion and Order dated Nov. 19, 2020); *Pa Pub. Util. Comm'n v. UGI Central Penn Gas, Inc.*, Docket No. R-2010-2214415 (Recommended Decision dated Jul. 15, 2011).
[242] *Pa Pub. Util. Comm'n v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Opinion and Order dated Feb. 8, 2007), p. 176 ("PPL Gas used and average and excess (A&E) method to allocate demand costs. The Company allocated 40% of demand costs based upon commodity usage and 60% based on excess demand (demand in excess of average demand)….PPL Gas stated that the 40% for commodity was based upon system average load factors for 2004 and 2005 of 39.1% and 39.8% respectively….The excess demand was allocated using non-coincidental peak factors for each classification.").

10. In a previous Commission decision related to PPL Gas Utilities Corporation, the Commission approved an A&E methodology using system load factor weighting similar to PECO's proposal in this proceeding.[243]

11. Although the Commission approved the P&A methodology as part of Columbia's recent base rate proceeding, distinguishing factors warrant a different result in this proceeding.

12. In *Columbia*, the Commission specifically found that no party presented the A&E methodology for the Commission's consideration.[244]

13. Without being able to compare the A&E methodology to the P&A methodology in *Columbia*, the Commission did not have an opportunity to evaluate whether the A&E methodology is reasonable and consistent with cost causation principles.

14. Because a different proposed allocation methodology and evidentiary record exists in this case, the Commission's recent order in *Columbia* should have no bearing on the outcome of this proceeding.

15. Pursuant to Section 1304 of the Public Utility Code, NGDCs have an overarching obligation not to "establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[245]

16. In order to survive a challenge under Section 1304 of the Public Utility Code, the Commonwealth Court held that a "utility must show that the differential can be justified by the difference in costs required to deliver service to each class."[246]

17. For a revenue allocation to be found reasonable, Commission precedent explains that the revenue allocation should move all rate classes closer to the system average ROR, *i.e.*, closer to their cost of service, while also recognizing principles of gradualism.[247]

18. Principles of gradualism require "phasing in rates or closing rate differentials over a longer period of time allowing consumers to gradually make the adjustments in the 'elastic' part of their spending so as to pay for increased utility costs."[248]

19. While principles of gradualism should be considered, they "do not justify allowing one class of customers to subsidize the cost of service for another class of customers over an extended period of time."[249]

20. PECO's proposed revenue allocation does not survive a challenge under Section 1304 of the Public Utility Code.[250]

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[243] *Pa Pub. Util. Comm'n v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Opinion and Order dated Feb. 8, 2007), p. 176.
[244] *Pa Pub. Util. Comm'n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Opinion and Order dated Feb. 19, 2021), p. 214 ("*Columbia*").
[245] 66 Pa. C.S. § 1304.
[246] *Phila. Suburban Water Co. v. Pa. Pub. Util. Comm'n*, 808 A.2d 1044, 1060 (Pa. Commw. Ct. 2002); see also Lloyd at 1016.
[247] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012).
[248] *Lloyd* at fn. 14.
[249] *Lloyd* at 1020.
[250] 66 Pa. C.S. § 1304.

21. PECO must propose to eliminate the difference between the system average ROR and the class ROR for Rate GC and Rate L in this proceeding to comply with PECO's 2008 base rate settlement.[251]

22. PECO's 2008 settlement terms are reasonable and consistent with cost causation because both Rate GC and Rate L are moving to their cost of service.[252]

23. Where all customer classes are struggling to recover from the pandemic, the Commission should not pick and choose winners and losers among the customer classes, but instead be guided by its precedent and traditional revenue allocation principles.[253]

24. If Rates GC and L are not moved to the system average ROR in this proceeding, the prolonged cross-subsidization that has existed since PECO's 2008 rate case will continue, which is inconsistent with Commonwealth Court precedent.[254]

25. The revenue allocation should continue to move classes towards their cost of service and eliminate cross-subsidies between classes, which does not occur when increases are being minimized for certain classes and not others.

26. PAIEUG's proposed revenue allocation methodology should be adopted by the Commission because it moves all classes closer to their cost of service, complies with Commission precedent, and adheres to principles of gradualism and cost causation.

27. If the Commission approves a lower revenue increase for PECO than requested, a proportional scale back is reasonable and consistent with Commission precedent.[255]

28. Given the significant divergence of OSBA's proposal from Commission precedent and other parties' proposals, the Commission should not adopt OSBA's scale back approach.

29. If the Commission does not approve PECO's full revenue increase, a proportional scale back of rates should occur, and it should apply to both volumetric charges and customer charges.

30. OSBA's proposal to reduce the volumetric differentials for Rates TS-F and TS-I was not based on a review of any specific cost-of-service information from PECO, which gives the proposal less credibility.

31. Because the current volumetric differentials for Rates TS-F and TS-I are included in PECO's tariff, which was approved by the Commission, they are deemed *prima facie* reasonable.[256]

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[251] *Pa. Pub. Util. Comm'n v. PECO Energy Co.,* Docket No. R-2008-2028394 (Joint Petition for Settlement dated Aug. 21, 2008), pp. 5-6.

[252] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.,* Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012).

[253] *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.,* Docket No. R-2012-2290597 (Opinion and Order dated Dec. 28, 2012), pp. 118-119 (Dec. 28, 2012); *see also Lloyd* at 1020; *Pa. Pub. Util. Comm'n v. Metro. Edison Co. and Pa. Elec. Co.,* Docket Nos. R-00061366 and R-00061367 (Opinion and Order dated Jan. 11, 2007), p. 234.

[254] *Lloyd* at 1020.

[255] *Columbia* at 234; *see also Pa. Pub. Util. Comm'n v. UGI Utilities, Inc.*, Docket No. R-00932862 (Opinion and Order dated May 23, 1994), pp. 128-129.

[256] 66 Pa.C.S. § 316 ("Whenever the Commission shall make any rule, regulation, finding, determination or order, the same shall be prima facie evidence of the facts found and shall remain conclusive upon all parties affected thereby.");

32. OSBA has the heavy burden of demonstrating that facts and circumstances have changed so drastically that the current differentials for Rates TS-F and TS-I within PECO's Tariff are unreasonable and must be replaced with OSBA's proposed differentials.[257]

33. Given the lack of supporting data for the proposed rate design changes and the conflicting testimony from PECO, OSBA fails to meet its burden of proof in this proceeding and no change to the volumetric differentials for Rates TS-F or TS-I should occur.

34. The Commission should maintain the status quo with respect to USP cost allocation on PECO's system.

35. The proposal to change allocation of USP costs to all customer classes must be rejected because, if adopted, the change would ignore the well-established principles of cost-causation.

36. The Commonwealth Court of Pennsylvania has previously indicated that the principle of cost causation is the polestar for ratemaking purposes.[258]

37. Allocating USP costs to all customer classes would be "contrary to the Commission's cost-of-service philosophy."[259]

38. In fashioning the proper cost allocation for PECO's USP, the Commission must consider the nature of the program, which is to provide low-income assistance to residential customers.

39. In *Columbia*, the Commission noted the non-precedential nature of its statements with respect to cost recovery in the *Final CAP Policy Statement*.[260]

40. In *Columbia*, the Commission acknowledged that the historical approach to approving recovery of universal service costs was based on the "'narrowly tailored' nature of these programs and the potential negative impact on Pennsylvania's businesses if these costs were removed from all ratepayer classes."[261]

41. In *Columbia*, the Commission considered the substantial evidence in the record and whether or not the OCA and CAUSE-PA satisfied their burden of proving USP costs should be distributes among all the classes.[262]

42. In *Columbia*, the Commission concluded that the OCA and CAUSE-PA failed to satisfy this burden, recognizing that parties who opposed changing the status quo of cost allocation for USP presented enough evidence to show that adopting this proposal would flout the principles of cost-causation.[263]

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see also Shenango Township Board of Supervisors v. Pa. Pub. Util. Comm'n, 686 A.2d 910, 914 (Pa. Commw. Ct. 1996).

[257] *Shenango Township Board of Supervisors v. Pa. Pub. Util. Comm'n*, 686 A.2d 910, 914 (Pa. Commw. Ct. 1996).

[258] *Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010, 1016 (Pa. Cmwlth. 2006).

[259] PAIEUG Statement No. 1-R, p. 12.

[260] *Columbia* at 258-60; *2019 Amendments to Policy Statement on Customer Assistance Program 52 Pa. Code § 69.261-69.267*, Docket No. M-2019-3012599, Final Policy Statement and Order (entered November 5, 2019) ("*Final CAP Policy Statement*").

[261] *Columbia* at 258.

[262] *Id.* at 260.

[263] *Id.*

43. In *Columbia*, the Commission recognized the "economic impacts commercial and industrial customers are experiencing due to the COVID-19 pandemic" as one of the factors weighing in favor of maintaining the status quo for allocation of USP costs.[264]

44. Because of the similarities between OCA and CAUSE's requests in both Columbia and PECO's natural gas base rate proceeding, the Commission should apply its findings in *Columbia* regarding this issue and maintain the status quo for PECO's allocation of USP.

[264] *Id.* at 261.

APPENDIX C

PROPOSED ORDERING PARAGRAPHS

1. Only grant PECO a requested rate increase in the amount necessary, if any, to ensure just and reasonable rates for all PECO customers;

2. Accept PECO's proposed Class Cost of Service Study based upon the Average & Excess methodology for purposes of this proceeding;

3. Allocate any resulting rate increase based upon PAIEUG's rate allocation proposal, as it appropriately moves all customer classes closer to their cost to serve;

4. If PECO is granted less than its requested rate increase, scale back PAIEUG's rate allocation proposal for purposes of implementing any approved rate increase;

5. Reject OSBA's proposal to modify the differential between TS-F and TS-I customers;

6. In the alternative, reject OSBA's proposal for purposes of this proceeding and, instead, require PECO to address this issue in its next natural gas base rate proceeding, along with requiring PECO to provide the analysis and information needed for the parties to determine whether such a change is warranted; and

7. Reject OCA's and CAUSE-PA's proposals to modify PECO's allocation of universal service program costs, and instead, retain the status quo of collecting these costs only from the residential class.