



COMMONWEALTH OF PENNSYLVANIA

March 15, 2021

E-FILED

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

**Re: Pennsylvania Public Utility Commission v. PECO Energy Company – Gas Division /
Docket No. R-2020-3018929**

Dear Secretary Chiavetta:

Enclosed please find the Reply Brief, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceeding.

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

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

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures

cc: Robert D. Knecht
Parties of Record

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I. Introduction

A. Description of the Company

The OSBA is not addressing this issue in this Reply Brief.

B. Procedural History

On September 30, 2020, PECO Energy Company – Gas Division (“PECO” or the “Company”) filed Tariff Gas Pa. P.U.C. No. 4 (“Tariff No. 4”) with the Pennsylvania Public Utility Commission (“Commission”). PECO’s Tariff No. 4 proposed an annual increase to the Company’s distribution revenue of approximately \$68.7 million.

On October 15, 2020, the Office of Small Business Advocate (“OSBA”) filed a Complaint against Tariff No. 4.

On November 9, 2020, a prehearing conference was held before Deputy Chief Administrative Law Judge (“DCALJ”) Christopher P. Pell.

On November 10, 2020, DCALJ Pell issued his Prehearing Order #1.

On December 22, 2020, the OSBA served the Direct Testimony of Robert D. Knecht, in both Public and Confidential versions.

On January 19, 2021, the OSBA served the Rebuttal Testimony of Mr. Knecht.

On February 9, 2021, the OSBA served the Highly Confidential Surrebuttal Testimony of Mr. Knecht.

On February 17, 2021, DCALJ Pell conducted an evidentiary hearing.

On March 3, 2021, the OSBA submitted its Main Brief.

The OSBA submits this Reply Brief in accordance with DCALJ Pell’s November 10th Prehearing Order #1.

C. Overview of PECO's Filing

The OSBA is not addressing this issue in this Reply Brief.

D. Burden of Proof

The OSBA addressed this issue in its Main Brief, citing to the Commission's recent legal analysis set forth in *Pennsylvania Public Utility Commission, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Order entered February 19, 2021), at 8-12 ("*Columbia Order*").

II. Summary of Argument

The DCALJ and the Commission should adopt any of the Rate GC revenue allocation proposals of PECO, PAIEUG, the OCA, or I&E.

The DCALJ and the Commission should adopt the revenue allocation proposals for the TS-F and TS-I classes presented by either the OSBA or OCA.

The DCALJ and the Commission should adopt PECO's proposal to continue to recover costs for the Company's Universal Service programs for low-income customers from the Rate GR residential class.

III. Overall Position on Rate Increase Request

The OSBA is not addressing this issue in this Reply Brief.

IV. Rate Base

The OSBA is not addressing these issues in this Reply Brief.

V. Revenues

The OSBA is not addressing this issue in this Reply Brief.

VI. Expenses

The OSBA is not addressing these issues in this Reply Brief.

VII. Taxes

The OSBA is not addressing this issue in this Reply Brief.

VIII. Rate of Return

A. Introduction

The OSBA is not addressing this issue in this Reply Brief.

B. Capital Structure Ratios

The OSBA is not addressing this issue in this Reply Brief.

C. Cost of Long-Term Debt

The OSBA is not addressing this issue in this Reply Brief.

D. Common Equity Cost Rate

The OSBA is not addressing this issue in this Reply Brief.

E. Business Risks and Management Performance

The OSBA is not addressing this issue in this Reply Brief.

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

The OSBA is not addressing this issue in this Reply Brief.

IX. Customer Programs and Miscellaneous Issues

The OSBA is not addressing these issues in this Reply Brief.

X. Rate Structure

A. Cost of Service

The OSBA addressed the issue of the class cost of service study (“GCOSS”) for a regulated natural gas distribution company (“NGDC”) in its Main Brief.

1. PECO Revised Gas Cost of Service Study

The OSBA is not addressing this issue in this Reply Brief.

2. Opposing Party Recommendations

In its Main Brief, PAIEUG confirmed its adoption of the PECO revised GCOSS. *PAIEUG Main Brief*, at 10-13. The OSBA addressed the pros and cons of the Company's revised GCOSS in its Main Brief. *OSBA Main Brief*, at 9-14.

For the convenience of the reader, and as set forth in the OSBA's Main Brief, the table below compiles the class rates of return at present rates from the three GCOSS options presented in this proceeding for the major rate classes:

GCOSS Class Rates of Return at Present Rates			
	PECO Rebuttal	OCA Rebuttal	OSBA Surrebuttal
GR	4.8%	4.8%	4.8%
GC	8.1%	9.1%	9.0%
TS-F	6.7%	4.6%	5.3%
TS-I	8.3%	3.1%	3.0%
Total	5.7%	5.7%	5.7%
Sources: PECO Exhibit JD-1R, OCA Statement No. 4R, Table 2-R, OSBA Statement No. 1-S, RDK WP2S			

B. Revenue Allocation

1. PECO Revised Revenue Allocation

The OSBA is not addressing this issue in this Reply Brief.

2. Opposing Party Alternative Revenue Allocations

The OSBA Main Brief set forth a comparison table of revenue allocation proposals in this proceeding, based on a table from Mr. Knecht's evidence updated for I&E surrebuttal. That table did not recognize that Witness LaConte representing PAIEUG had substantially modified her revenue allocation proposal in surrebuttal testimony. The table below is an update to reflect PAIEUG's changed position.

OSBA Updated Comparison of Revenue Allocation Proposals (\$000)							
	PECO Gas (original)	PECO Gas (rebuttal)	Knecht/OSBA (surrebuttal)	Watkins/OCA (rebuttal)	Cline/I&E (surrebuttal)	PAIEUG (direct)	PAIEUG (surrebuttal)
GR	41,720	63,920	\$58,096	59,973	62,074	53,750	65,658
GC	17,310	(3,877)	0	(436)	0	9,119	(3,969)
L	35	292	195	0	32	35	293
MV-F	97	(86)	126	128	(34)	(7)	(115)
MV-I	1	(1)	0	0	0	0	(1)
IS	0	(4)	35	10	(2)	13	(2)
TCS	56	(497)	0	0	7	0	(514)
TS-F	5,370	4,583	3,960	4,400	1,515	3,021	2,536
TS-I	2,378	(75)	2,020	2,711	664	903	(45)
Total	\$66,787	\$64,257	\$64,432	\$66,787	\$66,786	\$66,834	\$63,842
Sources: RDK WP-R1, WP-1S, I&E Statement No. 3-SR at 21, PAIEUG Statement No. 1-S at							

OSBA Statement No. 3, at 14.

The OSBA Main Brief explained that the PAIEUG revenue allocation proposal relied on a GCOSS that (a) was not consistent with Commission precedent and (b) imposed a too-narrow rate gradualism requirement. As shown in PAIEUG Exhibit BSL-1S, PAIEUG's surrebuttal relaxed the rate gradualism constraint by applying a 28.0 percent increase to the GR class, roughly 1.6 times the 17.8 percent system average increase. Thus, the OSBA observes that the PAIEUG surrebuttal revenue allocation proposal is a reasonable alternative, if the Commission accepts the Company's GCOSS methodology. More importantly, the PAIEUG revision in surrebuttal produces a remarkable unanimity of opinion among a variety of experts that the Rate GC class should be assigned either a zero increase or a rate decrease.

However, OSBA respectfully submits that the PAIEUG revenue allocation proposal continues to be based on the Company's GCOSS methodology, which is not consistent with Commission precedent as set forth in OSBA's Main Brief.

3. Scale Back of Rates

The OSBA fully addressed this issue in its Main Brief.

C. Allocation of Universal Service Costs

1. Commission Precedent

The OSBA fully addressed this issue in its Main Brief.

2. Universal Service Cost Recovery Policy

Both the OCA and CAUSE-PA cited to this language in support of their argument that CAP costs should be allocated to all PECO customers:

In rate cases, parties may raise the issue of recovery of CAP costs, whether specifically or as part of universal service program costs in general, from all ratepayer classes. No rate class should be considered routinely exempt from CAP and other universal service obligations.

52 Pa. Code Section 69.266(b). *See OCA Main Brief*, at 183; *CAUSE-PA Main Brief*, at 40-41.

Significantly, in its Policy Statement, the Commission stated the following regarding cost recovery:

In evaluating utility CAPs for ratemaking purposes, ***the Commission will consider both revenue and expense impacts.***

52 Pa. Code § 69.266(a) (emphasis added).

As set forth in the OSBA Main Brief, Mr. Knecht calculated the impact of the OCA and CAUSE-PA proposals. Specifically, Mr. Knecht calculated that the OCA proposal would save the average residential customer 76 cents per month. OSBA Statement No. 1-R, at 26-27. In contrast, “large businesses would face a cost increase of 3 to 6 cents per mcf, while small businesses face cost increases over 15 cents per mcf.” *Id.*, at 27.

Consequently, as set forth in the OSBA Main Brief, the OCA and CAUSE-PA proposal to allocate universal service costs does not pass the necessary expense and revenue impact test of

52 Pa. Code § 69.266(a). Savings that are *de minimis* for the residential class, but significantly impact the rates paid by PECO's small businesses, is not a just and reasonable result.

D. Tariff Structure

1. Residential Customer Charge

The OSBA is not addressing this issue in this Reply Brief.

2. Non-Residential Customer Rate Design

a. Rate GC Customer Charge

The OSBA is not addressing this issue in this Reply Brief.

b. Rate GC Declining Block Volumetric Charge Differential

The OSBA is not addressing this issue in this Reply Brief.

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

The OSBA is not addressing this issue in this Reply Brief.

d. Elimination of Rate IS Margin Sharing

The OSBA is not addressing this issue in this Reply Brief.

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

The OSBA is not addressing this issue in this Reply Brief.

f. Rate L

The OSBA is not addressing this issue in this Reply Brief.

3. DSIC Cost Allocation

The OSBA is not addressing this issue in this Reply Brief.

4. Negotiated Gas Service

The OSBA fully addressed this issue in its Main Brief.

5. Theft/Fraud Investigation Charge

The OSBA is not addressing this issue in this Reply Brief.

E. Summary and Alternatives

The OSBA is not addressing this issue in this Reply Brief.

XI. Conclusion

Therefore, as set forth in the OSBA's Main Brief, and this Reply Brief, the OSBA respectfully requests that the DCALJ and Commission:

1. Award PECO an ROE of no more than the 8.75 percent;
2. Grant no upward adjustment to PECO's awarded ROE for the Company's management performance;
3. Adopt the GCOSS presented by the OSBA or, in the alternative, the GCOSS presented by the OCA;
4. Adopt any of the Rate GC revenue allocation proposals of the OSBA, PECO, the OCA, PAIEUG or I&E;
5. Adopt the revenue allocation proposals for the TS-F and TS-I classes presented by either the OSBA or the OCA;
6. Apply the OSBA's hybrid scaleback mechanism to any reduction in the overall proposed revenue increase;
7. Adopt PECO's proposal to continue to recover costs for the Company's Universal Service programs for low-income customers from the Rate GR residential class;
8. Adopt PECO's revised proposed customer charge for Rate GC of \$28.55 per month;
9. Adopt PECO's revised proposed declining block rates for Rate GC;
10. Adopt PECO's revised proposal for rate differentials between the small and large customers in Rates TS-F and TS-I;
11. Adopt PECO's revised proposal to eliminate the Rate IS margin sharing mechanism;

12. Require that transportation of PECO's standby supply gas be made using the transportation rates within the TS-F and TS-I tariffs; and
13. Reduce PECO's claimed revenue increase by the amount of the unjustified rate discounts provided to five NGS customers.

Respectfully Submitted,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

Office of Small Business Advocate
555 Walnut Street
Forum Place, 1st Floor
Harrisburg, PA 17101

Dated: March 15, 2021

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

CERTIFICATE OF SERVICE

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

The Honorable Christopher P. Pell
Administrative Law Judge
Pennsylvania Public Utility Commission
801 Market Street, Suite 4063
Philadelphia, PA 19107
CPell@pa.gov

Scott B. Granger, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
400 North Street, 2nd Floor
Commonwealth Keystone Building
Harrisburg, PA 17120
sgranger@pa.gov

Kenneth M. Kulak, Esq.
Anthony C. DeCusatis, Esq.
Catherin G. Vasudevan, Esq.
Brooke E. McGlinn, Esq.
Morgan, Lewis and Bockius LLP
1701 Market Street
Philadelphia, PA 19103
ken.kulak@morganlewis.com
anthony.decusatis@morganlewis.com
catherine.vasudevan@morganlewis.com
brooke.mcglinn@morganlewis.com

Elizabeth R. Marx, Esquire
John W. Sweet, Esquire
Ria M. Pereira, Esquire
118 Locust Street
Harrisburg, PA 17101
pulp@palegalaid.net

Anthony E. Gay, Esq.
Jack R. Garfinkle, Esq.
Brandon J. Pierce, Esq.
PECO Energy Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101
anthony.gay@exeloncorp.com
jack.garfinkle@exeloncorp.com
brandon.pierce@exeloncorp.com

Barrett Sheridan, Esq.
Phillip Demanchick, Esq.
Christy Appleby, Esq.
Darryl A. Lawrence, Esq.
Laura Antinucci, Esq.
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101-1923
Ocapecogas2020@paoca.org

Charis Mincavage, Esquire
Adeolu Bakare, Esquire
Jo-Anne S. Thompson, Esquire
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
cmincavage@mcneeslaw.com
abakare@mcneeslaw.com
jthompson@mcneeslaw.com

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

DATE: March 15, 2021