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March 15, 2021

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:

Attached for electronic filing please find the Office of Consumer Advocate's Reply Brief in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

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cc: The Honorable Christopher P. Pell **(email only)**
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Certificate of Service

*304740

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the following documents, the Office of Consumer Advocate's Reply Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 15th day of March 2021.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission Office of Consumer Advocate Office of Small Business Advocate Philadelphia Area Industrial Energy Users Group v. PECO Energy Company – Gas Division	: : : : : : : :	Docket Nos. R-2020-3018929 C-2020-3022400 C-2020-3022414 C-2020-3022745

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Dated: March 15, 2021

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I. INTRODUCTION

The Office of Consumer Advocate (OCA) submits this Reply Brief in response to the Main Briefs of the other Parties. The OCA's Main Brief contained a comprehensive discussion of the evidence and its positions on all issues; thus, the OCA will respond only to those matters raised by the other Parties that were not previously addressed or that require clarification. Nevertheless, the OCA does not waive its position on contested issues because it does not repeat arguments here. Accordingly, the OCA incorporates the arguments and analysis contained in its Main Brief herein by reference.

II. SUMMARY OF ARGUMENT

In this Reply Brief, the OCA responds primarily to the arguments raised in the Main Brief of PECO Energy Company – Gas Division (PECO or the Company). The OCA notes that many of the arguments raised by the Company were fully addressed in the OCA's Main Brief and will not be repeated here. The OCA further notes that no averments in any of the Parties' Main Briefs alter the OCA's overall position in this proceeding.

In its Main Brief, PECO relies on the testimony of Paul W. Hibbard, the former chairman of the Massachusetts Department of Public Utilities, to assert that, *inter alia*, the Commission should reject the recommendations of OCA witness Scott J. Rubin to deny PECO's proposed rate increase at this time. The Company asserts that the proposal of Mr. Rubin is extreme, unwarranted and inconsistent with long-standing principles of ratemaking. In addition, the Company presents numerous arguments in support of its claims in this proceeding, such that its request to increase rates by approximately $66.2 million is warranted.

The Company's arguments should be rejected. The Commission must thoroughly consider the ongoing, serious economic and personal hardships being faced by all Pennsylvanians, including PECO's ratepayers, due to the novel coronavirus pandemic (COVID-19 Pandemic) in reaching a decision as to a just and reasonable level of rates for PECO. The Commission, in its role as regulator, must engage in a balancing act, based on all the facts, to arrive at rates that meet the just and reasonable standard. The Commission should carefully weigh and consider the current economic and health crisis in its determination of a fair rate of return, the reasonableness of the Company's claims, and whether an increase is warranted at this time. This is not a 'business as usual' decision.

Based upon the record evidence, the Company does not need a rate increase at this time. If rates remain at current levels and there is no adjustment to the Company's claims and projections in this proceeding, the Company will continue to earn a rate of return of approximately 5.74%, which includes a return on equity of 7.40%. This is more than sufficient for PECO to continue to meet its obligations to the public and earn a reasonable return from its business operations. Moreover, keeping rates the same will benefit the Company's ratepayers who are currently struggling with a once-in-a-lifetime health crisis to meet their economic needs. This is well within the Commission's legal authority.

If the Commission employs a 'business as usual' approach, however, the OCA has demonstrated in its Main Brief, and further below, that the Company has failed to carry its burden of proof as to the requested revenue increase. The Company has not adequately supported its projected capital additions and operating expenditures, providing vague, inconsistent, and unreasonable data. Accordingly, based upon the adjustments and recommendations of the OCA, the Company should decrease rates to earn a market-derived return on equity of 8.75%.[1]

[1] The OCA does note that there are two minor changes to the OCA's expense adjustments, which will be explained further below and reflected in the OCA's Revised Rate Case Tables attached as Appendix A to this Reply Brief. Based upon these changes, the OCA's position is that the Company should decrease rates by approximately $11.3 million per year to earn a market-derived return on equity of 8.75%.

III. OVERALL POSITION ON RATE INCREASE REQUEST

A. Introduction.

The Commission has the authority under 66 Pa. C.S. Section 1301 to set rates at an amount it determines to be "just and reasonable" and that authority includes the ability to deny a utility its requested increase.[2] The Commission has the authority and discretion to deny the requested rate increase so long as that amount is not confiscatory and the utility has the opportunity to earn a fair rate of return.[3] The OCA submits that raising natural gas rates on PECO's customers during this time would not meet the just and reasonable requirement of Section 1301.[4] Moreover, it is the Commission's responsibility, under constitutional requirements, to weigh the substantial evidence brought forth by the OCA's witnesses related to the unique COVID-19 Pandemic situation in setting just and reasonable rates.[5] As stated by this Commission, the evidence of the impacts of the COVID-19 Pandemic on the components of the Company's claimed cost of service—specifically, a fair rate of return, projected expenses and projected capital expenditures—will be included in the Commission's consideration of important ratemaking principles such as gradualism and rate affordability in arriving at just and reasonable rates.[6] In the OCA's Main Brief and this Reply Brief, the OCA submits that PECO should not be granted an increase. OCA M.B. at 12; OCA St. 2-SR at 2. In fact, the record in this matter demonstrates that, under a "business as usual" approach, PECO's rates should be reduced, not increased. OCA M.B. at 12; OCA St. 2-SR at 2.

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[2] 66 Pa. C.S. § 1301.

[3] Duquesne Light Co. v. Barasch, 488 U.S. 299, 310 (1989) (Duquesne).

[4] 66 Pa. C.S. § 1301.

[5] See Pa. Pub. Util. Comm'n, et al. v. Columbia Gas of Pennsylvania, Docket Nos. R-2020-3018835 et al., Opinion and Order at 48 (Pa. PUC Feb. 19, 2021) (Columbia Gas).

[6] Id.

In its Main Brief, the Company argues that the OCA's recommendation for the rejection of PECO's base rate increase is "extreme, unwarranted, and inconsistent with long-standing principles of ratemaking." PECO M.B. at 9; PECO St. 11-R, p. 7. The Company also contends that rejecting PECO's rate increase would risk the financial integrity of PECO along with PECO's ability to efficiently operate its system. Id. at 9-10. The Company cites to the testimony of its witness, Paul W. Hibbard, which introduces examples of 67 utility rate increases in the United States from March 2020 to December 2020. Id. at 10-11. PECO also contends that Mr. Rubin's claim that PECO's projections cannot be relied upon due to the pandemic is unsupported by evidence. Id. at 12. Further, the Company cites to the recent Columbia Gas order to argue that there is no basis for the Commission to reach any different result in this proceeding than in prior proceedings during the pandemic and, therefore, the Commission should also grant PECO an increase in rates. Id. at 13-14.

The OCA has presented substantial evidence demonstrating that customers in PECO's service territory have suffered, and continue to suffer financially due to the pandemic. A rate increase during this time will only cause further financial harm to those customers. OCA St. 1, *passim* and 1-SR, *passim*. The Company has not provided sufficient evidence to rebut the evidence of the financial hardships faced by customers or that its customers suffering financially during this time will not be further harmed by PECO's requested rate increase. The OCA submits that PECO's revenues need not be changed, and the Company would not be harmed, or its constitutional rights violated, if a rate increase is not granted in this case recognizing the economic circumstances its customers face and recognizing the need to better ensure the financial well-being of PECO's customers. The Constitution requires that rates must be higher than a confiscatory level[7] and the utility should have the opportunity to earn a fair rate of return given the risks under the particular ratesetting system.[8] The recent Columbia Gas order provided that, "[t]he Commission 'has broad discretion in determining whether rates are reasonable' and 'is vested with discretion to decide what factors it will consider in setting or evaluating a utility's rates.'"[9] The OCA submits that it is fully within the Commission's power to deny PECO's requested increase to prevent further hardship for customers struggling financially during this pandemic. The OCA's substantial evidence regarding the COVID-19 Pandemic's effects on customers' ability to afford a rate increase, particularly given the adequate amount of revenues PECO is receiving at current rates and the existence of inaccuracies and lack of support for certain projected expenses and capital spending, creates an ample basis for a denial of PECO's requested rate increase.

B. The OCA Introduced Substantial Evidence to Show that PECO's Customers will be Harmed by a Rate Increase, which PECO Failed to Rebut.

OCA witnesses Rubin and Colton provided extensive testimony on the harm the pandemic has wrought on the general economy and the livelihoods of Pennsylvania citizens and businesses and, more narrowly, PECO's customers. OCA M.B. at 13-19. In its Main Brief, the OCA details the significant impacts the COVID-19 Pandemic has had on unemployment rates, income loss, and other economic indicators within Pennsylvania and the PECO service territory. OCA M.B. at 13-19. In PECO's Main Brief, PECO has not refuted the persuasive evidence of ratepayer harm presented by Mr. Rubin and Mr. Colton. See PECO M.B. at 8-14.

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7 Federal Power Comm'n v. Texaco, Inc., 417 U.S. 380, 392-92 (1974) (citing FPC v. Natural Gas Pipeline Co., 315 U.S., at 585).

8 Duquesne, 488 U.S. at 310.

9 Columbia Gas at 44 (quoting Popowsky v. Pa. PUC, 683 A.2d 958, 961 (Pa. Cmwlth. 1996)).

As provided in the OCA's Main Brief, the COVID-19 Pandemic job loss across Pennsylvania has been so significant over the past year that half of the Pennsylvania workforce has filed an unemployment claim since March of 2020. OCA M.B. at 14; OCA St. 2-SR at 2. In the counties served by PECO, monthly unemployment rates at the end of November 2020 ranged between 4.4 percent in Chester County and 6.5 percent in Delaware County. OCA M.B. at 14; OCA St. 2-SR, Exhibit SJR-8S. According to a survey conducted by the U.S. Census Bureau, roughly 50 percent of Pennsylvania households experienced wage loss from March 13, 2020 through February 9, 2021. OCA M.B. at 14; OCA St. 1-SR, Schedule SJR-7S at 1, Figure 3 (Updated). As testified by OCA witness Rubin, the significant unemployment and income loss translates to a reduced ability for customers to afford their current utility bills. OCA M.B. at 15; OCA St. 1 at 15-16.

In its Main Brief, the Company argued that, through delaying its request for a rate increase in March of 2020 due to the pandemic, it has experienced 6 months of earnings loss. PECO M.B. at 11-12. While the OCA acknowledges that PECO's decision not to file a rate increase at the onset of the COVID-19 Pandemic was prudent, the record shows that the financial situation for many Pennsylvanians and customers of PECO remains bleak and uncertain a year later and, therefore, a rate increase remains unjust and unreasonable today. OCA M.B. at 13-19. The Company has the burden of proving just and reasonable rates and it has not adequately addressed the major impact that raising its rates will have on customers facing the above-mentioned hardships due to the COVID-19 Pandemic.

Moreover, the OCA disputes the notion that the Company can claim earnings loss by delaying their rate case. The purpose of a base rate proceeding is to determine whether or not the Company does or does not currently have the opportunity to earn a fair rate of return. There is no guarantee of any level of rate increase and certainly no guarantee of any level of earnings. As the OCA has demonstrated in its Main Brief and further below, however, PECO has not produced sufficient evidence to demonstrate that it is earning below a fair rate of return.

PECO has also not, in its Main Brief or in its Rebuttal Testimony, rebutted the persuasive evidence presented by Mr. Colton regarding the impact of the proposed rate increase on the Company's low-and moderate-wage workers. As the OCA discussed in its Main Brief, OCA witness Colton testified that the COVID-19 Pandemic has had a disproportionate effect on low-and moderate-wage workers. OCA M.B. at 16-18; OCA St. 5 at 6-29. The unrebutted evidence presented by OCA witness Colton demonstrates that the COVID-19 Pandemic has created material hardships for low-and moderate-wage workers that directly impact their ability to pay utility bills. See, OCA M.B. at 16; OCA St. 5 at 12-18. A resolution to the public health crisis through a vaccine will not resolve the long-term economic crisis created by the COVID-19 Pandemic for low-and moderate-wage workers. See, OCA M.B. at 17; OCA St. 5 at 19-23. The OCA submits that the impact of the COVID-19 Pandemic on low-and moderate-wage workers must be given due consideration.

The standard for review of a fully contested case before the Commission is that of the burden of proof standard.[10] Under the burden of proof standard, the party upon whom the burden is placed must meet that burden by a preponderance of the evidence.[11] A preponderance of the evidence is established by presenting evidence that has sufficient weight to "tip the scales" on the side of the party presenting it.[12] An Agency's determination must be supported by substantial

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10 66 Pa. C.S. § 315(b).

11 Se-Ling Hosiery v. Marguilies, 70 A.2d 854, 856 (Pa. 1950).

12 Id.

evidence.[13] "Substantial evidence" is a "term of art" used to describe whether the administrative record contains sufficient evidence to support the agency's factual determinations.[14] For a Commission decision to be supported by substantial evidence, it must be supported by such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.[15] PECO has not met its burden of proof that its requested rate increase will not further exacerbate the substantial harm that the COVID-19 Pandemic has had on ratepayers in its territory this past year. Above all, PECO has not met its burden of proof under 66 Pa. C.S. Section 315(a) which places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility.[16] The OCA submits that there is substantial evidence in the record to demonstrate that PECO's ratepayers' overall economic circumstances has not significantly improved since the onset of the pandemic in March of 2020 and it remains unjust and unreasonable to raise rates on PECO's customers during this time.

C. The Company's Claims That Its Financial Integrity Will Be At Risk Without A Rate Increase is an Overstatement and Not Supported in the Record.

The Commission should reject the Company's claims that its financial integrity will be at risk by a denial of an unnecessary rate increase. As provided in the OCA's Main Brief, under PECO's claims for the FPFTY ending June 30, 2022, it has the ability recover all of its claimed expenses and debt costs (without any adjustment to the Company's FPFTY projections) and earn a return on equity of 7.40 percent. PECO M.B. at 3; PECO Ex. MJT-1 Revised, Sch. A-1. The

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13 2 Pa. C.S. § 704; see also Yellow Cab Co. v. Pa. Pub. Util. Comm'n, 524 A.2d 1069 (Pa. Commw. Ct. 1987).

14 Biestek v. Berryhill, 139 S. Ct. 1148, 1154 (2019).

15 Dutchland Tours, Inc. v. Pa. PUC, 337 A.2d 922 (Pa. Cmwlth. 1975).

16 Lower Frederick Twp. V. Pa. Pub. Util. Comm'n, 409 A.2d 505, 507 (Pa. Commw. Ct. 1980) (citations omitted) (referencing 66 Pa. C.S. § 315(a)); see also Brockway Glass v. Pa. Pub. Util. Comm'n, 437 A.2d 1067 (Pa. Commw. Ct. 1981).

Company is receiving more than sufficient revenues under current rates and it could continue to operate adequately, efficiently, and safely if the Commission denies the Company's requested rate increase.

The OCA's recommendation that the Commission deny PECO's rate increase in this matter is also not "extreme" and "unwarranted" as the Company's contends. PECO M.B. at 9. As provided by Mr. Rubin's testimony, there are examples of utilities throughout the United States that have determined that their financial need for a rate increase did not outweigh the further harm the increased rates would be for customers struggling financially because of the pandemic. OCA St. 1 at 21-23. In raising the point that 67 utilities in the United States have been granted an increase during the COVID-19 Pandemic, the Company has misinterpreted Mr. Rubin's conclusions. <u>See</u> OCA St. 1 at 21-23. Mr. Rubin is not trying to demonstrate that no utilities in the United States have been given a rate increase during this difficult time for many customers. PECO M.B. at 10-11. Rather, Mr. Rubin was providing examples of utilities voluntarily deferring rate increases or implementing rate reductions during this period to demonstrate that the impacts of the COVID-19 Pandemic are real. OCA St. 1-SR at 8-9. The OCA submits that, since PECO could financially forego a rate increase during this time, the Commission, therefore, should deny the Company's rate increase request in the interest of customers currently struggling because of the COVID-19 Pandemic.

D. <u>The OCA's Recommendation Aligns With the Long-Standing Principles of Public Utility Ratemaking</u>.

The Company's argument, that a denial of PECO's requested rate increase is inconsistent with longstanding ratemaking principles, is not accurate. As OCA witness Rubin testified, "[a]t its core, regulation is designed to protect utility consumers from what otherwise would be the unfettered power of a monopoly to set prices and the conditions of service." OCA St. 1 at 4. The setting of "just and reasonable" rates consists of a balancing between the interests of ratepayers and the interests of utilities and their shareholders. OCA M.B. at 24. As the OCA provides in its Main Brief, the COVID-19 Pandemic has significantly impacted PECO customers' ability to pay for the Company's requested increase in rates at this time. Id. The OCA submits that, when the Commission balances the monetary hardships faced by ratepayers and the Company's currently healthy financial situation—which would be undisturbed without a rate increase—it would be just and reasonable to deny PECO's requested increase during this time. OCA M.B. at 25. Explained another way, keeping PECO's current rates while the pandemic and its effects on the economy continues to unfold will prevent additional financial hardship for PECO's customer base and also allow PECO to recover all of its expenses and debt costs (without adjustment) and earn a return on equity of 7.40 percent in the FPFTY. PECO M.B. at 3; PECO Ex. MJT-1 Revised, Sch. A-1. Thus, the OCA submits that the Commission should deny PECO's rate increase.

E. Conclusion.

The OCA has introduced substantial evidence of the weakened financial situation many customers in PECO's service territories find themselves a year into the unprecedented COVID-19 Pandemic. The OCA submits that increasing rates on PECO's customers during this time would further exacerbate the financial situation for customers, particularly those customers of low to moderate incomes. PECO has not introduced sufficient evidence to meet its burden of proof that raising rates will be just and reasonable despite the extent of harm it will inflict on its customers. Further, PECO has not demonstrated that its revenues are nearing such a state of insufficiency that it will not have enough funds to cover all of its expenses and still have the opportunity to earn a fair rate of return. The Commission has the broad authority and discretion to reject PECO's requested new rates in light of the increased toll it would have on PECO's customers who are struggling financially to navigate the COVID-19 Pandemic. The OCA submits that its witnesses have provided substantial evidence of customer hardship in PECO's territory and the Company has not met its burden of proving its requested rate increase would be just and reasonable. Therefore, PECO's proposed rate increase should be denied.

IV. RATE BASE

In its Main Brief, the OCA recommended that the Commission remove from the Company's rate base, its claimed Fully Projected Future Test Year (FPFTY) plant additions and the Pension Asset. OCA M.B. at 32-42. The Company presents several arguments in opposition to these recommendations. The OCA will address the Company's arguments below.

A. Fair Value.

The OCA does not offer a position on this issue.

B. Utility Plant In Service.

The OCA addressed this section in its Main Brief and incorporates those statements by reference. OCA M.B. at 31.

C. Depreciation Reserve – Annual/Accumulated.

The OCA addressed this section in its Main Brief and incorporates those statements by reference. OCA M.B. at 32.

D. Additions to Rate Base.

1. Projected Plant in Service.

As stated in the OCA's Main Brief, the OCA's witness, Lafayette Morgan, recommended that the Commission not rely upon the Company's projected plant additions for the FPFTY as they did not provide substantial evidence to support these projections. See OCA M.B. at 32-37. More specifically, Mr. Morgan found that the Company's projections were based upon outdated budgeting information that was supported by vague and inconsistent data. See OCA M.B. at 32-35; see also OCA St. 2 at 10-11, OCA St. 2, App. B at 31.

PECO set forth several arguments in its Main Brief as to why Mr. Morgan's adjustment should be denied. PECO asserts that Mr. Morgan's position was refuted by Company witness Stefani, where he detailed the Company's budgeting process. OCA M.B. at 16. PECO also asserts that after it delayed its rate case for six months, it revised its test year budgets to account for the impacts of the COVID-19 Pandemic, among other things. OCA M.B. at 17. Moreover, PECO argues that the Company's budgeting processes were not abbreviated, that the Company can continue to meet its FPFTY projections without delay, and that Mr. Morgan misinterpreted Company data responses that do not reflect inadequacies in the data. PECO M.B. at 18-19.

The OCA submits that the Company's arguments and conclusory statements do not remedy the concerns identified by Mr. Morgan and the Company's FPFTY projections have not been shown to be supported by sufficient evidence. The Company confirms in its Main Brief that its Long Range Plan (LRP), upon which the test year budgets are based, was developed in June 2019 and approved by senior management in January 2020, before the onset of the COVID-19 Pandemic. PECO M.B. at 16-17; see also OCA St. 2-SR at 8-9. Thus, the budget on which the Company relied to develop the test year budgets for this proceeding are based on outdated data that does not reflect current economic conditions.

The Company, however, now claims that its test year budgets that were developed in July and August 2020 incorporated the impacts of the COVID-19 Pandemic. This contradicts direct statements made by Company witness Stefani. Mr. Stefani testified:

> Mr. Morgan's argument that the FTY and FPFTY budgets are unreliable and unreasonable, because they were prepared in the context of the COVID-19 pandemic, is incorrect and fails to appropriately recognize the FPFTY process. The test year concept is a basic tenet of ratemaking and is intended to reflect typical conditions and ignore atypical conditions. Projections should be made upon a utility's typical and normal operating conditions, not

> the rare event that may occur in the month prior to formulating budgets, as Mr. Morgan suggests.

PECO St. 2-R at 3. In other words, Mr. Stefani testified that the Company ignored the COVID-19 Pandemic, rather than address it by reflecting more realistic estimates. This is further confirmed when looking at the other expenses the Company is claiming in this proceeding, such as employee activity expense and travel, meals, and entertainment expense, where the Company asks this Commission to ignore the current effects of the COVID-19 Pandemic. <u>See</u> OCA M.B. at 57-59; <u>see</u> <u>also</u> PECO St. 2-R at 22. The OCA would also point to the fact that the Company's claim of 10.95% for its return on equity is the same claim it made in PECO Energy Company – Electric Division's most recent base rate proceeding in 2018. OCA St. 3 at 6. Thus, the Company's statements that its test year budgets incorporated the impacts of the COVID-19 Pandemic is without support in the record.

The OCA continues to assert that the Company's support for its projections in this proceeding consist of outdated, vague, and inconsistent information that is insufficient for its claim. For instance, the OCA requested a copy of the capital budget by plant account for the Future Test Year (FTY) and FPFTY that would contain a description of each project, completion date, and the current status of each project. <u>See</u> OCA St. 2, App. B at 2. In response, the Company provided data at a summary project level, with some estimated completion dates well beyond the test year that also did not correspond to the projected plant additions in the test year budgets. OCA St. 2-SR at 3; <u>Compare</u> OCA St. 2, App. B at 3; PECO St. 3-R, Exh. MJT-1 Revised, Sch. C-2, Exh. MJT-2 Revised, Sch. C-2.

Subsequently, the OCA issued follow-up discovery that tried to establish the exact basis for the Company's FPFTY claimed plant additions, requesting a detailed project listing, the current status of each project, and any projects that have recently been suspended, delayed, or cancelled.

OCA St. 2-SR at 3-4, see also OCA St. 2, App. B at 23. In response, the Company provided summary level project data that conformed to the test year budgets and stated that no projects had recently been affected by delays or suspensions. OCA St. 2-SR at 4. This was at odds with previous Company statements that planned-FTY plant additions had been affected by the COVID-19 Pandemic. See OCA St. 2-SR at 4, see also OCA St. 2, App. B at 16.

Moreover, the Company has made several inconsistent statements throughout this proceeding that call into question the nature of the projections used in this case. For example, I&E witness Cline specifically recommended that a portion of the Company's Natural Gas Reliability Project be removed from the Company's rate base claim because it did not appear that it would be completed before the end of the test year. See I&E St. 3 at 11. In response, Mr. Bradley stated that the capital costs related to the Liquefied Natural Gas (LNG) Plant, which is the only portion of the Reliability Project that will not be completed before the end of the test year, was not included in the Company's rate base claim. See Tr. at 215. In examining the Company's response to I&E-RB-4-D, however, it appears that the LNG Plant was included in the Company's rate base claim. See OCA St. 2, App. B at 31. This was also confirmed by Company witness Stefani during the evidentiary hearing. Tr. at 258. There is also record evidence demonstrating that a portion of the Natural Gas Reliability Project was denied a zoning permit in Marple Township, which is contrary to the Company's claims that no projects have been suspended, delayed or cancelled. See Tr. at 134-35. The OCA would also continue to note that there is some confusion concerning the replacement of bare steel mains as Mr. Bradley recently noted that a portion of those replacements would need to be rescheduled as a result of the COVID-19 Pandemic. Tr. at 213.

For all these reasons, the OCA submits that the Company's planned plant additions for the FPFTY are not supported by sufficient evidence. As the Commission stated "determining net plant additions in the FPFTY is a matter of judgement for the Commission, governed by the evidence presented in this record and guided by our regulatory expertise."[17] Similar to the Commission's decision to reduce Columbia Gas of Pennsylvania Inc.'s (Columbia Gas) claimed FPFTY plant additions in the recent Columbia Gas decision, the Company has failed to adequately demonstrate that its FPFTY plant additions are based upon sufficient evidence.[18] See OCA M.B. at 35-36. For these reasons, the Commission should accept the adjustment of OCA witness Morgan and reduce the Company's net plant in service claim by approximately $271 million. OCA St. 2-SR, Sch. LKM-2, Pg. 2, Line 5.

2. Pension Asset.

The Company is seeking to include in rate base, a 'Pension Asset' that represents past cumulative differences in the portion of pension expense that the Company assumes to be capitalized for ratemaking purposes and what is actually capitalized in the Company's plant accounts under Generally Accepted Accounting Principles (GAAP). OCA M.B. at 38, see also PECO St. 3 at 22-23. For the reasons stated in its Main Brief, the OCA submits that the Commission should deny the Company's claim to include the Pension Asset in rate base, as the $35.1 million is merely an accounting mismatch that represents the portion of the Company's cash contributions to pension expense prior to this base rate case that was not capitalized for financial accounting purposes. OCA M.B. at 38, see also OCA St. 2 at 40-41.

In the Company's Main Brief, PECO makes several arguments in support of its position. The Company asserts that the Pension Asset represents investor-supplied capital that was actually contributed to PECO's pension fund that has yet to be capitalized and placed in the Company's

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17 Columbia Gas at 61.

18 Columbia Gas at 61-62.

capital accounts. PECO M.B. at 22-23. PECO also asserts that unless the Pension Asset is given rate base recognition, PECO will never recover carrying costs on that investor-supplied capital. PECO M.B. at 23. In defense of its position, PECO also asserts, contrary to Mr. Morgan's criticisms, that there will be no overstatement of rate base because it will only earn a return on the actual, unamortized balance and that the Commission has approved three settlements regarding the base rate proceedings of Duquesne Light Company in which it was allowed to include in rate base a similar Pension Asset. OCA M.B. at 23-24.

The Company's arguments are flawed and should be dismissed. First, the OCA rejects the notion that this Pension Asset represents investor-supplied funds that will go unfunded by Company ratepayers unless the Commission grants its claim. As noted by OCA witness Morgan, the balance of the Pension Asset will ultimately be included in the Company's capital accounts and recovered from ratepayers in future years when the amount that the Company assumes to be capitalized for ratemaking purposes is less than the amount capitalized pursuant to GAAP. See OCA St. 2 at 18.

At present, however, the Pension Asset represents a portion of past pension expense that was not capitalized and depreciated pursuant to GAAP. This can be likened to any other expense item that is waiting amortization, which the Commission has repeatedly disallowed from recovery in rate base.[19] For that reason, it is not appropriate to allow the Company to include the Pension Asset in rate base and allow the Company to earn a return on these amounts. Doing so, would

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[19] See e.g. Pa. Electric Co. v. Pa. Pub. Util. Comm'n, 417 A.2d 819, 823 (Pa. Commw. Ct. 1979) (affirming the Commission's decision to deny rate base recovery of the unamortized balances of rate case expense, flood expense, and deferred energy costs), Pa. Pub. Util. Comm'n v. Metropolitan Edison Co., Docket No. R-822249, *et al.*, 1983 Pa. PUC LEXIS 13 at *48-53 (Pa. PUC Oct. 19, 1983) (disallowing a Company claim to earn a return on unamortized expense balances), Pa. Pub. Util. Comm'n v. Pa. Power Co., Docket No. R-811510, *et al.*, 1982 Pa. PUC LEXIS 154 at *29-32 (Pa. PUC Jan. 22, 1982) (disallowing rate base recovery of the estimated balance of unexpensed rental payments).

inappropriately inflate rate base and let the Company earn a return on a current asset that may not be capitalized and depreciated for some time allowing the Company to over earn. See OCA St. 2 at 18-19.

It should also be noted that the Company's Pension Asset does not represent future infusions of cash. See I&E St. No. 1-SR at 41-42. Rather, this is simply an accounting mismatch from previous cash contributions and the Company's ASC-715 amount over a number of years. OCA St. 2 at 17-18. Thus, the Company's claims that this is investor-supplied capital that should be subject to a return is without merit. It would be equivalent to inappropriately allowing a utility to earn a return on past expenses that occurred in between rate cases. Rather, in future years when the Company's cash contribution is less than the ASC 715 amount, the Company will capitalize more pension expense pursuant to GAAP than is assumed for ratemaking purposes, thereby reversing the accounting mismatch.

Lastly, the Company's request should not be approved on the basis that it was adopted and affirmed in the black-box settlements of three consecutive rate cases of Duquesne Light Company (Duquesne) filed in 2010, 2013, and 2018. This would be inappropriate, as settlements reflect a compromise among all parties and does not represent the actual litigation positions of the parties. Moreover, doing so would have a chilling effect on the settlement process itself if it were to be held against the parties in future proceedings.

For these reasons, the OCA submits that the Commission should deny the Company's claim to include in rate base a Pension Asset of $35.1 million. Adoption of this adjustment would reduce the Company's rate base claim in this proceeding by $35,059,000. OCA St. 2 at 19; see also OCA St. 2-SR, Sch. LKM-5, Line 3.

3. Uncontested Items.

The OCA does not offer a position on this issue.

E. Conclusion.

The OCA submits that if the Commission employs a 'business as usual' ratemaking approach, the Commission should adopt the recommendations of OCA witness Morgan regarding the Company's FPFTY plant additions and the Pension Asset.

V. REVENUES

A. Forfeited Discounts.

The OCA does not offer a position on this issue.

VI. EXPENSES

In its Main Brief, the Company sets forth several arguments why its claimed operation and maintenance (O&M) expenses should be adopted by this Commission. PECO M.B. at 28-51. As discussed in the OCA's Main Brief, several of the Company's claims raise concerns. The OCA fully addressed the adjustments and concerns of its witness, Lafayette K. Morgan, in detail in its Main Brief. See OCA M.B. at 43-70. The OCA will respond to the additional issues raised by the Company below, where appropriate. The OCA, however, does not waive its position on contested issues because it does not repeat arguments here. There are some minor changes to the adjustments below and, as such, Revised Rate Case Tables have been attached as Appendix A to this Reply Brief. Altogether, these modifications reduce the OCA's 'business as usual' recommendation by approximately $100,000. See OCA R.B., App. A, Table I.

A. Payroll and Payroll-related Expense.

As explained in the OCA's Main Brief, the Company's FPFTY payroll expense should be adjusted according to Mr. Morgan's reasonably adjusted employee headcount of 604 positions and the elimination of the improperly claimed past costs for a one-time bonus paid in exchange for ratification of the union contract on or before December 31, 2014. OCA M.B. at 44-48. The

Company failed to provide support for the additional 37 positions and provided inconsistent data in an attempt to demonstrate that it is closer to its projected number of employees than the Company's actual employee headcount. Id. at 45-46. Additionally, the Company's proposal to recover past costs related to the payment of one-time bonuses back in 2014 is retroactive ratemaking and the Company's argument that the past costs fall under an exception to the rule is unfounded and should be rejected.

1. Employee Headcount.

The Company, in its Main Brief, argued that its payroll allowance was developed based upon the budgeted and authorized employee complement for the FPFTY of 639 full-time equivalent ("FTE") positions, yet the Company was unable to provide support and authorization for the additional 37 positions to be hired in the FPFTY. PECO M.B. at 28; OCA M.B. at 44-46; OCA St. 2 at 23-24. Rather, the evidence in the record demonstrates that the positions the Company projects that it will hire by the end of the FPFTY to reach a total of 639 positions were actually hired during the HTY to bring the Company's total headcount to 602. OCA M.B. at 44-46; OCA St. 2 at 23-24; OCA St. 2-SR at 17. In an attempt to obtain further proof that an additional 37 positions in the FTY and FPFTY are authorized and in the process of being filled, OCA witness Morgan requested from the Company a list of each of the 37 new positions, including the annual salaries and wages, date hired or the expected hiring date, and date terminated, if terminated during the HTY or FTY. OCA M.B. at 44-46, OCA St. 2 at 23-24. The Company provided none of this specific information but responded that 30 positions were hired during the HTY, and the remaining 7 positions were for positions that were allocated. Id.

In its Main Brief, the Company argued that Mr. Morgan's adjustment is flawed because its witness, Mr. Stefani, provided job titles for the positions the Company projects that it will hire.

PECO M.B. at 29. However, the job titles provided are the list of jobs the Company claimed to have hired in the HTY. See OCA St. 2-SR at_17. Therefore, the Company hired these 30 positions in the HTY to reach the 602 total positions at the end of the HTY as shown on PECO Exh. MJT-1 Revised Sch. D-6. Beyond this information, the Company has not provided any evidence to support its plan to hire 37 employees by the end of the FPFTY. Given the lack of support, including failure to provide documents indicating authorization, salary and wages, and hire dates, for the additional 37 positions in the FTY and FPFTY, the Company's employee complement is speculative and should be rejected.

The Company also argued that the Commission has previously rejected adjustments to payroll expenses due to unfilled positions. PECO M.B. at 29 (citing to Pa. Pub. Util. Comm'n. v. PPL Elec. Utils. Corp., Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012) p. 40 (2012 PPL)). The Commission's determination in the 2012 PPL case, however, partly relied upon the Company's historic payroll supporting its claimed additions as reasonable.[20] As stated above, however, the Company has failed to provide proper evidence and documentation to demonstrate that the 37 additional positions listed by the Company were not the positions filled in the HTY and that its actual hiring experience reflects its projection of 37 positions by the end of the FPFTY. OCA M.B. at 46. Additionally, the Company has not provided proof in the form of authorization to demonstrate that the 37 additional positions will be filled by the end of the FPFTY. Id. As Mr. Morgan testified, this is a simple request fulfilled by companies in other cases to support the companies' claims that they are following through with their projected additions. OCA M.B. at 45-46; OCA St. 2-R at 16.

[20] 2012 PPL at 40.

More importantly, in Columbia Gas, the Commission recently rejected Columbia Gas' proposal to add 59 employees in the FPFTY as unreasonable because it was not reflective of the company's actual hiring experience.[21] Rather, the Commission adjusted Columbia Gas' employee complement based upon the company's actual high employee complement during the FTY.[22] Similarly, PECO's projected employee headcount of 639 is not reflective of the Company's actual hiring experience. OCA M.B. at 44-46. As explained in the OCA's Main Brief, the Company's actual hiring experience at the end of 2020 is not the number the Company provided in rebuttal. OCA M.B. at 45-46. In rebuttal, the Company's witness Stefani reported that, despite the pandemic, the Company's employee headcount reached 612 filled positions out of the projected 635 filled positions at the end of 2020. Id.; see also, PECO St. 2-R at 11. In addition, the OCA submits that the Company's comparison is inaccurate because allocated employees are included in the 612 positions reportedly filled and excluded from its projected employee headcount of 635 at the end of 2020. As a result, the deficit between the Company's actual hiring experience and the Company's projected employee headcount at the end of 2020 must be even greater than this comparison presents.

The OCA submits that Mr. Morgan's reasonably adjusted employee headcount of 604 positions as of the end of the FPFTY should be adopted by the Commission as it more closely reflects the Company's actual hiring experience. As demonstrated by the record in this proceeding, the Company has failed to provide support for its claim that it hired additional employees in the FTY and that it will have an even higher employee headcount in the FPFTY. OCA M.B. at 44-46; see also OCA St. 2 at 23-24. For these reasons, the Company did not provide proper support for

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21 Columbia Gas at 71.

22 Id.

its increased employee headcount and the Commission, therefore, should accept the OCA's reasonable adjustment that reflects the Company's actual hiring experience and the lack of proof that the Company will hire an additional 37 positions by the end of the FPFTY. The Company's salaries and wage claim, therefore, should be reduced by $2,447,000 as presented on Schedule LKM-11.

2. One-time Cash Payment for Ratification of the Union Contract.

In its Main Brief, the Company argues that it should recover the prior costs associated with the one-time cash payment for ratification of the union contract because the Company has consistently paid these bonuses and there is no reason to believe the Company will depart from this practice in the FTY and FPFTY. PECO M.B. at 30. The Company also claims that it is the prior practice of the Commission to allow such past expenses to be recovered. PECO M.B. at 30 (citing to James H. Cawley and Norman J. Kennard, A Guide to Utility Ratemaking (2018), p. 86 (quoting Pa. P.U.C. v. York Water Co., (1968) ("Expenses that occur irregularly during an extended period of years, but are certain of eventual recurrence, are a legitimate charge to ratepayers. Therefore, spreading of this expense over years of recurrence is logical.") (York Water)).

The Company's reliance on the language in A Guide to Utility Ratemaking 2018 and the York Water case is misplaced because the expense described therein as occurring irregularly during an extended period of years was hurricane damage—an expense a utility must request deferral for accounting purposes from the Commission in order to request recovery for the expense in the utility's next base rate proceeding. The OCA submits that the simple fact that a past expense may be incurred again in the future does not create an exception to the rule against retroactive ratemaking nor does it excuse a utility from requesting from the Commission permission to defer such costs for accounting purposes to be recovered in the next base rate case.

Moreover, while "[t]he Commission may permit recovery of prior period unanticipated, extraordinary, and nonrecurring expenses without violating the prohibition against retroactive ratemaking," the bonus payment for the ratification of the union contract, however, does not meet that standard.[23] For one, the ratification expense was not significant enough to impact the Company's financial stability, or else the Company would have sought recovery before now. Additionally, the ratification expense is a discretionary expenditure, something the Company controls. Thus, it is not an unanticipated expense.

As stated in the OCA's Main Brief, the payments were made in 2015 and not connected to any future requirement of the employees. OCA M.B. at 46-48. The Company's attempt in this case to recover in the FPFTY the bonus payments made in 2015 violates the rule against retroactive ratemaking and, therefore, should be excluded from its payroll expense claim as recommended by Mr. Morgan.

3. Adjusted Employee Headcount Effect on Employee Benefits Expense.

As Mr. Morgan indicated in his Direct Testimony, if the OCA's adjustment to the Company's employee headcount is accepted, there is a concomitant adjustment to the Company's projected Employee Benefits expense. OCA St. 2 at 26. Thus, if the Commission adopts Mr. Morgan's payroll adjustment, the OCA recommends an adjustment to the employee benefits expense by $315,000 to reflect 604 employees instead of 639 employees. OCA St. 2 at 26, Sch. LKM-12.

4. Conclusion.

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[23] Popowsky v. Pa. Pub. Util. Comm'n, 695 A.2d 448, 452 (Pa. Commw. Ct. 1997) (Popowsky 1997).

The Company has not adequately supported its projected increase in employees for the FPFTY and the request to recover a one-time ratification bonus paid to union employees would violate the rule against retroactive ratemaking. As a result, the Commission should accept Mr. Morgan's adjustments (shown on Schedule LKM-11) to the Company's payroll expense to reflect the Company's actual hiring experience for purposes of employee headcount and to reflect the removal of the improperly claimed costs for the one-time ratification bonus made back in 2015. See OCA St. 2-SR, Sch. LKM-11. These adjustments reduce payroll expenses by $2,447,000 as presented on Schedule LKM-11 and employee benefits expense by $315,000 as presented on Schedule LKM-12.

B. Contracting and Materials Expense.

As discussed in the OCA's Main Brief, the Company did not offer a specific reason to attribute to the increase in the FPFTY amount for Contracting Services and Contracting Professionals (contracting and materials expense) by approximately $400,000 over the HTY amount in the aggregate other than it being the result of an inflation adjustment. OCA M.B. at 48-50; PECO St. 3, Exhibit MJT-1, Schedule D-4, pp. 55-56; OCA St. 2 at 39. The Company has failed to provide data related to the inflation adjustment it utilized and proper justification for the use of an inflation adjustment for this expense category. OCA St. 2 at 39-40. As stated in the OCA's Main Brief, the Commission has previously found the use of a blanket inflation adjustment to be inappropriate because it does not directly relate to the actual costs expected to be incurred in each expense account in the FPFTY. [24] As a result, Mr. Morgan recommended an adjustment to

[24] See Pa. Pub. Util. Comm'n v. Wellsboro Electric Co., Docket No. R-2019-3008208, Opinion and Order at 40 (Pa. PUC Apr. 29, 2020) (Wellsboro 2020).

reflect the most recent actual 3-year average level of contracting expenses, reducing O&M expenses by $367,000 as shown on Schedule LKM-23.

In its Main Brief, the Company reiterated the explanation provided by PECO witness Stefani for its projected contracting professionals and services expense increases in the FTY and FPFTY. PECO M.B. at 31-32; PECO St. 2-R at 19. Mr. Stefani set forth those factors as follows: "(1) costs will increase as the Company invests in and expands its gas mapping project; (2) the Company will incur additional expenses as it actively reduces the Company's non-emergent leak backlog; and (3) PECO expects to incur additional expenses related to increased security services for crews working in high crime areas." PECO St. 2-R at 19. In addition, PECO argued that spending on contract and materials expense was lower in the HTY due to the COVID-19 Pandemic and, therefore, using a 3-year average adjustment is unreasonable. PECO M.B. at 30-31.

As provided by the OCA in Main Brief, the reasons behind the Company's increase in contracting and materials expenses provide a bit more clarity regarding the basis for the increase, however, the Company has still failed to justify the use of a blanket inflation adjustment for this cost. OCA M.B. at 49-50. Mr. Stefani has selectively chosen to highlight instances when costs will increase while ignoring any decreases in costs. The example cited by Mr. Stefani clearly shows the Company was capable of properly budgeting costs rather than using the short cut approach of inflation escalation. In Wellsboro 2020, the Commission rejected the utility's use of inflation adjustments because the utility did not demonstrate that the blanket inflation adjustment directly related to the actual costs expected to be incurred in each expense account in the FPFTY.[25]

[25] Wellsboro 2020 at 40.

Similarly, here, the Company has failed to explain how the blanket inflation adjustment directly relates to the reasons for the increase in the FPFTY provided by the Company in rebuttal.

For that reason, and for the reasons provided above regarding the inappropriate use of blanket inflation adjustments, the OCA maintains that Mr. Morgan's calculation to reflect the most recent actual 3-year average level of contracting expenses, reducing O&M expenses by $367,000 as shown on Schedule LKM-23, is reasonable and should be accepted by the Commission.

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

As stated in the OCA's Main Brief, the Company increased FPFTY Exelon Business Service Company (EBSC) charges by approximately $1,600,000 over the HTY based upon a blanket inflation adjustment that does not directly relate to actual costs expected to be incurred by the Company in the period in which rates are to be set. OCA M.B. at 50-51; OCA St. 2 at 36-17. Given that the Company was not able to provide a specific reason to attribute to the cause of the increase nor the necessary information on the MMF rate adjustments, OCA witness Morgan concluded the inflation factor was a product of the Company's abbreviated approach to develop the FPFTY expenses. OCA M.B. at 50-51; OCA St. 2 at 36. As stated above in Section VI.B, the Commission has rejected the use of blanket inflation adjustments if the Company does not demonstrate that the inflation adjustment directly relates to the actual costs expected to be incurred in each expense account in the FPFTY.[26] Similarly, for the EBSC expense, the Company has not demonstrated that an inflation adjustment directly relates to the actual costs expected to be incurred in each expense account in the FPFTY. Thus, Mr. Morgan's recommended adjustment to reflect the most recent 3-year average for non-IT EBSC expense, which results in an adjustment to reduce

[26] Wellsboro 2020 at 40.

O&M expenses by $997,000, is reasonable and should be adopted by the Commission. OCA St. 2 at 36–37, Sch. LKM-20.

The Company argued, in its Main Brief, that Mr. Morgan utilized the wrong data to arrive at his adjustment to the Company's ESBC expense. PECO M.B. at 35. Specifically, the Company contends that Mr. Morgan's 3-year average expense calculation only included Non-Information Technology (IT) costs and excluded the costs for EBSC IT Costs, Non-Utility Charges, and Other Affiliate Charges. Id.

The Company's claim that Mr. Morgan utilized the wrong data to calculate his EBSC expense calculation is incorrect and misplaced. Mr. Morgan derived his EBSC calculation using the Company's data in PECO Exh. RJS-1 and Attachment III-A-22(a). That is, the Company's total claim for EBSC costs in this proceeding is $22 million. PECO St. 2 at 21; see also PECO Exh. RJS-1. Of that $22 million, approximately $10 million is related to non-IT costs and includes costs related to Communication, Executives, Utilities, Finance, Government Affairs, Human Resource, Legal Governance, Security, Supply, etc., which are based on an inflation adjustment. See OCA St. 2 at 36. Thus, Mr. Morgan's adjustment normalizes the non-IT costs to reflect a three-year average of historic spending for those specific costs. In other words, Mr. Morgan does not adjust the Company's claim for EBSC related IT-costs of $12.1 million as claimed in Exh. RJS-1.

The OCA maintains that Mr. Morgan's recommended adjustment to reflect the most recent 3-year average of non-IT EBSC expense is reasonable.[27] Application of blanket inflation factors have routinely been disallowed by this Commission and the Company has not sufficiently rebutted

[27] Moreover, contrary to the claims of the Company that Mr. Morgan should have averaged total EBSC expense over that same period, this would have been erroneous because Non-Utility Charges and Other affiliate Charges are not related to utility operations or corporate support services and should not be included in the Company's claim. See PECO M.B. at 35.

Mr. Morgan's reasonable adjustment. Accordingly, the Commission should adopt the adjustment of Mr. Morgan to reflect the most recent 3-year average non-IT EBSC expenses, which results in an adjustment to reduce O&M expenses by $997,000. OCA M.B. at 51-53; OCA St. 2 at 36–37, OCA St. 2-SR Sch. LKM-20.

D. Other Post-Employment Benefits Expense.

The Company's claimed post-retirement benefits expense of $1,050,000 represents a significant increase from the HTY and the most recent actual 3-year average. OCA St. 2 at 26-27. As stated in the OCA's Main Brief, Mr. Morgan originally could not locate the source of the Company's OPEB expense claim. Id. Once the Company's OPEB costs in recent years were provided in rebuttal, Mr. Morgan adjusted the Company's OPEB expense to reflect the most recent actual and projected 3-year average (2020-2022), resulting in a downward adjustment of $486,000 from the Company's OPEB claim. See OCA St. 2-SR, Sch. 3, Pg. 1, Line 6.

In the Company's Main Brief, the Company argued that the increase in OPEB expense is a result of an expiring service credit amortization in June of 2021. PECO M.B. at 36; PECO St. 2-R at 25-28. The Company contends that this expiration of the service credit resulted in a "marked increase in the Company's OPEB expense." PECO M.B. at 36. In order to capture the Company's predicted rise in OPEB expense due to the expiration of the prior service credit in 2021, OCA witness Morgan averaged the Company's actual and projected OPEB expense for the years 2020-2022, to represent a true and normalized level of OPEB expense. OCA St. 2-SR, Sch. 3, Pg. 1, Line 6. Moreover, in response to the Company's focus on the expiration of the prior service credits, the OCA notes that OPEB expense can fluctuate year to year and is based on many assumptions that could affect the level of OPEB expense. Thus, the normalization adjustment recommended by Mr. Morgan is also appropriate for those reasons.

Accordingly, the Commission should adopt the adjustment of OCA witness Morgan to normalize the Company's OPEB expense over the 3-year period (2020-2022) resulting in a downward adjustment of $486,000 from the Company's OPEB claim. See OCA M.B. at 54; OCA St. 2-SR, Sch. 3, Pg. 1, Line 6.

E. Costs to Achieve Exelon/PHI Merger.

As provided in the OCA's Main Brief, the Company should not recover the $1,111,000 over 3 years, or $370,000 for the FPFTY, for the costs related to the merger between Exelon—PECO's parent company—and Pepco Holdings Corporation, a holding company for a non-Pennsylvanian public utility, that took place in 2016. OCA M.B. at 54-55; PECO St. 3 at 40-41; see also, MJT-1 Schedule D-15. According to the Company, the Commission should allow it to recover the cost of the 2016 merger because (1) it brought $4.3 million worth of savings to PECO customers over the last 5 years, including the postponement of a rate increase, (2) the customers of PECO continue to enjoy the benefits of it, and (3) "[t]he Commission may permit recovery of prior period unanticipated, extraordinary, and nonrecurring expenses without violating the prohibition against retroactive ratemaking." PECO M.B. at 37-39 (citing Popowsky 1997, 695 A.2d at 452.

The Company's claim that the costs incurred from the voluntary merger of PECO's parent company with utilities from other states does not align with the unanticipated, extraordinary, and nonrecurring expenses recovered under an exception to retroactive ratemaking in Popowsky 1997. In Popowsky 1997, the Commonwealth Court affirmed the Commission's approval of PPL's recovery of the initial incremental costs associated with a mandated change from cash to accrual accounting in connection with certain post employment benefits.[28] The past costs at issue in

[28] Popowsky 1997 at 453.

Popowsky 1997 fell into a very narrow exception to the general rule against retroactive ratemaking because they were caused by an unanticipated, mandated change in accounting, which was extraordinary and nonrecurring.[29] Further, the Commission had issued a policy statement at 52 Pa. Code Section 69.351, which expressly stated that OPEB expenses under SFAS 106 would be subject to recovery in future rate proceedings to the extent that they were prudently incurred and reasonable.[30] The Company's argument that the prior costs it incurred for its parent company's voluntary merger were unanticipated, extraordinary, and nonrecurring is misplaced because costs related to mergers are not unanticipated, extraordinary, and nonrecurring as utilities undergo mergers all of the time. Additionally, if PECO planned to recover the past costs related to this merger, the proper procedure would have been to request permission from the Commission to defer the expense until PECO's next base rate proceeding.

The OCA submits that allowing PECO to recover this cost would constitute retroactive ratemaking as Exelon incurred this prior cost in 2016 and PECO did not seek permission from the Commission to defer such costs for this base rate case proceeding. OCA M.B. at 54-55; OCA St. 2 at 33-36. As a result, the Commission should deny the Company's claim to recover the cost of the 2015 merger and reduce the Company's O&M expense by $370,000. See OCA M.B. at 54-55; OCA St. 2-SR, Sch. LKM-19.

F. Regulatory Commission Expense (General Assessments).

The OCA addressed the Regulatory Commission expense in Section VI.F of its Main Brief. OCA M.B. at 55–56. The Company initially increased FPFTY Regulatory Commission expense by approximately $462,000 over the HTY. OCA M.B. at 55; OCA St. at 38. However, OCA

[29] Id.

[30] Id.

Witness Morgan disagreed "with the use of adjustments based on inflation escalations. Id. Mr. Morgan again argued that adjustments based on inflation escalations "are not actually known and measurable." Id.

In its Main Brief, the Company continued to argue that it was appropriate to make adjustments based on inflation escalations. PECO M.B. at 40. The Company also argued that its "actual 2020-2021 (FTY) general assessments totaling $2,022,423 . . . substantiate the Company's FPFTY claim of $2,197,000." PECO M.B. at 39. The Company further argued that "using the actual percentage increase in general assessments for the FTY to set FPFTY rates would result in a 16.6% increase in FPFTY general assessments and a $161,000 increase to the Company's original claim." PECO M.B. at 39–40.

The OCA maintains its position that the Company's claim for an increase is not properly substantiated. OCA M.B. at 55; OCA St. 2 at 38. When the Company was asked to explain the cause of the increase, it responded by stating that "[t]he projected increases in regulatory commission expense are generally due to inflation adjustments." OCA M.B. at 55; OCA St. 2 at 38 (quoting PECO Response to IE-RE-15-D(B)). However, "[t]he specifics of the inflation adjustment are unknown because the Company did not provide the information requested. The Company's use of an abbreviated approach to develop the FPFTY expenses appears to contribute to the lack of data here." OCA M.B. at 55; OCA St. 2 at 38.

OCA Witness Morgan disagreed with using adjustments based on inflation escalations in this case "because they are not actually known and measurable."[31] OCA M.B. at 55; OCA St. 2 at 38. Mr. Morgan stated that adjustments based on inflation escalations "do not reflect the anticipated cost of expenses and are inconsistent with the Company's claim that the annual

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31 See also Wellsboro 2020 at 40.

budgeting and planning process is designed 'to integrate and align PECO's operational, regulatory, and financial plans.'" OCA M.B. at 55–56; OCA St. 2 at 38. Further, Mr. Morgan testified that "[i]nflation adjustments are typically blanket adjustments or increases which do not directly relate to actual costs expected to be incurred by the Company in the period in which rates are to be set." OCA M.B. at 56; OCA St. 2 at 38. Thus, Mr. Morgan recommended that projected costs be based "upon evidence or documentation that show the specific actions and program that underlie the Company's adjustments." OCA M.B. at 56; OCA St. 2 at 38.

Moreover, the Company's claim that its general assessments will increase by 16.6% between the FTY and FPFTY is speculative and not supported by evidence. Pursuant to Section 510 of the Public Utility Code, the general assessment for Commission operations can fluctuate from year to year depending on the Commission's budget and how that budget is allocated across each group of utilities.[32] Thus, any increase in general assessments between the HTY and FTY is not indicative of future increases. Rather, OCA witness Morgan reasonably adjusted the Company's claims to remove an inflation adjustment that is not supported by evidence and has previously been disallowed by the Commission.

Therefore, the OCA maintains its recommendation of an adjustment reflecting the HTY level of regulatory commission expense, which results in an adjustment to reduce O&M expenses by $462,000. OCA M.B. at 56; OCA St. 2, Sch. LKM-22.

G. Research and Development Expenses.

As discussed in the OCA's Main Brief, the Company has not provided proper support for the requested $280,000 in Research and Development (R&D) expenses, an abnormally high amount in comparison to prior years when the expense ranged from $59,000 in 2018 to $253,000

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[32] See 66 Pa. C.S. § 510.

in 2020. OCA M.B. at 56-57; OCA St. 2 at 37 and Schedule LKM-21. OCA witness Morgan testified that the Company did not provide support or reasoning for the significant increase and upon requesting support from the Company, the Company's response lacked any information or data that would explain the significant increase, and further suggested that PECO does not expect to spend the significantly increased R&D amount. OCA M.B. at 56-57; OCA St. 2 at 37. For these reasons, the Commission should reject the Company's significantly increased and unsupported projected R&D expense. Mr. Morgan adjusted the Company's R&D expense by $138,000 to reflect the Company's 3-year average spending as shown on Schedule LKM-21. Id. Mr. Morgan's adjustment is reasonable and, therefore, should be accepted.

H. Employee Activity Costs.

As stated in the OCA's Main Brief, the Company's FPFTY requested increase of approximately $71,000 in employee activity costs over the reduced HTY spending level due to the pandemic is highly speculative. OCA M.B. at 57-58; OCA St. 2 at 40. OCA witness Morgan explained in his testimony that, because of the uncertainty of the COVID-19 Pandemic and whether employee gatherings and in-office work events will be possible, prudent, or attractive within the next few years, it is not reasonable to expect these costs to exceed their currents levels anytime in the near future. OCA M.B. at 57-58; OCA St. 2 at 40. The OCA submits that the pandemic has made it nearly impossible to forecast costs related to the gathering of employees because it is unknown what and when the new normal will be. OCA M.B. at 57-58. As a result, Mr. Morgan adjusted the Company's employee activity costs by $71,000 as shown on Schedule LKM-24 to reflect the HTY spending level because it remains unknown as to what and when the new normal will be. OCA M.B. at 57-58; OCA St. 2 at 40 and Schedule LKM-24.

In its Main Brief, the Company argued the low spending on employee activities during the HTY was a response to the Commonwealth's COVID-19 emergency including the stay at home orders in 2020 and that those stay at home orders are unlikely to reoccur in 2021 and 2022. PECO M.B. at 41-42; PECO St. 2 at 22. As raised in the OCA's Main Brief, large gatherings have not come close to returning to normal levels despite the lifting of stay-at-home requirements in Pennsylvania. OCA M.B. at 57-58. The indications from public health officials, even in January 2021, was that the pandemic and associated health precautions will be with us for an extended period of time. Id. Moreover, given that these expenses are largely discretionary, it is not likely to return to pre-pandemic levels in the near future. Id.

Therefore, the Company's justification for increasing its employee activity expenses is unpersuasive in light of the in-person nature of the expenses and the anticipated long-lasting effects of the pandemic on employee activities. As a result, the Commission should deny the Company's claim and adopt the recommendation of OCA witness Morgan resulting in a downward adjustment to the Company's O&M expense of $71,000. OCA St. 2, Sch. LKM-24.

I. Travel, Meals and Entertainment.

The OCA addressed the Travel Meals and Entertainment expense in Section VI.I of its Main Brief. OCA M.B. at 58–59. The Company initially proposed a Travel, Meals and Entertainment Expense of $343,000, based on a FPFTY ended June 30, 2022. OCA M.B. at 58; OCA St. 2, Sch. LKM-25. However, the uncertain nature of the COVID-19 Pandemic makes it "nearly impossible to forecast costs such as employee travel activity because it is unknown what and when the new normal will be." OCA M.B. at 58; OCA St. 2 at 40–41. Thus, the OCA recommended that "[r]ather, than base the level of expense on a forecast determined from 2018 and 2019 activity," the employee activity expense should be adjusted to reflect the HTY level of expense. OCA M.B. at 58–59; OCA St. 2 at 41. This results in an adjustment to reduce O&M expenses by $178,000, as reflected in Schedule LKM-25. OCA M.B. at 59; OCA St. at 41.

In its Main Brief, the Company maintained its argument that the "budgeted data for the FPFTY is more representative of the current and future conditions than the HTY data Mr. Morgan uses, which reflects COVID-19 travel restrictions and stay-at-home orders in place during the second quarter of 2020." PECO M.B. at 42. The Company claimed that Mr. Morgan ignored that "the decline in business travel that forms the basis of their proposed adjustments will be alleviated by increasing vaccinations and other measures to mitigate transmission of COVID-19 during the FPFTY." Id.

The OCA maintains that predicting "what and when the new normal will be" is "nearly impossible." OCA M.B. at 59; OCA St. 2 at 41. Contrary to the Company's assurances, Mr. Morgan testified that "[a]s it stands, it is nearly impossible to forecast such costs" because during the COVID-19 Pandemic "organizations have adjusted to virtual meetings, remote working and reduced public gatherings." OCA M.B. at 59; OCA St. 2-SR at 23. Thus, "[i]t is safe to say that for the near future, employee travel activity will be reduced." Id. Therefore, the Commission should reject the Company's position and accept the OCA's adjustment to reduce O&M expenses by $178,000, as reflected in Schedule LKM-25.

J. Membership Dues.

The OCA did not address issues related to Membership Dues in this Main Brief.

K. Injuries and Damages.

The OCA addressed the Injuries and Damages expense in Section VI.K of its Main Brief. OCA M.B. at 59–61. The Company initially proposed to include a FPFTY budget amount for Injuries and Damages in the cost of service of $638,000. OCA M.B. at 59; OCA St. 2 at 30, Sch. LKM-16. However, OCA witness Morgan recommended normalizing the Injuries and Damages expense. Id. Mr. Morgan normalized the expense based on the most recent three years of actual expenses, which results in a decrease in expenses of $464,000. OCA M.B. at 60; OCA St. 2, Sch. LKM-16.

In its Main Brief, the Company argued that it would be unreasonable to use a three-year average because "the negative $9,000 injuries and damages expense for the twelve months ended June 30, 2019 was due to an actuarial update to the Company's workers' compensation, bodily injury and property damage reserve for that period." PECO M.B. at 43. The Company pointed out that the expenses for 2018 and 2020 were higher. PECO M.B. at 43–44. Thus, the Company argues that the actual 2019 expense "skews the Company's three-year average downwards." PECO M.B. at 44.

The OCA maintains its position that the Injuries and Damages expense should be based on the most recent three years of actual expenses. OCA M.B. at 59–60. As mentioned in the OCA's Main Brief, the ratemaking technique of normalization is "used to smooth out the effects of an expense item that occurs at regular intervals, but in irregular amounts, and is a proper adjustment to make the test year expense representative of normal operations."[33] A Guide to Utility Ratemaking states that regularly occurring expenses should be normalized so that expenses are fairly recovered on an annual basis.[34]

In the present case, Mr. Morgan testified that "the amount included in the cost of service for Injuries and Damages is significantly higher than previous years." OCA M.B. at 60; OCA St. 2 at 30. Mr. Morgan further testified that no single year is representative of the normal level of Injuries and Damages because this expense fluctuates from year to year. Id. The Injuries and

[33] Pa. Pub. Util. Comm'n. v. Total Environmental Solutions, Inc., Docket No. R-00072493, et al., 2008 Pa. PUC LEXIS 42 at *98 (Pa. PUC May 23, 2008).

[34] James H. Cawley & Norman J. Kennard, *A Guide to Utility Ratemaking*, Pa. Pub. Util. Commission 86 (2018), https://www.puc.pa.gov/General/publications_reports/pdf/Ratemaking_Guide2018.pdf.

Damages expenses for the years 2018, 2019, and 2020 were $301,000, -$9,000, and $231,000, respectively. OCA M.B. at 60; OCA St. 2, Sch. LKM-16. While the Company argues that the -$9,000 expense was an abnormality, it provides no evidence that suggests that abnormalities such as this one will not happen again, which is why normalizing the expense is the most appropriate method of calculating the expense. Accordingly, the OCA recommends that the Commission should reject PECO's claim and should normalize the Injuries and Damages expense "to avoid an over-recovery of costs" because the Company has not shown that its claim reflects normal amounts. See OCA St. 2, Sch. LKM-16. This would result in a reduction to the Company's O&M expense of $464,000. OCA. M.B. at 61; OCA St. 2-SR, Sch. LKM-16.

L. Property Taxes.

The OCA addressed the Property Taxes expense in Section VI.L of its Main Brief. OCA M.B. at 61–62. The Company's claimed amount for Property Taxes is $3,618,000. OCA M.B. at 61; OCA St. 2, Sch. LKM-28. According to the Company, "the FPFTY real estate tax is based on the FTY real estate tax including a 2.5% inflation rate escalation." OCA M.B. at 61; OCA St. 2 at 41.

OCA Witness Lafayette K. Morgan recommended removing the effect of the inflation escalation on the property tax expense. OCA M.B. at 61; OCA St. 2 at 41. The Pennsylvania Public Utility Commission "has specifically held that inflation adjustments do not create known and measurable changes because not all expenses are affected by inflation and those that are affected by inflation experience inflation differently."[35] Further, the Commission recently disallowed the use of a blanket inflation adjustment because it does not directly relate to the actual

[35] Pa. Pub. Util. Comm'n v. National Fuel Gas Distribution Corporation, Docket No. R-00942991, 1994 Pa. PUC LEXIS 134 at *138 (Pa. PUC Dec. 6, 1994) (citing Pa. Pub. Util. Comm'n v. Pa. American Water Co., 71 Pa. PUC 210, 269 (1989)) (NFGD 1994).

costs expected to be incurred in each expense account in the FPFTY.[36] Mr. Morgan reiterated this principle and testified that "the use of adjustments based on inflation escalations . . . are not actually known and measurable." OCA M.B. at 61; OCA St. 2 at 41. Mr. Morgan recommended that the "costs should be based upon evidence or documentation that supports the Company's adjustments." OCA M.B. at 62; OCA St. 2 at 42.

In its Main Brief, the Company maintained its position that inflation adjustments on property taxes are appropriate. PECO M.B. at 44. However, the Company argued that if the Commission were to rule against the use of an inflation adjustment, Mr. Morgan's adjustment should still be rejected. Id. The Company argued that "Mr. Morgan applied his adjustment to PECO's entire budgeted amounts for property taxes in the FTY ($3.594 million) and FPFTY ($3.618 million)." Id. However, the Company argues that "these amounts are comprised of two components: Public Utility Realty Tax ("PURTA") and real estate tax" and that the Company's "budgeted amounts for PURTA do not reflect an inflation rate since they were derived directly from the 2019 Pennsylvania PURTA Notice of Determination." Id. at 44–45. The Company stated that "[e]liminating the 2.5% inflation factor solely from the real estate tax portion of the Company's claim for property taxes (to which it was applied by the Company) would only reduce the Company's claim by $61,395 instead of the $112,000 reduction proposed by Mr. Morgan." Id. at 45.

The OCA maintains its position on removing the effect of the inflation escalation on the property tax expense. OCA M.B. at 61; OCA St. 2 at 41. However, the OCA accepts the Company's position regarding the PURTA portion of the property tax expense. Therefore, the OCA recommends an adjustment to remove the effect of the inflation escalation on the real estate

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36 Wellsboro 2020 at 40.

tax component of the property tax expense, which would reduce the Company's taxes other than income by $61,395. See OCA R.B., App. A, Table II.

M. Energy Efficiency and Conservation Program Costs.

The OCA continues to submit that the Commission should not adopt the Company's proposal to expand the Company's natural gas energy efficiency and conservation (EE&C) programs. As the OCA will explain in more detail in Section IX.D of this Reply Brief, the arguments made by the Company in its Main Brief do not adequately support the Company's proposal. Thus, the Company's existing EE&C budget should remain at its existing levels, which would result in a reduction to the Company's O&M expense of $2.492 million. OCA St. 2-SR, Sch. LKM-26, Line 3.

N. Rate Case Expense Normalization.

The OCA addressed rate case expense in Section VI.N of its Main Brief. OCA M.B. at 63–64. The Company claimed a rate case expense of $1.5 million based on the inclusion of the fees for legal services and consultants to prepare and adjudicate the present case. OCA M.B. at 63; OCA St. 2 at 30. The Company normalized the expense over a three-year period to derive an annual expense of $520,000. OCA M.B. at 63; OCA St. 2 at 30–31. The Company cited its "need to file another rate case in three years" as the reason for a three-year normalization period. OCA M.B. at 63; PECO St. 3-R at 22. Mr. Morgan testified that "an adjustment to normalize the rate case expense over a [five]-year period . . . based on the Company's history of the frequency of rate case filings" in the past is appropriate. OCA M.B. at 63; OCA St. 2 at 31. Accordingly, the OCA recommended that the Commission reduce the rate case expense claim by $208,000. OCA M.B. at 63; OCA St. 2 at 31.

In its Main Brief, the Company repeated its argument that a three-year normalization period is appropriate. PECO M.B. at 47. The Company cited its "projected need for rate relief in three years will be driven by the capital requirements of the Company's planned infrastructure improvement programs." PECO M.B. at 47. The OCA disagrees with the Company's position.

The OCA maintains its position that the rate case expense should be normalized over a five-year period. OCA M.B. at 63. As mentioned in the OCA's Main Brief, the Commission has consistently held that rate case expenses are normal operating expenses, and normalization should, therefore, be based on the historical frequency of the utility's rate filings.[37] In recent cases, the Commission reiterated that the normalization period is determined, "by examining the utility's actual historical rate filings, not upon the utility's intentions."[38] Basing the normalization period on historical filing frequency is reasonable because it represents known and measurable data. Speculation about the timing of future filings cannot be relied on to determine the proper normalization period.[39] Here, the Company's position to normalize its rate case expense over three years does not accurately reflect the Company's filing history. The Company's last rate case filing was approximately 10 years ago. OCA M.B. at 64; OCA St. 2 at 31. Thus, the OCA recommends that the rate case expense be normalized over a five-year period.[40] Accordingly, the OCA maintains its recommendation that the Commission reduce the rate case expenses by $208,000. OCA M.B. at 64; OCA St. 2, Sch. LKM-17.

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[37] Popowsky v. Pa. Pub. Util. Comm'n, 674 A.2d 1149, 1154 (Pa. Commw. Ct. 1996), Pa. Pub. Util. Comm'n v. Columbia Water Co., Docket No. R-2008-2045157, 2009 Pa. PUC LEXIS 1423 (Pa. PUC May 28, 2009) (CWC 2008); City of Lancaster (Sewer Fund) v. Pa. Pub. Util. Comm'n, 793 A.2d 979 (Pa. Commw. Ct. 2002) (Lancaster 2002); Pa. Pub. Util. Comm'n v. West Penn Power Co., Docket No. R-901609, 1990 Pa. PUC LEXIS 142 at *108-110 (Pa. PUC Dec. 13, 1990).

[38] Pa. Pub. Util. Comm'n v. City of Lancaster, Docket No. R-2010-2179103, 2011 Pa. PUC LEXIS 1685 (Pa. PUC Jul. 14, 2011) (Lancaster 2011); Pa. Pub. Util. Comm'n v. Metropolitan Edison Co., Docket No. R-00061366, 2007 Pa. PUC LEXIS 5 (Pa. PUC Jan. 11, 2007); Pa. Pub. Util. Comm'n v. City of Dubois – Bureau of Water, Docket No. R-2016-2554150, Opinion and Order at 65 (Pa. PUC May 18, 2017) (City of Dubois).

[39] See e.g. Lancaster 2011.

[40] I&E witness Patel agrees with the OCA's position. I&E St. 1 at 8 ("I recommend that the Company's rate case expense be normalized over a period of 60 months (five years) resulting in an annual expense of $311,800 (($1,559,000 ÷ 60 months) x 12 months), or a reduction of $208,200 ($520,000 - $311,800) to the Company's claim.").

O. Regulatory Initiatives.

The OCA addressed the Regulatory Initiatives expense in Section VI.O of its Main Brief. OCA M.B. at 64–68. The Company originally included "$753,000 in O&M expenses for costs incurred prior to the FPFTY associated with implementing certain regulatory programs for which it claims it has not fully recovered." OCA M.B. at 65; OCA St. 2 at 31. The costs are associated with the initiatives to establish and implement a Merchant Function Charge (MFC) and a Gas Procurement Charge (GPC) and the implementation of a Neighborhood Gas Pilot Program. OCA M.B. at 65; OCA St. 2 at 31–32. The Company "requested to amortize these costs over a [three]-year period, resulting in an annual cost of $753,000." OCA M.B. at 65; OCA St. 2 at 32. The Company also indicated that "there were no depreciation expense and no operating expense included in the FPFTY for these programs" and that the capital costs were software costs. Id.

In response to the Direct Testimony of Mr. Morgan, the Company agreed that the past costs associated with implementation of the Neighborhood Gas Pilot Program were not properly recoverable in this case. See PECO M.B. at 48. Thus, the Company is now only claiming $47,000, which is a three-year amortization of the O&M and depreciation expenses incurred to establish the GPC and MFC. Id. The OCA recommended, based on the Direct Testimony of Mr. Morgan, that the Company not be allowed to recover O&M expenses related to the implementation of the GPC and MFC and recommended a downward adjustment to the Company's O&M expense by $40,000. OCA M.B. at 67; OCA St. 2 at 32.

After review of the Company's averments in its Main Brief, Mr. Morgan and the OCA have agreed that the adjustment to remove recovery of the deferred costs associated with the implementation of the GPC and MFC is no longer appropriate. Thus, the OCA has no further adjustment to the $47,000 claimed by the Company for regulatory initiatives expense.[41] See OCA R.B., App. A, Table II.

P. Manufactured Gas Plant Remediation Expense.

The OCA addressed the Manufactured Gas Plant Remediation expense in Section VI.P of its Main Brief. OCA M.B. at 68–70. The Company initially proposed an adjustment to the Manufactured Gas Plant (MGP) Remediation Expense at an annual cost of $804,000. OCA M.B. at 68; OCA St. 2 at 27. This amount was based on a nine-year recovery of an estimated total of $7.2 million to remediate former MGP sites. OCA M.B. at 68; OCA St. 2 at 27–28. However, the OCA recommended that the Commission require the Company to recover the remaining remediation cost over a 14-year period instead, which is consistent with the settlement in Docket No. R-2010-2161592, resulting in an annual recovery of $517,000.[42] OCA M.B. at 68; OCA St. 2 at 29–30. The OCA further recommended that the Company be required to impute carrying costs on the over-collected MGP remediation cost that is held by the Company. OCA M.B. at 68; OCA St. 2 at 30.

In its Main Brief, the Company maintained its argument that nine years is a reasonable amortization period. PECO M.B. at 50. The Company also argued that it "has not 'over-collected' funds for MGP remediation," claiming that "the MGP funds PECO has received from customers have been and will be spent on MGP projects." Id. Still, the Company "agreed to pay interest on the monthly balance of MGP funds that are not yet spent on remediation activities at the residential mortgage lending rate specified by the Secretary of the Pennsylvania Department of Banking and

[41] Please note that the OCA continues to agree with the Company that recovery of costs to implement the Neighborhood Gas Pilot Rider are not appropriate and should be excluded from recovery in this proceeding, consistent with the Company's position in its Main Brief. See PECO M.B. at 48.

[42] Pa. Pub. Util. Comm'n v. PECO Energy Co. – Gas Division, Docket No. R-2010-2161592, Joint Petition for Settlement of Rate Investigation at 4-5 (Aug. 31, 2010) (PECO Gas 2010).

Securities after July 1, 2021, when new rates will take effect. This interest will accrue and be applied to reduce revenue requirements in PECO's next gas base rate proceeding." PECO M.B. at 50–51.

The OCA maintains its position that the Company should not be allowed to recover the $7.2 million over a nine-year period as it proposes. OCA M.B. at 69; OCA St. 2 at 29. Mr. Morgan testified that "[t]he settlement language in Docket No. R-2010-2161592, was specific as to the recovery of the MGP remediation costs in this base rate proceeding." Id. Based on the Company's response to OCA-XIII-18, the remediation is expected to extend through 2034, 14 years from this year. Id. Thus, the OCA maintains its recommendation that "the $7.2 million be recovered through 2034, consistent with the settlement, instead of the [nine] years proposed by the Company," which will result in an adjustment that reduces O&M expenses by $287,000. OCA M.B. at 69; OCA St. 2 at 29–30, Sch. LKM-15.

The OCA also maintains its position that the Commission should require the Company to impute carrying costs on the over-collected MGP remediation cost that is held by the Company until it is needed for MGP remediation. OCA M.B. at 70. Mr. Morgan testified that the $14.5 million over-collection represents ratepayer funds that are "being held by the Company [and] can be used for general corporate purposes until it is needed for MGP remediation." OCA M.B. at 69; OCA St. 2 at 30. Mr. Morgan has not observed any carrying charge being credited to ratepayers from the analyses that the Company provided with respect to the MGP remediation. OCA M.B. at 69; OCA St. 2 at 28–29.

Thus, the OCA maintains its recommendation that the Commission require the Company to recover the remaining remediation cost over a 14-year period consistent with the 2010 Settlement in Docket No. R-2010-2161592, which would result in an annual recovery of $517,000 and a downward adjustment of $287,000 to the Company's O&M expenses. OCA M.B. at 70; OCA St. 2 at 29–30, Sch. LKM-15. The Commission should also require the Company to impute carrying costs on the over-collected MGP remediation cost that is held by the Company until it is needed for MGP remediation. OCA M.B. at 70.

Q. Depreciation Expense.

The OCA addressed the depreciation expense in Section VI.Q of its Main Brief. OCA M.B. at 70. Consistent with the Plant in Service adjustment recommended by OCA witness Lafayette K. Morgan, the OCA maintains its recommendation of a derivative adjustment that lowers the depreciation expense by $7,827,000 if Mr. Morgan's Plant in Service recommendation is adopted by the Commission. See OCA M.B., Section IV.D.1; see also OCA St. 2, Sch. LKM-27.

VII. TAXES

The OCA addressed Taxes in Section VII of its Main Brief. OCA M.B. at 71–73. The OCA maintains its recommendation of a reduction to payroll taxes of $187,000 because of the reduction to Payroll Expense. OCA M.B. at 71–72; OCA St. 2 at 42, Sch, LKM-29. However, while the OCA maintains its recommendation of "an adjustment to remove the effect of the inflation escalation on the property tax expense," the OCA's removal of the PURTA expense from the property tax expense adjustment produces an updated reduction of Taxes Other Than Income of $61,395. See OCA R.B., Section V.L; see also OCA R.B., App. A, Table II.

VIII. RATE OF RETURN

A. Introduction.

1. Overview of the Cost of Capital Recommendation.

If the Commission uses a traditional ratemaking approach, the OCA recommends that PECO be allowed the opportunity to earn no more than an 8.75% return on equity applied to a common equity ratio of 50%, resulting in an overall allowed return of 6.30%. OCA M.B. at 73-94. The OCA continues to submit, however, that the Commission is not so constrained as to its decision on the return on equity component and must consider the economic and societal effects of the COVID-19 Pandemic to arrive at a fair rate of return and just and reasonable rates that meet constitutional standards.

The Company's request for a 10.95% return on equity and overall cost of capital of 7.64% is overstated and completely unreasonable in this time of the COVID-19 Pandemic. The Company's position that its 10.70% "base cost of equity" accounts for "the uncertainty associated with the COVID-19 Pandemic does not withstand scrutiny. OCA M.B. at 112-13; see PECO M.B. at 60. Further, the Company's claimed management performance bonus of an additional 25-basis points in equity – if approved by the Commission – would push the Company's cost of service upwards by about $3.2 million annually, to the detriment of PECO ratepayers impacted by the COVID-19 Pandemic. OCA M.B. at 96; see I&E M.B. at 57; see PECO M.B. at 68-71. The Commission should accord the results of Mr. Moul's DCF and other model-based cost of equity estimates no weight and deny the Company's management performance claim. OCA M.B. at 96-123, 96-100.

The Company's M.B. states that the OCA's recommended overall rate of return is "deficient" and "inadequate," while the OCA's cost of equity recommendation is "troubling." PECO M.B. at 7, 54. The OCA disagrees. The OCA's recommended overall cost of capital of 6.30% and 8.75% equity cost rate applied to a capital structure with 50% equity and 50% debt is supported by the record evidence and expert testimony of OCA witness Kevin O'Donnell. OCA M.B. at 73-96.

The OCA notes that there are elements of the Company's rate of return case that the Company has not briefed.[43] As the party with the burden of proof, the Company "shall, in its main or initial brief, completely address, to the extent possible, ever issue raised by the relief sought …."[44] The OCA cannot reply to positions that PECO has not set forth in its Main Brief.

2. The Legal Framework for Determining What Rate of Return is Fair to PECO Consumers and the Company's Investors.

The OCA addressed the legal framework for review of the Company's rate of return request in the OCA's Main Brief. OCA M.B. at 75-78. Section 523(a) and (b) provide the Commission with discretion to deny PECO's requested 25-basis point equity adder for management performance.[45] Id. at 98-99. When the Commission evaluates a request made under Section 523, the end goal is the establishment of just and reasonable rates. Id.

The Company Main Brief summary of legal standards focuses primarily on Hope and Bluefield.[46] PECO M.B. at 52-53. Absent from the Company's review is recognition that the Commission must also consider the interests of PECO's ratepayers. I&E's summation of the Bluefield and Hope standards is similarly narrow in its focus on matters from "the investor or company point of view"[47] and what a "utility is entitled to…." See, I&E M.B. at 53.

To determine a rate of return that is fair to PECO ratepayers in this proceeding, the Commission must broaden its view beyond this utility-centric focus discussed by the Company and I&E. As the U.S. Supreme Court in Hope noted, "[t]he rate-making process under the Act,

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43 See e.g. PECO St. 5-R at 13-14 (DSIC equity return as floor), 15-16 (historic volatility and the VIX). This is not an exhaustive list.

44 52 Pa. Code § 5.501(a)(3).

45 66 Pa.C.S. § 523.

46 See Bluefield Waterworks & Improvement Co. v. Public Service Comm'n of West Virginia, 262 U.S. 679 (1923) (Bluefield); Federal Power Comm'n v. Hope Natural Gas Co.,, 320 U.S. 591 (1944) (Hope)

47 I&E M.B. at 53, quoting Hope, 320 U.S. at 603.

i.e., the fixing of 'just and reasonable' rates, *involves a balancing of the investor and consumer interests* . . . ."[48] OCA M.B. at 76-77. The Court later recognized that consumers are obliged to rely upon regulatory commissions to protect them from excessive rates and charges.[49] Id. at 77.

The Commission has previously described its obligations in determining a fair rate of return as follows:

> A fair rate of return for a public utility, however, is not a matter which is to be determined by the application of a mathematical formula. It requires the exercise of informed judgment based upon an evaluation of the particular facts presented in each proceeding. There is no one precise answer to the question as to what constitutes the proper rate of return. *The interests of the Company and its investors are to be considered along with those of the customers, all to the end of assuring adequate service to the public at the least cost*, while at the same time maintaining the financial integrity of the utility.[50]

OCA M.B. at 78. The Commission's determination of a fair rate of return in this proceeding should include consideration of the interests of PECO customers and the goal of assuring adequate service at the least cost. Neither the Company's nor I&E's cost of capital recommendations meet these requirements.

B. Capital Structure.

The Company asks the Commission to reject the OCA's recommended capital structure of 50% equity and 50% debt because the Company's proposed capital structure is within a range of reasonableness. PECO M.B. at 57-58. The OCA disagrees with the Company's position that its estimated end of the FPFTY capital structure comprised of 53.38% common equity and 46.62%

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48 Hope, 320 U.S. at 603 (emphasis added).

49 See Permian Basin Area Rate Cases, 390 U.S. 747, 794-95 (1968) (citing Atlantic Refining Co. v. Public Service Comm'n, 360 U.S. 378, 388 (1959)). See also, OCA St. 3 at 27-31.

50 Pa. Pub. Util. Comm'n v. Pennsylvania Power Co., 55 Pa. PUC 552, 579 (1982) (emphasis added). See Pa. Pub. Util. Comm'n v. National Fuel Gas Dist. Corp., 73 Pa. PUC 552, 603-605 (1990).

long-term debt is supported and reasonable. OCA M.B. at 78-81. The Company's high equity ratio will impose additional costs on ratepayers and will not lead to adequate service at least cost. The Commission should adopt the OCA's recommended capital structure of 50% common equity and 50% long-term debt to set just and reasonable rates in this proceeding. Id.

The Company's claimed 53.38% common equity and 46.62% long-term debt ratio is based upon estimates of the Company's FTY capitalization ratios and total investment, which in turn is the starting point for the Company's estimated end of FPFTY figures. See PECO M.B. at 55. Mr. O'Donnell testified that one should approach projected common equity ratios with skepticism. OCA M.B. at 80, citing OCA St. 3 at 47. As Mr. O'Donnell explained in direct, "[m]ost projections tend to set common equity at too high a value given the inherent subjectivity and erratic nature of where the common equity ratios may actually fall out in the future years." Id. Mr. O'Donnell's concern is "additionally relevant given the economic climate in 2020 where the COVID-19 Pandemic has increased the uncertainty associated with projected future common equity ratios." Id.

In rebuttal, Mr. Moul updated his cost of debt rate and cost of equity analyses, to reflect information through December 2020. However, the Company's "Capitalization and Related Capital Structure Ratios" set forth in PECO Exhibit PRM-1, Schedule 5 remain "estimated" for the FTY and FPFTY. See, PECO St. 5-R, PECO Exh. PRM-1, Sch. 5; see also, PECO M.B. at 55.

The OCA submits that the Company's end of FPFTY capitalization ratios are not "actual," but are projections which should be scrutinized to assure that consumers are not paying an excessive level of return on an equity ratio which is not realized. Both OCA and I&E have challenged the Company's projected end of the FPFTY plant in service balances, which ties in to the Company's projected capitalization levels. OCA M.B. at 68-70; see supra OCA R.B. Section IV.D.1.

The Company states that its capital structure ratios are within "the range of reasonableness…." when compared to the common equity ratios for Mr. Moul's proxy group of utilities and so should be adopted for setting rates.[51] PECO M.B. at 57-58. The Company cites to the Commission's policy of accepting a utility's claimed capital structure for ratemaking if within this range of the equity capitalization ratios of a proxy group. Id.

The OCA disagrees. The Company's approach excludes consideration of what gas utility capital structure ratios have been approved by utility regulators for the purpose of setting rates. OCA witness O'Donnell did consider PECO's estimated equity ratio and how it compared to the equity ratios for his proxy group companies, as well as PECO's corporate parent, Exelon, based upon financial reports. OCA M.B. at 79-80; see OCA St. 3 at 39-43; OCA St. 3-SR at 12-13. Specifically, PECO's estimated equity ratio of 53.38% is higher than the proxy group average of 50.70% and Exelon's 50.40% equity ratio based upon financial reports. OCA M.B. at 79-80. However, Mr. O'Donnell also considered the gas utility equity ratios actually used by regulators for setting new rates: an average equity ratio for gas utilities of 51.75% for regulatory rate orders in 2019, and an average equity ratio of 49.91% based upon 15 years of regulators' decisions. Id.

Contrary to PECO's position, Mr. O'Donnell's consideration of Exelon's equity ratio of 50.40% is appropriate. See, PECO M.B. at 56-57. Mr. O'Donnell examined Exelon's equity ratio because Exelon is PECO's corporate parent, with publicly traded stock, and provides a direct link to PECO. OCA M.B. at 84; see, OCA St. 3-SR at 27. As Mr. O'Donnell testified, "[c]redit rating agencies have recognized this undeniable bond between a parent holding company and its utility

[51] PECO M.B. at 57-58.

subsidiary and closely tie the corresponding credit ratings of the two entities." Id. The Company is wrong to suggest that information about Exelon is not relevant. Id.

The Company opposes the OCA recommendation as not accounting for the Company's risk profile. PECO M.B. at 56-57. The OCA disagrees. As OCA witness O'Donnell testified "[n]othing in the make-up of PECO Energy Company – Gas Division suggests that it requires a high equity ratio in the range that they are requesting, which would translate into lower financial risk, than any of the companies within the comparable proxy group." OCA M.B. at 80. Additionally, interest rates for borrowing are very low and expected to remain low, and utility stocks have been favored by investors during the COVID-19 pandemic. Id. at 95. The high level of equity in the Company's projected end of the FPFTY capital structure will impose higher costs on PECO ratepayers, as dollars to provide an equity level of return must be adjusted for taxes.[52] Id. at 78-79; OCA St. 3 at 36-37.

The OCA submits that the 50% common equity/50% total debt capital structure recommended by Mr. O'Donnell is best suited to set just and reasonable rates based upon the specific record developed in this proceeding.

C. Cost of Long-Term Debt.

The OCA has accepted the Company's revised embedded long-term cost of debt of 3.84%. OCA M.B. at 81-82. As acknowledged by the Company, the Company revised its cost of debt downward in response to the direct testimony of OCA witness O'Donnell.

D. Common Equity Cost Rate.

The OCA Main Brief sets forth the affirmative reasons why the Commission should set PECO's cost of equity rate at no higher than 8.75%. The OCA recommendation is supported by

52 OCA M.B. at 79.

the expert testimony of OCA witness Kevin O'Donnell, including his examination of available financial data through mid-December 2020 and application of DCF and CAPM analyses to a proxy group comprised of all companies included in the *Value Line* Gas group. OCA M.B. at 82-95. Mr. O'Donnell also provided information from two Comparable Earnings Analyses. Id. at 93-94.

The OSBA supports adoption of a cost of equity rate for PECO that is no higher than the OCA's proposed 8.75% cost of equity. OSBA M.B. at 5.

I&E's Main Brief does not state a position regarding the OCA's cost of equity recommendation. I&E's Main Brief acknowledges that OCA witness O'Donnell opposed elements of I&E witness Keller's cost of equity recommendation. I&E M.B. at 55. The OCA responds to I&E's Main Brief position in Section VIII.F.

PECO's Main Brief opposes the OCA cost of equity of 8.75% and overall rate of return recommendation of 6.30%. PECO M.B. at 6, 54-58, 62, 72-79. The Company's criticisms are not well grounded and should not be relied upon by the Commission, for the reasons set forth in the OCA's Main Brief and below. OCA M.B. at 82-94, 111-123.

1. The OCA Proxy Group.

The Company and OCA proxy groups contain nine companies in common. The OCA proxy group includes a tenth company, UGI Corp. OCA M.B. at 83-84. Mr. O'Donnell also performed stand-alone DCF and CAPM analyses of PECO's corporate parent Exelon. In its Main Brief, PECO faults the OCA's choice of proxy group companies and separate consideration of Exelon. PECO M.B. at 73, 75. Contrary to the Company's position, Mr. O'Donnell's ten-company proxy group and evaluation of Exelon is not a flaw but a strength.

The OCA's cost of equity recommendation is based upon the careful consideration by Mr. O'Donnell of the financial information available for all ten companies included in the *Value Line* gas utility industry group, including UGI Corp. OCA M.B. at 83-84. The *Value Line* gas utility industry group includes Chesapeake Utilities as another example of a large company with diverse business holdings including gas utilities. The Company's position that only nine of the *Value Line* gas group companies (excluding UGI Corp.) should be considered, based on certain metrics (utility revenues, utility income, and utility assets ratios) did not withstand scrutiny. OCA St. 3-SR at 28-29. OCA witness O'Donnell testified that the supposed screening by the Company did not capture 2019 or later data and included incorrect or transposed inputs. Id. at 29-30. The OCA proxy group provides a broad and robust basis for determination of a market-based cost of equity estimate. OCA M.B. at 83-84.

As discussed in the OCA's Main Brief, OCA witness O'Donnell considered Exelon's financial information because Exelon is PECO's corporate parent, its stock is publicly traded, and credit ratings analysts would consider Exelon's position in a review of PECO. OCA M.B. at 84; OCA St. 5-SR at 27. Mr. O'Donnell recognized that Exelon is classified by *Value Line* as in the electric industry group. OCA M.B. at 84. The Company's position that Mr. O'Donnell considered too much information by looking at its corporate parent should be rejected.

2. The OCA's Discounted Cash Flow Analysis.

As described in the OCA Main Brief, OCA witness O'Donnell conducted a detailed examination of publicly available information from *Value Line* and other sources to identify appropriate inputs for his DCF analyses of his ten-company proxy group. OCA M.B. at 73-75, 82-91. Mr. O'Donnell applied the DCF formula, which in its simplest form is stated as:

$$k = D/P + g.$$

Id. at 86. In the formula, D = dividends per share in the initial future period; g = expected growth rate in dividends; k = cost of equity capital; and P = price of asset (or present value of a future stream of dividends). Id. at 86; see OCA St. 3 at 56-57.

The Company's Main Brief identifies just a few specific points of disagreement regarding Mr. O'Donnell's applied DCF. PECO M.B. at 62, 75. First, PECO states that "using historic growth rates is inconsistent with the DCF model," to rebut OCA witness O'Donnell's position that a proper DCF analysis should consider historical growth rates and not rely solely on forecasted earnings per share (EPS) growth rates. Id. at 62. Second, PECO faults Mr. O'Donnell for not including a leverage adjustment in his DCF. Id. at 75.

a. Mr. O'Donnell's Growth Rate Recommendation Is Soundly Based

The Company's high level and general criticism of Mr. O'Donnell's approach to identifying an appropriate growth rate is not warranted. As explained in the OCA's Main Brief, Mr. O'Donnell provided many clear reasons why: 1) historic and forecasted growth rate information should both be examined, and 2) the type of growth rates should not be limited to forecasted earnings per share, as part of a proper DCF analysis. OCA M.B. at 87-90. For example, historic and forecasted growth rate information is publicly available and widely available to investors and would be prudent to use. Id. at 88. Additionally, both historic and forecasted growth rate information provide valuable data for what one can expect the ultimate growth rate for the individual stock will be. Id. As noted by Mr. O'Donnell, academic literature cautions that forecasted earnings per share growth rates are not shown to be reliable forecasts of earnings over the long run and that analysts' estimates tend to overly optimistic. OCA M.B. at 116; OCA St. 3-SR at 36-37. OCA witness O'Donnell properly considered dividend per share, book value per share, *in addition* to earnings per share information. "Since the DCF formula is dependent on future *dividend* growth," OCA witness O'Donnell stated "it would be inaccurate to only use earnings growth rates in the DCF." OCA M.B. at 88; see OCA St. 3 at 64. The use of only earnings growth rates would produce unrealistically high return on equity numbers that cannot be sustained indefinitely. Id.

The three methods applied by Mr. O'Donnell, including the data sources and the span of time covered, are described in the OCA Main Brief. Id. at 88-89. PECO's Main Brief does not identify a concern with the specifics of *how* Mr. O'Donnell developed his final DCF growth rate range.

Mr. O'Donnell's recommended growth rate range of 4.25% to 6.25% is the result of Mr. O'Donnell's careful consideration of the assembled historic and forecasted growth rate information, as well as other factors. OCA M.B. at 90. What the Company's Main Brief criticism overlooks is that Mr. O'Donnell gave more weight to forecasted figures, in his final analysis, to estimate the cost of equity, "due to the negative growth impact of COVID-19, as well as the fundamental changes that have occurred in the natural gas utility industry" in recent years. Id.

b. The OCA's Omission of a Leverage Adjustment in its DCF Analysis is Not a Flaw.

As noted above, OCA witness O'Donnell applied the DCF formula stated as "k = D/P + g." OCA M.B. at 86; see OCA St. 3 at 56-57. This is the same formula which PECO's Main Brief describes as "the standard valuation model." PECO M.B. at 61. Company witness Moul's leverage adjustment is not part of that "standard valuation model" formula. Id. Rather it is an adjustment uniquely proposed by Company witness Moul. The Company's argument that the OCA's DCF cost of equity analysis is flawed because OCA witness O'Donnell did not include Mr. Moul's additive leverage adjustment should be rejected. Id. at 75.

The OCA Main Brief sets forth the reasons why Mr. Moul's leverage adjustment is conceptually unsound. OCA M.B. at 116-118. In UGI Electric, the utility claimed that an unadjusted DCF would understate the cost of common equity and the leverage adjustment for financial risk was needed.[53] Id. at 117-118. The Commission denied the utility's requested leverage adjustment as "not reasonable," concluding that "an artificial adjustment in this proceeding is unnecessary and contrary to the public interest."[54] Id. OCA witness O'Donnell's DCF analysis appropriately excluded a leverage adjustment that would only artificially inflate the cost of equity estimate to the detriment of PECO ratepayers.

3. The OCA's Capital Asset Pricing Model Analysis.

The Company's Main Brief opposes the OCA's CAPM results as understating the cost of equity. PECO cites Mr. O'Donnell's consideration of historical geometric means to calculate total market return, omission of a leverage adjustment to the CAPM beta, omission of a size adjustment, lack of a prospective yield on Treasury bonds, and derivation of a market risk premium that is unreflective of investor-expected returns. PECO M.B. at 76-98. Contrary to the Company's criticisms, the OCA's CAPM analysis provides a reasonable estimate of the cost of equity, within the limits of the model, for use as a check on the results of a proper DCF analysis, as performed by OCA witness O'Donnell. OCA M.B. at 72-75, 82-83, 91-93.

The Company's criticism of the OCA CAPM analysis for omitting a leverage adjustment to betas and omitting a size adjustment is without merit. OCA witness O'Donnell rebutted Company witness Moul's inclusion of these adjustments in the Company's own CAPM analysis. OCA M.B. at 120-121. A separate leverage adjustment to betas is unnecessary because of how

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53 Pa. Pub. Util. Comm'n v. UGI Utilities, Inc. – Electric Div., Docket No. R-2017-2640058, Order at 86, 91 (Pa. PUC Oct 25, 2018) (UGI Electric).

54 UGI Electric at 93-94.

Value Line develops and presents its information, to present a forecast of betas going forward. Id. at 120. Additionally, the inclusion of a leverage adjustment in the CAPM is conceptually unsound and not favored by the Commission, as recently stated in UGI Electric. Id.

Mr. O'Donnell did not include a size adjustment because investors are able to price into the current stock price any premium or consideration of risk. Id. at 121; OCA St. 3-SR at 14. There is no need for a separate adjustment in the CAPM to account for risk differences due to the size of the firm. OCA M.B. at 121. This type of adjustment was also rejected by the Commission in UGI Electric. Id.

Mr. O'Donnell's identification of the appropriate risk free rate, based upon consideration of 30-year Treasury bond yields, as well as more recent changes in the Federal Funds rate from late 2019 through 2020 and the impact of the COVID-19 Pandemic, is soundly based. OCA M.B. at 91-92. Mr. O'Donnell used *Value Line* data to identify an average beta for his proxy group of 0.89%, indicative of a conservative equity investment. Id.

The Company criticizes Mr. O'Donnell's identification of the market risk premium tied to Mr. O'Donnell's analysis of total market returns. PECO M.B. at 77. The Company's position is unfounded. OCA witness O'Donnell gauged the historical risk premium based upon the Ibbotson SBBI 2020 Yearbook data published by Morningstar. OCA St. 1 at 82-83. He presented "[t]he long-term geometric and arithmetic returns for both equities and fixed income securities and the resulting risk premiums in Table 10." Id. Mr. O'Donnell used these historic returns, calculated separately on an arithmetic and geometric basis "for comparison to the forecasted market return and resulting risk premium…." OCA St. 3-SR at 43.

The Company does not provide support for its position that the OCA CAPM lacks a prospective yield on Treasury bonds. PECO M.B. at 76. OCA witness O'Donnell's development of an appropriate risk free rate for inclusion in the CAPM is well-supported. OCA M.B. at 91-93; see OCA St. 3 a 79-87; OCA St. 3-SR at 41.

Contrary to the Company's Main Brief criticisms, OCA witness O'Donnell's CAPM analysis does provide proper information for development of a cost of equity estimate, for consideration by the Commission to determine an appropriate cost of equity for PECO. OCA M.B. at 72-75, 82-83, 91-93.

E. Business Risks and Management Performance.

1. Business Risks.

PECO's Main Brief Section VIII. E. does not include a discussion of business risks, but rather is limited to the Company's management performance claim. No other opposing party addressed "business risks" as part of Section VIII. E.

2. Management Performance.

PECO has requested that the Commission approve a 25-basis point addition to the allowed cost of equity in recognition of the Company's "strong management performance." PECO M.B. at 49-50, 68-71, 79-80, citing Tr. at 218-219 (PECO witness Bradley rejoinder).

The Commission should deny the Company's request in its entirety. The Company's request is opposed by the OCA, I&E, and OSBA. OCA M.B. at 96-111; I&E M.B. at 56-58; OSBA M.B. at 2, 4-5. The OCA, I&E, and OSBA concur that the Commission's decision in Columbia Gas is the most timely and instructive ruling on a similar omnibus claim by a gas utility to a cost of equity adder for management performance. In Columbia Gas, the Commission denied the utility's request, adopting the recommendation of the presiding ALJ as "supported by ample record evidence and [] just and reasonable."[55] The Commission noted the ALJ's conclusion that

[55] Columbia Gas at 135.

the utility "failed to provide sufficient evidence" to support its request.[56] The Commission further noted:

> The ALJ reasoned that while effective operating and maintenance cost measures should flow through to ratepayers and/or investors, Columbia's proposal defeats the purpose of cutting expenses to benefit ratepayers, particularly during a pandemic when so many ratepayers have experienced reduced household income from job loss or reduction in hours. Therefore, the ALJ recommended that no upward management effectiveness adjustment be made to the Company's cost of equity.[57]

The OCA's Main Brief provides a detailed summary of the relevant record evidence provided by OCA witnesses O'Donnell and Colton, which shows that PECO's management performance does not rise to such a high level as to support an award of 25 or any basis points for management performance pursuant to Section 523.[58] OCA M.B. at 96-111. The Commission has declined to exercise its discretion under Section 523 simply because the utility has complied with statutory or regulatory service quality standards and requirements.[59] Id. at 99-100. Utility performance might be commendable but still not rise to a level sufficient to support a Section 523 upward adjustment to the cost of service.[60] Id. The fact of the pandemic and its impact on PECO's consumers is also relevant information, which should strongly weigh against grant of PECO's request.[61] OCA M.B. at 98-99.

a. PECO Has Not Provided Substantial Evidence in Support

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56 Id. at 134

57 Id.

58 66 Pa. C.S. § 523.

59 66 Pa. C.S. § 523. See e.g. Pa. Pub. Util. Comm'n v. Columbia Water Co., Docket No. R-2008-2045157, 2009 Pa. PUC LEXIS 1423 at *131-35 (Pa. PUC May 28, 2009) (CWC 2008) (Compliance with safe drinking water standards did not support adjustment); accord, Pa. Pub. Util. Comm'n v. Columbia Water Co., Docket No. R-2013-2360798, Order at 46, 51 (Pa. PUC Jan. 1, 2014) (CWC 2013).

60 CWC 2013 at 50.

61 66 Pa. C.S. § 523(a); see Columbia Gas at 134-135.

The specific examples of management performance identified in the Company's testimony and Main Brief do not warrant any increase to the allowed cost of equity. As a regulated fixed utility, PECO is required to provide safe, adequate, reasonable and efficient service as a matter of law.[62] An appropriate rate of return on common equity assumes efficient and reasonable management of a utility.[63] OCA M.B. at 98-99.

In support of its request, PECO cites to its efforts to remediate former manufactured gas plant (MGP) sites consistent with state regulatory standards. PECO M.B. at 49-50. PECO also points to its management of "its natural gas distribution system in a safe and responsible manner ...." and gas system safety improvements, including the long range gas mapping program, as well as initiatives to improve communications between PECO and consumers. Id. at 69-70. Cost savings, the interval between base rate cases, and the increase in the Company's J.D. Power scores through 2019 are also referenced by the Company as support. Id. at 78-71, 79-80. In testimony, Company witness Bradley identified PECO's plan to help certain consumers impacted by the COVID-19 Pandemic as another example of superior management performance. PECO St. 1-R at 515, 17-18; PECO St. 10-R (revised) at 3-5; but see, OCA M.B. at 97, 127-132.

Many of the Company's claimed examples of superior management performance are Company activities necessary to comply with specific legal requirements such as Section 1501, Commission orders approving settlements, or Commission regulatory standards. For example, Company witness Bradley testified that remediation of PECO's MGP sites is necessary to meet Pennsylvania Department of Environmental Protection regulatory requirements. PECO St. 1 at 13. Additionally, the Company's recovery of those remediation expenses from ratepayers is the

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62 66 Pa. C.S. § 1501; see also CWC 2013 at 50.

63 CWC 2013, at 50-51.

subject of Commission approved settlements. Whether the Company's present claim for ratemaking recognition of MPG remediation costs conforms to those settlements is a contested issue in this base rate proceeding. OCA M.B. at 68-70; see supra, OCA R.B., Section VI.P; see also, PECO St. 1 at 14. This part of the record does not support a determination of exemplary management.

Similarly, PECO has a legal obligation to operate its gas distribution system in a safe and responsible manner, pursuant to Section 1501, the Commission's Long-Term Infrastructure Improvement Plan (LTIIP) regulations, and Commission orders.[64] PECO M.B. at 69-70; OCA M.B. at 99-101. For example, the Company's rate of replacement of bare steel services is covered by the Company's Second Revised LTIIP approved by the Commission. Id. at 100-101. The Company's implementation of a gas mapping program is a "remedial measure" required by Commission Order approving the Penrose Lane Settlement between PECO and I&E. Id. at 101.

OCA witness O'Donnell rebutted the Company's position that ratepayers should pay a higher equity cost rate based upon the Company's improvements over the past five or ten years. OCA M.B. at 100. The markets would already have factored in these improvements in subsequent years, providing shareholders with the benefits of those improvements. Id. As to the length of time between rate cases, PECO secured a Commission-approved LTIIP as a pre-condition to implementing a DSIC tariff and surcharge. The DSIC reduces regulatory lag for recovery of DSIC-eligible costs incurred "to ensure and maintain adequate, efficient, safe reliable, and reasonable service."[65] Id. PECO's proposal is also contrary to the Columbia Gas ruling.

b. PECO's Performance in the Area of Customer Service is Not Superior nor Exemplary

64 66 Pa. C.S. § 1501.

65 66 Pa. C.S. § 1353(a).

In its Main Brief, PECO did not directly respond to OCA witness Colton's testimony regarding PECO's requested management performance adder. PECO M.B. at 68-71, 79-80. In support of its request, however, PECO's Main Brief cited to the overall "effectiveness" of PECO's approach to customer service. As examples of this "effectiveness," PECO identified the Company's improvements over its 2017 performance in the metrics of: overall Call Center satisfaction index; J.D. Power Gas Rating; Overall Call Center Satisfaction; Average Speed of Answer; Call Abandoned rate; number of web self-service transactions; and percentage of gas odor calls responded to in 1 hour or less. PECO M.B. at 70-71. While PECO's Main Brief highlighted "improvements" to selected customer service data metrics and its J.D. Power Gas rating through 2019, those "improvements" do not demonstrate superior or exemplary management performance.

First, the OCA does not agree that changes in J.D. Power scores are a meaningful indicator of management effectiveness, when the Commission has its own metrics and evaluations. OCA M.B. at 101-102. The PECO Main Brief chart and PECO witness Bradley's rejoinder testimony on the matter of J.D. Power scores ignores that the 2020 results showed that PECO's ranking among its regional peer group fell from 4th out of 12 in 2019 to 7th out of 12 in 2020. Id. at 102. According to OCA witness O'Donnell, PECO's scoring over several years placed it "in the middle of the pack." Id. at 102.

Second, and more relevant, the customer service data, collections data and customer service outcomes data presented by OCA witness Colton showed that PECO's performance trended towards the middle or bottom level of performance. See, OCA M.B. at 105, 110. Moreover, PECO's limited snapshot of customer service data does not address the full scope of the analysis that OCA witness Colton completed in his review of PECO's management performance. See, OCA M.B. at 96-97, 102-111.

As discussed in its Main Brief, using the Commission's own reports, OCA witness Colton examined PECO's customer satisfaction data, collections data, and customer service outcomes to determine whether a performance management adder was merited. OCA M.B. at 96-97, 102-111. In the area of customer satisfaction, Mr. Colton analyzed the following six areas: (1) ease of being able to reach PECO; (2) ease of using PECO's automated telephone service; (3) "the way in which PECO customer service representatives handled a customer-initiated contact with the Company;" (4) the call center representative's "courtesy;" (5) the extent to which the customer service representative is "knowledgeable;" and (6) the overall quality of service. OCA M.B. at 103-106; OCA St. 5 at 93-101. Mr. Colton found in each of these six categories that PECO's performance measured against other Pennsylvania natural gas utilities trended towards the middle to bottom of the pack. OCA M.B. at 105.

Examining the collections data and the customer service outcomes data from the Commission's annual Cold Weather Survey and the annual Bureau of Consumer Services Report on Customer Service Performance and Universal Service Programs, OCA witness Colton also found that PECO's performance measured against other Pennsylvania natural gas utilities trended towards the middle to bottom of the pack. OCA St. 5 at 106-110. OCA witness Colton testified:

> Using the data which the PUC prescribed to be reported for the explicit purpose of assessing utility customer service performance, I find that while, in many ways, PECO does not perform worse than other Pennsylvania utilities in the realm of customer service, PECO certainly does not perform substantially better than Pennsylvania utilities. Indeed, in many ways the performance of PECO on customer service related factor is toward the bottom level of performance in Pennsylvania. Mr. Bradley's testimony notwithstanding, PECO cannot lay claim to superior or exemplary management when it relates to customer service.

OCA St. 5-SR at 3-4. The OCA submits that PECO should not be awarded a management performance adder based upon its customer satisfaction, collections data, and customer service outcomes data.

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

Both the Company's Main Brief and I&E's Main Brief present their respective direct case in support of their separate proposed cost of equity – PECO's 10.95% claim and I&E's recommended 10.24%. The OCA's Main Brief has already addressed many of the separate reasons why the Commission should not adopt the Company's cost of equity claim of 10.95% or I&E's proposed 10.24 % cost of equity. OCA M.B. at 73, 95-126. The OCA summarizes below its points of disagreement with the cost of equity analyses and final recommendations as described in the separate Main Briefs filed by I&E and PECO The OCA does not concede any area of dispute as identified in the OCA's testimony and briefs, including identification of an appropriate proxy group, or the correct application and inputs for a DCF or CAPM analysis.

1. I&E's Recommended 10.24% Cost of Equity for PECO is Overstated and Should Not Be Adopted.

I&E's Main Brief states that the OCA's criticisms of I&E witness Keller's cost of equity presentation and final recommendation of a 10.24% cost of equity have been rebutted. I&E M.B. at 55, citing I&E St. No. 2-SR at 3-37. I&E's proposed 10.24% cost of equity is not appropriate to set just and reasonable rates in this proceeding. OCA M.B. at 111-112. The OCA Main Brief and rebuttal testimony of OCA witness O'Donnell describe the OCA's specific points of disputes, including proxy group, capital structure, DCF dividend yields and growth rates, and development of inputs for the CAPM. OCA M.B. at 123-126; OCA St. 3-R at 1-18.

As OCA witness O'Donnell testified, I&E's proposed 10.24% cost of equity for PECO "is not reflective of current market conditions" and would allow PECO to "over-earn, at the expense of consumers, in a market reflective of much lower capital costs." OCA St. 2-R at 2. As noted above in Section VIII.A.1, I&E's summation of the Hope and Bluefield principles is framed with an emphasis on the utility's viewpoint and needs. The OCA submits that I&E's development of its cost of equity recommendation does not reflect consideration of the interest of consumers, particularly important given the COVID-19 Pandemic. The Commission should not adopt I&E's cost or equity recommendation of 10.24% for PECO, based upon the record in this proceeding.

2. The Company's Cost of Equity Request of 10.95% Is Overstated, Without Sound Support and Should Be Denied.

The Company's requested cost of equity is 10.95%, comprised of a 10.70% base and 25-basis points adder for management efficiency. PECO M.B. at 60. According to the Company, "the uncertainty associated with the COVID-19 pandemic" has already been factored in by Mr. Moul's choice of an equity cost rate within the range of results shown by his four models, in direct testimony based upon information through June 2020. Id. at 60, 61; see PECO St. 5-R at 10. Company witness Moul submitted updated cost model results that showed an increase in his DCF results (inclusive of a leverage adjustment) from 12.74% to 13.46%. PECO M.B. at 61.

The OCA's Main Brief and the testimony of OCA witness O'Donnell describe the many flaws and ways in which the Company has developed DCF and CAPM cost model results, which are inflated and not reliable to support a cost of equity determination. Examples include Mr. Moul's unsupported upward adjustments to the dividend yield and unreasonable reliance solely upon forecasted earnings per share growth rates to develop a growth rate for the DCF model, plus the addition of 196 (direct) or 217 (rebuttal) basis points for a leverage adjustment. OCA M.B. at 73, 112, 114-118; see, PECO M.B. at 61. The OCA also opposes the Company's CAPM analysis, which includes an unnecessary leverage adjustment to the betas and size adjustment. OCA M.B. at 73, 118. The Company's updated CAPM results increased the risk free rate from 1.75% to

2.00% without explanation. Id. at 120; see OCA St. 3-SR at 49. The Company's Risk Premium and Comparable Earnings analyses do not provide useful information and are not usually considered by the Commission. OCA M.B. at 111, 118-121. The Commission's preference is to consider the results of proper DCF-based cost of equity with consideration of the CAPM results as a check. Id.

The Commission should reject the Company's 10.95% cost of equity claim as unsupported and well in excess of a reasonable cost of equity appropriate for PECO's ratepayers and PECO based upon the record in this proceeding. OCA M.B. at 111-122. PECO's 10.95% requested cost of equity is not reflective of current market conditions and would allow PECO to over-earn, at the expense of consumers, in a market reflective of much lower capital costs. Id. at 73, 74-75. The Company's cost of equity request is even more unreasonable when the fact of the extended COVID-19 Pandemic and economic hardships faced by PECO consumers are considered. Id. at 9, 74-75, 111-112.

IX. CUSTOMER PROGRAMS AND MISCELLANEOUS ISSUES

The OCA will respond to the additional issues and arguments raised by the Company in its Main Brief regarding the proposed COVID-19 Emergency Relief Program and the Energy Efficiency and Conservation expansion. The OCA will also respond to the Main Brief of CAUSE-PA and its recommendations regarding the Company's universal service programs.

A. Recommendations Related to the COVID-19 Emergency.

In light of the economic crisis created by the COVID-19 pandemic, OCA witness Colton proposed an Emergency COVID-19 Relief Plan (ERP) to provide financial and collections relief to residential customers, in particular those residential customers who may not otherwise have access to assistance. OCA M.B. at 127-132; see, OCA St. 5 at 27, Sch. RDC-1. In its Main Brief, PECO argued that the Company has been proactive in assisting customers with COVID-19 relief and no further assistance is needed. PECO M.B. at 80-82. PECO stated that since March 2020, the Company has offered all customers the opportunity to enter into a 24-month payment arrangement and that the Company has utilized multiple strategies to offer this special payment arrangement to customers. PECO M.B. at 81. PECO also stated that the Company provides all residential customers with financial difficulties with information about the universal service programs. PECO M.B. at 82. PECO also cited to its proposal to temporarily modify the eligibility requirements for its Matching Energy Assistance Fund (MEAF) to expand the number of customers who qualify for assistance and its pending COVID-19 relief proposal to offer a bill credit to CAP customers, waivers of requirements for CAP enrollment and recertification, and to transfer unspent Low Income Usage Reduction Program funds to a summer cooling initiative. PECO M.B. at 82. The Company also identified its compliance with the Commission's Moratorium Orders at Docket No. M-2020-3019244. PECO M.B. at 82.

The OCA submits that PECO's current COVID-19 programs are primarily designed to assist low-income customers. While assistance to low-income customers is important, the ERP program is designed to extend *beyond* low-income customers. The economic crisis is not limited to low-income customers, and the OCA submits that a broader-reaching program is needed. OCA witness Colton recommended consideration of the self-sufficiency standard for a COVID-19 Relief Plan. OCA St. 5 at 27, Sch. RDC-1. Under the ERP, customers would be eligible if they met the following criteria:

> i. Any residential customer meeting the following qualifications will be eligible for the program: (i)The customer is a current customer in arrears; and (ii)The customer is not participating or eligible for CAP; and (iii)The customer provides the following:
>
> 1. proof of unemployment benefits filed/received for one or more household members on March 13, 2020; or

> 2. proof the customer, or a member of the customer's household, is eligible for, or has received, the first federal COVID-19 relief check in the amount of $1,200.

OCA St. 5 at Sch. RDC-1, ¶ 1(c).

The ERP is designed to address the customers that fall in the gap between the customers that are eligible for low-income customer assistance programs and customers that have sufficient income to be economically self-sufficient. As Mr. Colton testified:

> It is not uncommon to consider the difference between households who are considered "poor" as per the PUC definition, and households who are insufficiently poor to be income-qualified for PECO Gas universal service programs, but who have insufficient resources to meet their day-to-day obligations (e.g., utility bill payments) during the pandemic.

OCA St. 5 at 28. The ERP proposal would provide much-needed economic relief to customers that have demonstrated an impact from the COVID-19 pandemic and are otherwise having challenges paying their arrearages.

In its Main Brief, the Company argued that PECO offers a 24-month payment arrangement to customers, so the ERP is not necessary. PECO M.B. at 82. The OCA submits that the proposed maximum 24-month payment arrangement is neither sufficient nor consistent with Chapter 14.[66] As OCA witness Colton testified:

> First, the PECO proposal allows the utility to establish a payment agreement of less than 24-months. The 24-month figure, according to witness Colarelli's own testimony, is merely a maximum; an arrangement of 12-months or 18-months (or some other term of less than 24-months), in other words, is in compliance with the PECO Gas proposal to offer payment arrangements of "up to" 24-months. In contrast, my recommended emergency relief provides for a payment arrangement in compliance with PUC regulations or 24-months *whichever is longer*.

[66] See 66 Pa. C.S. § 1405(b).

OCA St. 5-SR at 12 (emphasis in original).

On March 12, 2021, Chairman Gladys Brown Dutrieuille issued her Motion in the Public Utility Termination Moratorium proceeding at Docket No. No. M-2020-3019244.[67] The Moratorium Motion provides that until December 31, 2021, the utilities must offer to customers the following payment arrangements:

- For residential customers with incomes below 250% of the Federal Poverty Level (FPL), customers shall be eligible for a payment arrangement of a minimum of five years;

- For residential customers with incomes between 250% and 300% of the FPL, customers shall be eligible for a payment arrangement length of a minimum of two years; and

- For residential customers with incomes over 300% of the FPL, customers shall be eligible for a payment arrangement length of a minimum of one year.

Moratorium Motion at 2-3.[68]

The Moratorium Motion also provides the Commission with the authority to order the above terms to a customer who is eligible for a new payment arrangement or:

> for a residential customer who has previously defaulted on a Commission payment arrangement, even where 66 Pa. C.S. §1405(d) has not been satisfied. This allowance for one additional payment arrangement is made solely in response to the COVID-19 pandemic and the March 13 Emergency Order.

Moratorium Motion at 3.

Pursuant to OCA witness Colton's proposal for an ERP in this case, the OCA continues to recommend that residential customers be offered the most beneficial payment arrangement

67 Public Utility Service Termination Moratorium, Docket No. M-2020-3019244, Motion of Chairman Gladys Brown Dutrieuille (March 12, 2021)(Moratorium Motion).

68 Utilities are also encouraged to offer flexible means for income verification, including "for example, over-the-phone or via electronic mail." Moratorium Motion at 3. The Moratorium Motion provides that a residential customer may also request a shorter arrangement than is provided for under the Moratorium Motion. Id.

possible. See, OCA St. 5 at Exh. RDC-1, ¶ 2(b)(iv) (payment arrangement term length); see also, Moratorium Motion at 3. For example, if PECO has previously offered the residential customer a 24-month payment arrangement, and the 24-month payment is greater than required under the Moratorium Motion, the OCA submits that PECO should continue to offer a 24-month payment arrangement. However, a 24-month payment arrangement for a residential customer whose income is below 250% of the Federal Poverty Level would not be consistent with Chapter 14 or the Moratorium Motion. If a residential customer would be eligible for a more beneficial payment arrangement pursuant to the Moratorium Motion or Chapter 14, the OCA submits that the residential customer should be provided with the five-year payment arrangement identified in the Moratorium Motion or Chapter 14.

In its Main Brief, PECO also stated that it offers universal service program information to any residential customers that identify financial difficulties. PECO M.B. at 82. As discussed in OCA witness Colton's testimony, low-wage and near-poor customers also need assistance that the Company is not currently providing through its universal service programs. The ERP is directed towards these low-wage, near-poor customers. OCA witness Colton testified:

> Providing information about PECO's universal service programs, however, does not address the needs of PECO's customers. As my Direct Testimony documents, and witness Colarelli does not dispute, the economic crisis created by COVID-19 extends to low-wage customers, not merely low-income customers. The households facing an economic emergency not only may have, but are likely to have incomes that exceed those incomes which would qualify them for the PECO Gas universal service programs. The need for emergency assistance extends beyond households with income up to 150% of Poverty Level. While my recommended emergency relief program addresses that need, neither PECO's existing, nor PECO's proposed, COVID-19 responses do so.

OCA St. 5-SR at 11.

In support of its argument that the Company offers sufficient COVID-19 assistance, PECO also cited to the example that the Company has offered a $50 bill credit to CAP customers. PECO

M.B. at 82. While the OCA supports the Company's proposal to provide assistance to PECO's CAP customers, the response does not address the financial issues experienced by PECO's near-poor and low-wage customers. The proposal also does not provide assistance to the 74.2% of PECO's low-income customers that are not enrolled in CAP. As OCA witness Colton testified:

> Limiting emergency assistance to additional financial benefits for CAP participants is an insufficient response to the COVID-19 pandemic. As I document in my Direct Testimony, PECO Gas enrolls only a fraction of its estimated low-income population into its CAP. Witness Colarelli acknowledges that the Company's CAP population is only 25.8% of its estimated low-income population. (PECO Gas St. 10-R, at 6). The PECO Gas proposal, in other words, excludes not only 100% of its customers who exceed the CAP income-eligibility, but also excludes more than 3-of-4 (74.2%) of its income-eligible population.

OCA St. 5-SR at 11.

PECO's current and proposed COVID-19 assistance does not recognize the need for assistance for low-wage and near-poor customers. The ERP is designed to extend beyond low-income customers that qualify for PECO's universal service programs. The OCA's proposed COVID-19 Emergency Relief Plan would assist those near-poor, low-wage, low-income non-CAP residential customers that are struggling due to the public health and economic crisis. The proposal provides important and needed relief for residential customers. The ERP also sets forth a plan for cost recovery for the Company so the Plan can be implemented without the need for an immediate rate increase for the Company. For the reasons set forth in the OCA's Main Brief and in the testimony of OCA witness Colton, the OCA submits that OCA witness Colton's COVID-19 Emergency Relief Plan should be approved. See, OCA M.B. at 127-132.

B. Universal Service Programs.

1. Introduction.

In its Main Brief, CAUSE-PA addressed three issues raised by CAUSE-PA witness Mitch Miller that OCA witness Colton rebutted: (1) to increase the PECO Gas energy burdens for its Customer Assistance Program (CAP) as a part of this proceeding; (2) to implement an in-CAP arrearage forgiveness program; and (3) to increase CAP enrollment by 50% by 2025. CAUSE-PA M.B. at 20-22, 25-30; OCA M.B. at 133-142. For the reasons set forth below and in the OCA's Main Brief, the OCA submits CAUSE-PA's issues related to energy burdens be addressed as a part of the pending TURN v. PECO[69] complaint proceeding and PECO's pending USECP proceeding. OCA M.B. at 133-138. CAUSE-PA's recommendations related to increasing CAP enrollment should also be addressed as a part of the pending USECP proceeding. OCA M.B. at 138-142. PECO similarly recommended that the energy burden and CAP issues be addressed outside of the instant base rate proceeding. PECO M.B. at 83.

2. Energy Burdens.

In its Main Brief, CAUSE-PA argued that PECO's energy burdens for CAP customers be reduced in this proceeding to the energy burdens identified in the Commission's Final CAP Policy Statement Order. See, CAUSE-PA M.B. at 25-28; CAUSE PA. St. 27-31.[70] CAUSE-PA witness Miller recommended that the Company's energy burdens be reduced to 4% for customers at or below 0-50% of the Federal Poverty Level and to 6% for customers from 51-150% of the Federal Poverty Level.[71] The OCA and PECO argued that a decrease to the energy burdens should not be approved in this base rate proceeding. OCA M.B. at 133-138; PECO M.B. at 82-85. In particular, the OCA submits that such a change is not required by the Final CAP Policy Statement Order and

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69 Tenant Union Representative Network v. PECO Energy Company, Docket No. C-2020-3021557 (TURN v. PECO).

70 2019 Amendments to Policy Statement on Customer Assistance Programs, 52 Pa. Code §§ 69.261-69.267, Docket No. M-2019-3012599, Order at 9-32 (Pa. PUC Nov. 5, 2019) (Final CAP Policy Statement Order).

71 See Final CAP Policy Statement Order at 9-32; 52 Pa. Code §§ 69.265 (2)(i)(A).

PECO currently has two pending proceedings that will address the issue of the appropriate energy burdens to be applied (TURN v. PECO at Docket No. C-2020-3021557 and PECO's 2019-2024 Universal Service and Energy Conservation Plan (USECP) at Docket No. M-2018-3005795). See OCA M.B. at 135-137, OCA St. 5-R at 4-6. In the pending TURN v. PECO proceeding at Docket No. C-2020-3021557, TURN has a filed a Formal Complaint requesting that the energy burdens for the Company's current Fixed Credit Option (FCO) be reduced.

In its Main Brief, CAUSE-PA argued that "the Commission concluded that its then-existing CAP energy burden standards, upon which PECO's current CAP energy burden standards are based, were not reasonable or affordable, and were inconsistent with the Commission's statutory universal service obligations." CAUSE-PA M.B. at 26. The OCA submits that CAUSE-PA misinterprets the Commission's CAP Policy Statement language. The Final CAP Policy Statement Order provided that the energy burdens included "are recommendations, not iron-clad limits on what a utility can charge a CAP household."[72] The next line of the Final CAP Policy Statement specifically directs that issues related to the energy burdens be addressed in the utility's USECP proceeding.

Moreover, the Commission agreed in the Columbia Gas base rate proceeding that the energy burdens should not be changed as a part of the base rate proceeding, but instead should be evaluated as a part of the Company's USECP proceeding.[73] In the Columbia Gas base rate proceeding, the Commission provided:

> Based on our review of the record and the applicable law, we find that issues related to Columbia's energy burden levels are more properly considered in the context of the Company's next USECP filing. We agree with Columbia and the OCA that the energy burdens of customers on PIP Plans should not be considered

[72] Final CAP Policy Statement Order at 10-11. (emphasis added).

[73] Columbia Gas at 160-161.

> separately from other parts of the Company's CAP and universal service programs but should be considered as part of the Company's entire universal service plan, including the need for changes and associated costs. As the OCA's witness Mr. Colton aptly testified, an evaluation of whether additional cost controls, such as minimum payment terms, consumption limits, high usage treatments, and maximum CAP credits, should also be evaluated within a USECP proceeding. OCA St. 5 at 20. Our determination on this issue is consistent with our prior statements in the *February 2020 Reconsideration Order* that issues related to a specific utility's energy burdens will be subject to strict scrutiny in that utility's USECP proceeding. *February 2020 Reconsideration Order* at 10-11.[74]

Finally, the energy burdens are only one component of the CAP program, and as the Columbia Gas decision correctly noted, the CAP Policy Statement does not consider the energy burdens in a vacuum.[75] CAUSE-PA witness Miller's proposal to change the energy burdens in this proceeding does not take into consideration the potential impacts to other elements of the USECP. The OCA submits that the need for additional cost controls, such as changes to the minimum payments or maximum cap credits, must be evaluated as a part of the Universal Service and Energy Conservation Plan. An evaluation of whether additional cost controls such as minimum payment terms, consumption limits, high usage treatments, and maximum CAP credits – to name a few – are needed as well.[76] In its Main Brief, PECO similarly argued that "EB and CAP credit calculation issues should not be considered separately from other parts of the Company's universal service programs." PECO M.B. at 84. For this reason, the OCA

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74 Columbia Gas at 161.

75 Columbia Gas at 161.

76 52 Pa. Code § 69.265(3).

Reconsideration Order specifically provided that proposed changes to the energy burdens should be filed as a part of the Company's amendments to its USECP.[77]

The costs of universal service programs are borne by all non-participating residential customers, but many of these customers are low-income, or near-poor, themselves. OCA St. 5-R at 7. Changes to the energy burdens may increase the overall costs of the program, and the impacts on non-CAP customers must also be considered, particularly the impact on low-income, or near-poor customers, that also have limited means but must pay the costs of the program. As noted in the OCA's Main Brief, 74.2% of PECO's confirmed low-income customers do not participate in CAP. See OCA M.B. at 130; see also OCA St 5-SR at 13. OCA witness Colton testified:

> In making this observation, I mean to distinguish between the low-income (or "poor") and the "near-poor." A low-income non-participating customer would be a customer who is income-eligible (i.e., at or below 150% of Poverty) for CAP, but who for whatever reason does not participate. One reason an income-eligible customer may not participate in PECO's CAP, for example, would be that PECO has simply not identified that customer as being income-eligible. According to the most recent (2019) Bureau of Consumer Services (BCS) annual report on Universal Service Programs and Collections Performance, for example, while PECO (electric) has 111,124 CAP participants (page 51), it has 393,662 estimated low-income customers (page 5). At the same time, while PECO (gas) has 19,358 CAP participants (page 51), PECO (gas) has 74,914 estimated low-income customers (page 51). Those low-income customers (i.e., customers with income less than 150% of Poverty) who do not participate in CAP pay for the cost of providing benefits to those low-income customers who do participate in CAP.

OCA St. 5-R at 7-8 (footnote omitted).

[77] 2019 Amendments to Policy Statement on Customer Assistance Programs, 52 Pa. Code §§ 69.261-69.267, Docket No. M-2010-301259, Order at 10-11 (Pa. PUC Feb. 6, 2020) (OCA Reconsideration Order); Final CAP Policy Statement Order at 2.

In his Rebuttal Testimony, OCA witness Colton described the financial impact of increased CAP costs to "near-poor" customers who do not qualify for assistance programs but yet also do not meet the self-sufficiency income standards. As OCA witness Colton testified:

> In addition to those customers who are eligible for, but who do not participate in, CAP are those customers who are "near-poor." Customers who are near-poor are those customers who do not have income sufficiently low to be eligible for CAP, but who also do not have income sufficiently high to have sufficient resources to meet their day-to-day needs. The "near-poor" can be considered in light of Pennsylvania's Self-Sufficiency Standard.
>
> The data on Pennsylvania's self-sufficiency standard in the PECO (gas) counties demonstrates that customers may not be "low-income" as per the PUC's definition, but still may have insufficient household resources to consistently pay their daily expenses… As can be seen, there is a substantial population who falls within this group of concern (i.e., those who are below a Self-Sufficient income but above the CAP income eligibility line).
>
> In sum, I conclude that there is no single population of income-challenged customers served by PECO. As always, the provision of assistance by PECO to CAP participants must simply be balanced against the obligation of income-eligible non-participants, as well as the obligation of the near-poor, to pay the costs of such assistance.

OCA St. 5-R at 8-9.

The OCA Reconsideration Order provided that changes to the energy burdens should be considered as a part of the utility-specific USECP.[78] The OCA submits that the Commission should not approve the proposed changes to the energy burdens in this proceeding. Any proposed changes to the energy burdens should be evaluated along with any necessary cost control measures as a part of PECO's pending USECP.

3. In-CAP Arrearage Forgiveness Program.

[78] OCA Reconsideration Order at 10-11.

In its Main Brief, CAUSE-PA recommended that PECO should be required to roll CAP arrears accrued during the COVID-19 pandemic into in-CAP preprogram arrearages. CAUSE-PA M.B. at 20-22; CAUSE-PA St. 1 at 40. As the OCA discussed in its Main Brief, the OCA submits that Mr. Miller's proposed in-program arrearage forgiveness program should not be approved as a part of this base rate proceeding, but instead should be evaluated as a part of the Company's on-going USECP proceeding. OCA M.B. at 138-140; OCA St. 5-R at 10-13. In its Main Brief, PECO recommended that the in-program arrearage forgiveness proposal would more appropriately be addressed in the pending USECP proceeding. PECO M.B. at 84.

As the OCA discussed in greater detail in its Main Brief, CAUSE-PA's proposal is missing key operational and programmatic details that are needed to evaluate the proposal. OCA M.B. at 138-140; OCA St. 5-R at 11-13. In its Main Brief, CAUSE-PA argued that the details of an in-program arrearage forgiveness program could be worked out in the proposed stakeholder process. CAUSE-PA M.B. at 20-22. The OCA submits that the proposed stakeholder process would not be sufficient.

As OCA witness Colton expressed in his Rebuttal Testimony, however, without the programmatic and operational details, Mr. Colton was not able to make an appropriate response to the proposal. OCA witness Colton testified:

> In this proceeding, since Mr. Miller has not made recommendations, I take no position on what he appropriate responses to any of the questions above might be. I offer the observations above for two reasons. First, Mr. Miller has not presented a complete proposal on which a decision can be made in this proceeding. Second, to consider a complete proposal would involve both policy and operational decisions that are best presented in, and considered in, a review of a PECO USECP. Given that (as I discuss above) PECO now has a pending proposed revised USECP, any recommendation for a modification in CAP along the lines of that which Mr. Miller proposes should be presented in that review.

OCA St. 5-SR at 13.

For the reasons set forth above and in the OCA's Main Brief, Mr. Miller's proposed in-program arrearage forgiveness program should not be approved as a part of this base rate proceeding. OCA M.B. at 138-140. Key operational and programmatic details are needed in order to appropriately evaluate the proposal, and the pending USECP proceeding offers the appropriate context to evaluate the proposal.

4. Increasing CAP Enrollment by 50%.

In its Main Brief, CAUSE-PA recommended that PECO be required to benchmark its CAP enrollment to 50% by 2025 and its success or failure in achieving those benchmarks should be a factor in consideration of future rate increase requests. CAUSE-PA M.B. at 29-30. CAUSE-PA witness Miller recommended that PECO's Universal Service Advisory Committee develop solutions to achieve improvements in CAP enrollment. CAUSE PA M.B. at 29, citing CAUSE-PA St. 1 at 33. As the OCA discussed in its Main Brief, OCA witness Colton shared CAUSE-PA witness Miller's concerns regarding PECO's under-enrollment in CAP; however, Mr. Colton recommended that the stakeholder process request raised by CAUSE-PA witness Miller be addressed as a part of the Customer Education and Outreach Plan in the pending USECP proceeding. See, OCA M.B. at 140-142.

In its Main Brief, PECO also argued that OCA witness Colton and CAUSE-PA witness Miller "expressed a concern that the percentage of low-income customers enrolled in CAP is too low." PECO M.B. at 83. The OCA notes that PECO cited to the Direct Testimony of OCA witness Colton at pages 33 through 36 for this proposition. PECO M.B. at 83. PECO argued that the OCA's testimony on this issue was "misplaced" because of PECO's CAP participation rate and that PECO has an expanded outreach and education program for gas and electric customers as part of its pending USECP. PECO M.B. at 83. While OCA witness Colton does agree with Mr. Miller's concerns related to PECO's under-enrollment in CAP, Mr. Colton did not recommend that PECO address the issue as a part of this base rate proceeding. The testimony that PECO cited to in its Main Brief was directed towards the disproportionate impact that the proposed $4.25 customer charge would have on low-income customers that are not enrolled in CAP. See, OCA St. 5 at 33-36. The OCA has more fully addressed the issue of the disproportionate impact of the proposed $4.25 increase on low-income customers not enrolled in CAP in Section X(D)(1) below.

5. Conclusion.

For the reasons set forth above and in the OCA's Main Brief, the OCA submits CAUSE-PA's issues related to energy burdens be addressed as a part of the pending TURN v. PECO complaint proceeding and PECO's pending USECP proceeding. OCA M.B. at 133-138. CAUSE-PA's recommendations related to increasing CAP enrollment should also be addressed as a part of the pending USECP proceeding. OCA M.B. at 138-142.

C. Neighborhood Gas Pilot Rider.

The OCA does not offer a position on this issue.

D. Energy Efficiency and Conservation Programs.

The Company is seeking to expand its existing residential EE&C programs to include a mix of existing programs with increased rebates, new rebate programs, and new programs focused on low-income weatherization and emerging technologies. See OCA M.B. at 144-45; see also PECO St. 9 at 6-9. Altogether, this proposed expansion would more than double PECO's existing residential EE&C budget, from $2.008 million to $4.5 million. PECO St. 9 at 9.

As set forth in its Main Brief, the OCA demonstrated that the Company's proposal was not prudent or reasonable for several reasons. For one, the Company had failed to expend its existing budget for a number of years, spending, on average, approximately half of its existing budget over the past three years. See OCA M.B. at 152-53. Second, the Company's total resource cost (TRC) analysis demonstrated that the Company's proposal was marginally cost-effective at best and not cost-effective when correcting for an outstanding error. See OCA M.B. at 152. Lastly, OCA witness Crandall re-allocated the Company's existing budget to focus on a mix of programs that, as a whole, is more cost-effective than the Company's proposal. See OCA M.B. at 155-57. Accordingly, the OCA recommended that the Commission, *inter alia*, deny the Company's request to expand its residential EE&C budget, that the Company re-allocate its existing budget across a mix of programs consistent with the recommendations of OCA witness Crandall, and that the Company be required to perform and submit Evaluation, Measurement, and Verification (EMV) studies for these programs in the Company's next base rate proceeding. OCA M.B. at 143, 160; see also OCA St. 37-38.

The Company advances several additional arguments in its Main Brief. The Company asserts that its most recent TRC analysis already included the costs associated with the electronically commutated motor (ECM) fans. PECO M.B. at 46. Thus, the Company asserts that its program remains cost-effective with a cost-benefit ratio of 1.02, contrary to the assertions of OCA witness Crandall. Id. Moreover, the Company states that although past participation levels have not met projections and program expenditures have been less than budgeted, it expects that these expanded program offerings will encourage more customers to participate. PECO M.B. at 89.

With respect to the ECM fan issue raised by OCA witness Crandall, the OCA submits that it is still unclear whether the Company included the incremental costs associated with an ECM fan when conducting the TRC analysis. In her oral rejoinder, Ms. Masalta testified that residential energy star efficient furnaces are already equipped with an ECM fan and thus the incremental cost is already reflected in the cost of the furnace. Tr. at 207. As Mr. Crandall testified, however, the Technical Reference Manual states that an efficient furnace saves no electric energy and does not reduce summer peak, unless it is equipped with an ECM fan. OCA St. 6-SR at 5 (citing Mid-Atlantic Technical Reference Manual at 131-133 (9^{th} Version Oct. 2018)). If an ECM fan were to be included with every efficient furnace, as Ms. Masalta testifies, the Technical Reference Manual's conditional inclusion of electric energy savings would be meaningless and unnecessary. Moreover, the Company did appropriately model its commercial high efficiency energy furnaces to include both electric savings and the incremental costs of an ECM fan consistent with the Technical Reference Manual. OCA St. 6-SR at 8. Thus, based on Mr. Crandall's testimony, the OCA submits the Company should have included the incremental costs associated with the ECM fan when conducting the TRC analysis for its residential furnace rebate programs.

Nevertheless, whether or not the incremental costs are included, the Company has not demonstrated that its proposal is warranted. Even excluding the incremental costs associated with an ECM fan, the Company's proposal is marginally cost effective with a benefit-cost ratio of 1.02. PECO St. 9-R at 3. Moreover, the Company's proposal should not be approved on the expectation that future customer participation will increase. The Company should be encouraged to maximize the use of its existing budget in a more targeted, cost-effective way, consistent with OCA witness Crandall's proposed portfolio.

For the reasons set forth above, and in its Main Brief, the OCA submits that the Company has not demonstrated its proposed expansion to its residential EE&C programs is prudent or reasonable. Thus, the Commission should reject the Company's proposal and the Company should re-allocate its existing budget consistent with the recommendation of OCA witness Crandall. Moreover, the Company should conduct EMV studies on its programs in future years to allow the parties to conduct a more thorough review of the Company's existing programs in its next base rate proceeding. Lastly, the Company should establish a mechanism, similar to the residential programs, that tracks unspent funds for its commercial EE&C programs and propose a method to return those funds to commercial customers expeditiously in its next base rate proceeding.

E. Quality of Service.

1. Distribution Integrity Management Program.

The OCA does not offer a position on this issue.

2. Leaks and Excavation Damage.

The OCA does not offer a position on this issue.

X. RATE STRUCTURE

In this section, the OCA will respond to the additional issues and arguments raised by the Company, OSBA, I&E and PAIEUG regarding the Company's Cost of Service Study (COSS), the various proposed revenue allocations, the allocation of universal service program costs, and the various rate design proposals, where appropriate. The OCA, however, does not waive its position on contested issues because it does not repeat arguments here.

A. Cost of Service.

1. PECO Revised Gas Cost of Service Study.

As discussed previously, the Company relies on a COSS performed by Ms. Jiang Ding to functionalize, classify, and allocate the costs of distribution plant in this proceeding. PECO M.B. at 97. The biggest dispute among the parties is the allocation of distribution mains. OCA M.B. at 163; see also OCA St. 4 at 5-6. Ms. Ding's COSS relies upon the Average and Excess (A&E) Method to allocate the costs of distribution mains that cannot be directly assigned. OCA M.B. at 164; see also PECO St. 6 at 13-14.

In its Main Brief, the Company sets forth several reasons why the A&E Method is the appropriate way to allocate the costs of distribution mains. The Company states that this method was discussed in the treatise *Gas Rate Fundamentals* published by the American Gas Association and that this was the same method the Company used in its 2010 proceeding. PECO M.B. at 98. The Company then relies upon two previous Commission decisions in 2007 as support for the A&E Method.[79] PECO M.B. at 100. The Company also tries to distinguish this case from the recent Commission decision in Columbia Gas, stating that the record evidence did not contain an A&E Method to choose from, implying that the Commission had no choice but to adopt the P&A Method recommended by the OCA in that proceeding. PECO M.B. at 102-03. The Company also supports Ms. Ding's decision to not assign any excess demand costs to interruptible customers in her COSS because interruptible customers do not contribute to peak day demand, which is how PECO designs its system. PECO M.B. at 103.

The OCA submits that the Company's arguments are not persuasive. First, Mr. Watkins attached to his testimony an excerpt from *Gas Rate Fundamentals*, which demonstrates that Ms. Ding's method does not conform to the A&E Method in that text. OCA St. 4 at 18. As Mr. Watkins testified, on page 146 (Table 7-7) of *Gas Rate Fundamentals*, the Interruptible class is assigned 684 MCF of "excess" demand which is the difference between this class's non-coincident peak (NCP) demand and its average day demand. OCA St. 4 at 18; see also OCA St. 4, Sch. GAW-2 at 4. In contrast, Ms. Ding does not assign any excess demand to the interruptible class. OCA St. 4 at 18. Thus, she uses a modified A&E approach that does not comport to the example contained in *Gas Rate Fundamentals*.

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[79] See Pa. Pub. Util. Comm'n v. PPL Gas Util. Corp., Docket No. R-00061398, 2006 Pa. PUC LEXIS 107 (Pa. PUC Feb. 8, 2007) (PPL Gas 2007), Pa. Pub. Util. Comm'n v. Philadelphia Gas Works, Docket No. R-00061931, 2007 Pa. PUC LEXIS 45 (Pa. PUC Sept. 28, 2007) (PGW 2007).

As Mr. Watkins testified, however, it would be inappropriate to not assign any excess demand to the Interruptible classes as Ms. Ding failed to do:

> Conceptually, it is necessary to consider the NCP demands of Interruptible customers under the A&E approach since this methodology is based on the premise that class responsibility should be based upon the amount of each class's maximum demand regardless of when it occurs relative to its average use throughout the year. While it is true that Interruptible customers may be interrupted during system peak days ([coincident peak (CP)]), this is irrelevant under the A&E approach as excess demands are based on class NCP demands and not CP demands.

OCA St. 4 at 18-19.[80]

Moreover, PPL Gas 2007 and PGW 2007 do not support the Company's assertion that the A&E method is the preferred method by this Commission. First, the situation that PECO asserts occurred in the recent Columbia Gas case actually occurred in PPL Gas 2007.[81] In that proceeding, no Peak and Average (P&A) Method was presented to the Commission. Rather, the Commission could only consider PPL's A&E Method.[82] See also OCA St. 4-R at 5.[83] While, there was a modification recommended by OSBA to allocate distribution mains based upon the number of customers (28%) and peak day demands (72%), it was not supported by sufficient evidence.[84] See

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80 The Company asserts that Mr. Watkins agrees with the concept of not assigning excess demand to the interruptible classes because he did not assign any peak demand to those classes in his COSS, which uses the P&A Method. See PECO M.B. at 103. The Company, however, fails to realize that Mr. Watkins' COSS relies on the CP, not the NCP as does Ms. Ding. See OCA St. 4 at 18-19, 21-22. As stated by Mr. Watkins, interruptible customers may continue to receive service during NCP periods. OCA St. 4 at 18-19. Thus, it is reasonable to assign the interruptible customer classes some 'excess' responsibility if an A&E Method were employed.

81 PPL Gas 2007, 2006 Pa. PUC LEXIS 107 at *176-78.

82 Id.

83 Mr. Watkins explained that he participated in PPL Gas 2007 and that he accepted Mr. Herbert's allocation of mains because his modified A&E approach was not materially different than the results that would be obtained under the P&A method utilizing a 50%/50% weighting between peak and average demands.

84 Id., at *177-79. The OCA also criticized OSBA's recommendation in that proceeding because there were multiple concerns with the way OSBA calculated its demand allocator. Id., at *177-78.

also OCA St. 4-R at 5-6. In its decision accepting the A&E Method, the Commission merely stated as follows:

> No exceptions have been filed to this determination. Finding the ALJ's recommendation to be reasonable, appropriate and in accordance with the record evidence, it is adopted.[85]

This is hardly conclusive proof that the Commission adopted the A&E Method as its preferred allocation of natural gas distribution mains.

Moreover, the PGW 2007 proceeding also does not demonstrate that the Commission prefers to use the A&E Method. In that proceeding, PGW attempted to allocate its distribution mains on the basis of number of customers (25%) and on peak demand (75%). OCA St. 4-R at 6. In response, the OCA and I&E rejected the practice of allocating distribution mains partly based on the number of customers.[86] Thus, the OCA performed a COSS using the P&A Method that allocated distribution mains on the basis of peak demand (20%) and average demand (80%).[87] Likewise, I&E performed its own COSS removing the customer component and allocating costs using a modified A&E Method that equally weighted average demand (50%) and excess demand (50%).[88] In selecting I&E's COSS, the Commission stated that it did not find that allocating a percentage of the cost of distribution mains on the basis of the number of customers was appropriate.[89] Rather, it found that "the allocation of distribution mains investment costs should be done using both *annual* and *peak* demands."[90] Thus, PGW 2007 does not demonstrate a long-held practice of the Commission accepting the A&E Method, but simply adopting a COSS that

85 PPL Gas 2007, 2007 Pa. PUC LEXIS 2 at *178.

86 PGW 2007, 2007 Pa. PUC LEXIS 45 at *120-21.

87 Id., at *120-21.

88 Id., at *120.

89 Id., at *123-24.

90 Id., at *123.

was specific to the record evidence that tried to achieve an equal balance between annual and peak demands.

Contrary to the Company's contentions, however, the Commission has in fact recognized its long-held practice of adopting the P&A Method for the allocation of costs of distribution mains investment. The Commission stated most recently in Columbia Gas:

> Based on our review of the record, and as noted by the ALJ, we have consistently used the Peak & Average methodology for the allocation costs for NGDCs.
>
> ***
>
> Furthermore, distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality. It is not reasonable to allocate distribution mains investment based solely on design peak day demands as in Columbia's Customer-Demand ACCOSS. The basic reason Columbia invests in its distribution system is to meet the annual demands for gas by customers. Additionally, a portion of the total cost of distribution service is related to installing a system with enough throughput capacity to meet design peak demands in excess of annual demands.[91]

While the Commission did not have a COSS utilizing an A&E Method before it in Columbia Gas, the Commission acknowledged that it has consistently used the P&A Method to allocate distribution mains, which is based on long-standing precedent of this Commission. OCA M.B. at 175.[92]

Moreover, the way in which Ms. Ding calculates the allocation of distribution mains effectively weights the cost of distribution mains investment on the basis of 82.6% peak demand

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91 Columbia Gas at 215, 217-218.

92 See also NFGD 1994, 1994 Pa. PUC LEXIS 134 at *320-321; Pa. Pub. Util. Comm'n v. Equitable Gas Co., Docket No. R-901595, *et al*., 1990 Pa. PUC LEXIS 135 at *139-42, 154 (Pa. PUC Nov. 21, 1990), Pa. Pub. Util. Comm'n v. The Peoples Natural Gas Co., Docket No. R-880961, *et al*., 1989 Pa. PUC LEXIS 36 at *80-81 (Pa. PUC Jan. 27, 1989) ("In our opinion, the peak and average method appropriately recognizes both demand (peak) and commodity (average) factors in the allocation of system costs.") (PNG 1989)

and 17.4% average demand. OCA St. 4-R at 4. This is essentially an allocation of distribution mains purely based on peak demand, which the Commission has previously rejected.[93] See OCA St. 4-R at 3. Thus, adoption of the Company's A&E Method goes well beyond the Commission's limited decisions in PPL Gas 2007 and PGW 2007 and would be tantamount to allocating distribution mains solely on the basis of peak demand.

Thus, there is no reason to divert from past Commission precedent in this proceeding and the Company's COSS should be denied for the reasons set forth above.

2. Opposing Party Recommendations.

In this Section, the OCA will first respond to the COSS recommendations of the Opposing Parties. The OCA will then respond to any criticisms levied against the COSS performed by Mr. Watkins.

First, with respect to OSBA, during this proceeding, OSBA witness Knecht recommended that the Commission adopt a modified A&E Method that weights average and excess demand equally. OSBA M.B. at 9; see also OSBA St. 1 at 24. Mr. Knecht testified that the modified A&E Method that equally weights average and excess demand is consistent with the Commission's decision in PGW 2007 and relies on both average and peak demand, which is consistent with the most recent statements made by the Commission in Columbia Gas. OSBA M.B. at 10. The OSBA, however, concludes that the 50/50 P&A Method performed by Mr. Watkins is "the most relevant Commission precedent regarding gas mains allocation policy in the Commonwealth." OSBA M.B. at 10. Ultimately, the OSBA does not object to the use of Mr. Watkins' P&A Method in this proceeding. OSBA M.B. at 13.

[93] PGW 2007, 2007 Pa. PUC LEXIS 45 at *123-24 (rejecting PGW's COSS which allocated distribution mains on the basis of number of customers and peak demand and stating that a COSS should reflect both annual and peak demands).

The OCA agrees with the OSBA's latter statements, as it is eminently clear that the P&A Method has long been held as the standard allocation method of natural gas distribution mains. See also OCA M.B. at 175. Moreover, adopting the modified A&E Method as suggested by Mr. Knecht would still be problematic as it would continue to place too much weight on peak demand. OCA St. 4-R at 7-8. As Mr. Watkins testified:

> Ms. Ding's A&E approach is almost entirely weighted on peak day demand while Mr. Knecht's A&E approach results in a 67% peak demand weighting. In my opinion, Ms. Ding's and Mr. Knecht's "modified" A&E approaches place too much weight on peak demand and not enough on average demand. Hence, I continue to support and recommend the use of the much more straight-forward 50% peak/50% average method that is easily understood and less prone to arbitrary manipulations than a "modified" A&E approach.

OCA St. 4-R at 8. OSBA agreed that Mr. Knecht's modified A&E Method would be consistent with a P&A Method that weights peak demand by 67% and average demand by 33%. OSBA M.B. at 10. This is not appropriate and inconsistent with past Commission precedent.

With respect to PAIEUG, in its Main Brief it supports Company witness Ding's COSS that allocates mains using Ms. Ding's modified A&E Method. PAIEUG states that the A&E Method aligns with how PECO designs its system and incurs distribution mains costs and that this method has been commonly used and accepted in Pennsylvania. PAIEUG M.B. at 12-13. Conversely, PAIEUG asserts that the P&A Method should not be adopted in this case because it does not reflect how PECO designs its system, double counts average demand, and overemphasis the importance of average demand by equally weighting average and peak demand. PAIEUG M.B. at 15-20.

PAIEUG's arguments, however, are without merit. The Commission has repeatedly stated that the allocation of distribution mains investment should reflect how that system is used 365 days a year, not just for one day out of the year.[94] See OCA St. 4-R at 15. This is consistent with the

[94] As the Commission stated in NFGD 1994:

Commission's most recent statement in Columbia Gas, noting that both annual and peak demands must be recognized and it would be inappropriate to rely solely on peak demand.[95] As noted by the OCA and OSBA, however, adoption of the Company's A&E Method would be tantamount to allocating mains purely on the basis of peak demand. OCA St. 4-R at 3-4; see also OSBA St. 1 at 23, OSBA St. 1-SR at 3, fn. 3.

Moreover, PAIEUG's observation that PECO only incurs distribution main-related costs when it needs to expand or upgrade due to potential peak operating conditions is similarly deficient. PAIEUG M.B. at 12. As Mr. Watkins testified, customers use the system throughout the year and it would be prohibitively expensive for the Company to provide service for one day out of the year. OCA St. 4 at 15. Rather, when the Company evaluates a main extension proposal it considers the maximum load that will be placed on the main extension and the annual margin revenues that will be generated. Id.

Lastly, Mr. Watkins P&A Method does not double count average use or overemphasize the importance of that component. As Mr. Watkins testified, while by mathematical definition peak demand is greater than average day demand they are two entirely different concepts. OCA

> We conclude that we should retain our historic practice of allocating total distribution main costs based on each class' contribution to peak and annual requirements… NFGD's current system embodies numerous past and on-going augmentations to meet the continually changing requirements of its customers, and it is simply improper to look at the distribution system at a particular point in time

1994 Pa. PUC LEXIS 134 at *318-21 (rejecting use of the NFGD's use of a method similar to the minimum system or zero-intercept method). The Commission also adopted the underlying Recommended Decision in PNG 1989 to utilize OCA's P&A Method, stating:

> The ALJs recognized that while the distribution system may have been designed to carry peak loads, it serves an equally useful purpose by moving volumes to customers throughout the year, not just on a couple of "peak days" per year. The ALJs, therefore, recommended that the peak and average method be given primary reliance in testing the appropriateness of revenue allocations.

PNG 1989, 1989 Pa. PUC Lexis 36 at *81.

[95] Columbia Gas at 217

St. 4-SR at 2. Average demand, annual throughput, and energy measure the utilization of resources over time, whereas peak demand measures the highest level of demand placed on the system and is conceptually the amount of load on a system at a single point in time. OCA St. 4-SR at 2-3. Thus, the Commission has continued to adopt the P&A Method as reasonably reflective of how mains are used throughout the year.

For these reasons, the OCA submits that the Commission should adopt Mr. Watkins' COSS in this proceeding, which utilizes the P&A Method and weights peak and average demand equally.[96]

The Company also levies several additional criticisms of OCA witness Watkins COSS that should be rejected. First, the Company asserts that Mr. Watkins erred by applying Ms. Ding's Storage Plant allocator when allocating storage plant investment costs to the transportation customer classes. PECO M.B. at 104-05. The Company asserts that storage plant is used to meet peak day and short-term needs of firm sales customers. PECO M.B. at 105. The Company also disagrees with Mr. Watkins' reflection of discounted revenues in his COSS, stating that they were already accounted for in Ms. Ding's COSS. PECO M.B. at 104.

The OCA submits that the Commission accept Mr. Watkins' recommendation to use Ms. Ding's Storage Plant allocator for the assignment of storage plant investment. As Mr. Watkin's indicated, while storage plant is often used to meet peak demand it is also used to assist with balancing service for transportation customers. OCA St. 4-SR at 7. For that reason, it is

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[96] I&E accepted the Company's COSS in this proceeding, noting that it has supported both the A&E Method and the P&A Average method in previous cases. I&E M.B. at 65-66. For all the reasons stated above, the position of I&E should not be adopted as the Company's COSS is flawed.

appropriate to assign transportation customers some of the associated cost.[97] OCA St. 4-SR at 7. The Commission came to the same conclusion in PNG 1989 stating:

> We agree with the OCA's analysis of the record evidence on this issue. Transportation customers receive benefits from the storage and gathering systems and, thereby, should contribute to those costs. The OTS exception is, therefore, denied.[98]

It should also be noted that the assignment of the cost is marginal and would only amount to 2% of storage plant investment costs being assigned to the firm transportation and interruptible transportation customer classes. See OCA St. 4-SR at 6.

Regarding the forfeited discounts issue, Mr. Watkins testified that Ms. Ding did not appropriately reflect non-base rate revenue or the forfeited discount revenues that will be generated as a result of the Company's proposed increase when developing her required revenues at equalized rates of return. OCA St. 4 at 20; see also OCA St. 4, Sch. GAW-3 at 1. More specifically, the Company acknowledges that it will realize an additional $88,491 in forfeited discounts (late payment fees) revenues. OCA St. 4-SR at 7; see also PECO St. 6, Exh. JD-1 at 2, line 63. Thus, these additional revenues must be included when determining the required revenue increase at equalized rates of return, which Ms. Ding did not do in her COSS. OCA St. 4-SR at 7.

For all the reasons set forth above, the OCA submits that the Commission use the COSS performed by Mr. Watkins as a guide to developing the revenue allocation of any increase in this proceeding, if one is granted.

B. Revenue Allocation.

1. PECO Revised Revenue Allocation.

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97 Please note that on page 170 of the OCA's Main Brief, the OCA was explaining Mr. Watkins application of Ms. Ding's storage plant allocator to the transportation customer class. In the last sentence, the OCA inadvertently stated "[t]hus, it is reasonable to assign some cost responsibility for storage plant to Interruptible customers." That should read transportation customers.

98 PNG 1989, 1989 Pa. PUC LEXIS 36 at *83-84.

PECO states in its Main Brief that its proposed revenue allocation, which is set forth in PECO Exh. JAB-1 Revised (Corrected), completely eliminates the remaining difference between the average rate of return and the class rates of return for Rate GC and L as required under the terms of the 2008 Settlement.[99] PECO M.B. at 112. The Company's proposed revenue allocation also relies on Ms. Ding's COSS as a guide for its revenue allocation. Id.

The Commission, however, should not accept the revenue allocation of the Company. First, for the reasons set forth above and in the OCA's Main Brief, Ms. Ding's COSS should not be relied upon as a guide to allocating any revenue increase in this proceeding. See OCA M.B. at 165-175. Moreover, while the settlement reached in the 2008 base rate proceeding of PECO requires that PECO propose to eliminate any difference between the average rate of return and the class rates of return for Rate GC and L, acceptance of this position would result in rate reductions for rate classes GC, IS, TCS, and TS-I, among others. See PECO Exh. JAB-1 Revised (Corrected). As Mr. Watkins testified, however, if a rate increase is granted by the Commission in this proceeding, it would be inappropriate to decrease rates for certain classes, as the residential class would largely be required to make up any lost Company revenue. See OCA St. 4 at 25. OSBA and I&E likewise recognize this is problematic and do not assign any rate decrease to any customer class. See OSBA M.B. at 16; I&E M.B. at 67-68.

Moreover, the 2008 Settlement is limited in its effect as it only requires that PECO to propose to move Rate GC and L to the system average rate of return in this rate proceeding.[100] The 2008 Settlement, however, explicitly states that "[a]ll parties retain their rights, in such future rate proceedings, to challenge that proposal through the use of class rates of return obtained

[99] See Pa. Pub. Util. Comm'n v. PECO Energy Company, Docket No. R-2008-2028394, *et al.*, Joint Petition for Settlement of Rate Investigation at 5-6 (Aug. 21, 2008) (PECO Gas 2008).

[100] PECO Gas 2008, Settlement at 5.

through alternative cost of service studies or other ratemaking principles."[101] Thus, the Commission must exercise its discretion based upon consideration of all the evidence in this proceeding, the alternative COSSs presented, and sound ratemaking principles.

The OCA submits that strict compliance with the terms of the 2008 Settlement and PECO's position in this proceeding would produce an unreasonable result at this time. See OCA M.B. at 178; see also OCA St. 4 at 25-26. For example, as I&E indicates in addition to the concern noted above, the Company is proposing a 389% increase to rate class L, which is excessive and violates the concept of gradualism. See I&E M.B. at 67. Thus, the Company's revenue allocation should be dismissed for the reasons stated above.

2. Opposing Party Alternative Revenue Allocations.

The OCA set forth its proposed revenue allocation in its Main Brief. See OCA M.B. at 179-180. As discussed, the proposed revenue allocation of Mr. Watkins relies upon his P&A COSS as a guide to his revenue allocation and gives due consideration to the 2008 Settlement by not allocating any approved increase in this proceeding to Rates GC, L, MV-I, and TCS. See OCA St. 4-R at 12. Thus, it achieves a fair balance in this proceeding by moving all classes closer to their cost to serve without excessive increases for any one class. See OCA St. 4-R at 12. OSBA likewise submits that it does not contest the revenue allocation of OCA and is more or less consistent with OSBA's proposal. See OSBA M.B. at 16.

With respect to I&E, while its proposed revenue allocation does not assign any decrease in rates to certain customers classes, it should be noted that its revenue allocation is based upon the results of the Company's COSS, which should be rejected for the reasons stated above. See I&E M.B. at 68. As a result, I&E inappropriately assigns far less additional revenue increase to the

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101 PECO Gas 2008, Settlement at 5-6.

transportation customer classes than does the OCA's proposed revenue allocation. Compare I&E M.B. at 68, OCA M.B. at 179-80. The OCA's revenue allocation is more appropriate, however, as it relies upon the results of Mr. Watkins' COSS, which is produced through more reasonable allocation methods.

With respect to PAIEUG, they state that the Company's revised revenue allocation is acceptable, however, they submit that the TS-F rate class should have a smaller increase than proposed by the Company, as that class is already paying above the system average rate of return. PAIEUG M.B. at 24. Thus, their proposed revenue allocation is largely consistent with the Company's with the exception of the TS-F class. Compare PAIEUG M.B. at 24, PECO Exh. JAB-1 Revised (Corrected). Moreover, in response to the revenue allocation of Mr. Watkins and the OCA, PAIEUG states that Mr. Watkins improperly relies on his COSS to determine his revenue allocation and that it is inconsistent with the 2008 Settlement.

The reasons as to why the Commission should not accept PAIEUG's revenue allocation have largely been discussed above. The Company's COSS, of which PAIEUG's proposal is guided by, contains fundamental flaws assigning high load factor customer classes less than their fair share of the costs. See OCA M.B. at 166. Under a proper COSS that uses a P&A Method, it is clear that the Transportation customer classes, both firm and interruptible, are paying below the system average rate of return. OCA M.B. at 171, see also OCA St. 4-R at 11. Thus, the OCA's revenue allocation attempts to move all classes closer to the system average rate of return. Moreover, it should be noted that Mr. Watkins' proposed revenue allocation is not biased and recognizes that the residential class is currently paying below the system average rate of return, assigning the vast majority of the increase to the residential customer class. See OCA St. 4-R at

11. For that reason, the OCA submits that the OCA's COSS and proposed revenue allocation are reasonable and should be adopted by the Commission.

3. Scale Back of Rates.

The OCA continues to submit that a proportional scale back consistent with the recommendation of OCA witness Watkins would be appropriate in this proceeding. See OCA M.B. at 181. That is, there should be a proportional scale back to the increases recommended by OCA witness Watkins, with no decreases to Rates GC, OL, MV-I, and TCS (before recognition of GPC and MFC charges). OCA St. 4 at 29. This is consistent with Mr. Watkins reasonable recommendation that no rate class receive a rate decrease if the Commission grants PECO its rate increase request.

Moreover, most parties are in general agreement that a proportional scale back is appropriate if a smaller increase is granted by the Commission. PECO M.B. at 115, I&E M.B. at 68-69, PAIEUG M.B. at 28. OSBA, however, advocates for a hybrid approach that would scale back some of the current rate revenues assigned to Rate GC, among others. OSBA M.B. at 18-19. This would effectively decrease the rates of GC customers at the expense to those customer classes that will bear the brunt of this rate increase. That would be inequitable for the reasons set forth above.

PECO also submits in its Main Brief, that customer charges should be excluded from any proportional scale back. PECO M.B. at 115. OCA witness Watkins and I&E witness Cline recommend, however, that any scale back be applied proportionally to the proposed residential customer charge. OCA St. 4 at 33; see also I&E M.B. at 69. Including the customer charges in any proportional scale back is critical, as the OCA has provided sufficient evidence demonstrating that any increase in the customer charge can disproportionately impact low-income, low-wage customers. See OCA M.B. at 207-2161. Moreover, reducing the customer charge increase through a proportional scale back will further incent customers to conserve energy and reduce the amount on their bill. See OCA St. 4 at 31.

Accordingly, the proportional scale back recommendation of OCA witness Watkins should be adopted by the Commission.

C. Allocation of Universal Service Program Costs.

1. Introduction.

As discussed in the OCA's and CAUSE-PA's Main Briefs and in the testimonies of OCA witness Colton and CAUSE-PA witness Miller, the Commission should allocate the universal service costs to all customers.[102] In their respective Main Briefs, PECO, OSBA, and PAIEUG oppose allocating costs of universal service to all of PECO's ratepayers and recommend that only residential customers bear these costs. PECO M.B. at 115; OSBA M.B. at 19-24; PAIEUG M.B. at 29-36. The OCA submits that the costs of universal service programs should be allocated to all customer classes on a competitively neutral basis based on a percentage of revenue provided by each customer class at base rates. OCA M.B. at 181, 203-205; OCA St. 5 at 90.

2. There is No Legal Prohibition Against Allocating Universal Service Costs to All Customer Classes.

In their Main Briefs, OSBA and PAIEUG argued that precedent holds that universal service program costs should not be allocated outside of the residential class. OSBA M.B. at 20, citing Columbia at 261 and PAIEUG M.B. at 30, citing Lloyd v. Pa. PUC, 904 A.2d 1010, 1016 (Pa. Commw. Ct. 2006) (Lloyd) and Columbia Gas. Contrary to the arguments of OSBA and PAIEUG,

[102] OCA M.B. at 181-206; OCA St. 5 at 56-90; OCA St. 5-SR at 14-34; CAUSE-PA M.B. at 40-48; CAUSE-PA St. 1 at 48-53; CAUSE-PA St. 1-SR at 17-18.

the OCA submits that the OCA and CAUSE-PA proposal does not violate cost causation principles nor does it violate the Commonwealth Court's determination in Lloyd.

The Commission directly responded to these same arguments in the CAP Policy Statement proceeding. In its Final CAP Policy Statement Order, the Commission provided:

> We note there is no statutory or appellate prohibition that limits the recovery of CAP costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class, while not mandatory, is permissible:
>
> Thus, under *Lloyd*, there is no statutory requirement that the funding for special program costs come only from those who benefit from the programs. However, the lack of such a requirement does not mean that funding for special programs must come from those who do not benefit. *MEIUG v. Pa. PUC*, 960 A. 2d 189, 202 (2008), citing *Lloyd v. Pa. PUC*, 904 A.2d 1010 (Pa. Cmwlth. 2006). [103]

The Commission then provided:

> This Order amends the CAP Policy Statement as indicated in Annex A to address recovery of CAP costs. Consistent with the discussion above, the Commission finds it appropriate to consider recovery of CAP costs [sic] from all ratepayer classes. Utilities and stakeholders are advised to be prepared to address CAP cost recovery in utility-specific rate cases consistent with the understanding that the Commission will no longer routinely exempt non-residential classes from universal service obligations.[104]

The OCA and CAUSE-PA recommended the allocation of universal service costs to all customers in this proceeding pursuant to the CAP Policy Statement.

The OCA submits that PAIUEG does not correctly apply the Lloyd case. PAIEUG argued that Lloyd stands for the proposition that cost causation is the polestar of ratemaking. PAIEUG M.B. at 30. PAIEUG then concludes that since only residential customers can participate in the program, only residential customers can be assessed these costs under Lloyd. The OCA submits,

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103 Final CAP Policy Statement Order at 92-93 (footnotes omitted).

104 Final CAP Policy Statement Order at 97.

however, that these arguments regarding Lloyd prove too much.[105] Taken to the logical conclusion, only low-income customers would pay for CAP since only low-income customers can participate in CAP programs. More to the point, as will be discussed in more detail below, CAP program costs are not caused by any one customer class and the benefits of this program are widespread as they benefit businesses and communities alike.

In the Final CAP Policy Statement Order, the Commission correctly concluded that there were no statutory or regulatory barriers to allocation of universal service costs to all customer classes.[106] As the Commission provided, "in PGW's 2017 rate case, the Commission noted that recovering universal service costs from all ratepayers does not appear to be a violation of Title 66 or Commission regulations."[107] The Final CAP Policy Statement Order also provided "consistent with the comments of the Low Income Advocates and OCA, the Commission concludes that the General Assembly clearly identified the public purpose of these programs in the Competition Acts by requiring that their costs be 'nonbypassable' when a customer switches energy providers."[108] The Commission further held that "there is no statutory or appellate prohibition that limits the recovery of CAP costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class."[109]

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[105] Moreover, Lloyd does not preclude the consideration of other factors. In the City of DuBois, the Commission specifically permitted such consideration of other factors and stated "[o]n this point, we are in agreement with the City that while *Lloyd* establishes cos of service rates as the polestar of ratemaking, it does not preclude consideration of other factors." Pa. PUC v. City of DuBois, Docket No. R-2016-2554150, Order at 26 (Pa. PUC May 18, 2017) (City of DuBois).

[106] Final CAP Policy Statement Order at 92-93, 97.

[107] Final CAP Policy Statement Order at 98, fn. 148, Final CAP Policy Statement Order *citing* Pa. PUC v. PGW, Docket No. R-2017-2586783, Order at 75 (Nov. 8, 2017); see also, at 94.

[108] Final CAP Policy Statement Order at 98.

[109] Id.

PECO, PAIUEG, and OSBA also cite to the recent Columbia Gas Order as a basis to deny the allocation of universal service costs in this proceeding. PECO M.B. at 115; PAIEUG M.B. at 33; OSBA M.B. at 20. The OCA submits that their reliance on Columbia Gas is misplaced because the specific factors identified in this case differ from the factors presented in the Columbia Gas case. For example, OCA witness Colton presented in this case an analysis of the economic impact of the allocation of universal service costs on businesses in nine of the states that allocate the costs of universal services to all customers and found that there was no detrimental impact on the businesses. OCA St. 5-SR a 30-32. OCA witness Colton also presented a detailed analysis of the devastating financial impact of the COVID-19 pandemic on low-wage customers specifically in the PECO service territory. OCA St. 5 at 6-29. Although the Commission declined to allocate the universal service costs to all customers in the Columbia Gas proceeding, the Commission stated that the decision was based on the evidence of record of that proceeding and that absent compelling reasons, the Commission would maintain the existing universal service cost allocation.[110] The OCA submits that the Commission should consider the additional record evidence presented in this proceeding regarding the impact of the proposed rate increase on residential customers and, in particular, low-wage customers who do not otherwise qualify for assistance.

Contrary to the arguments of PECO, PAIEUG, and OSBA, there is no legal precedent that would preclude the Commission from allocating universal service costs to all customer classes. The issue of PECO's gas universal service cost allocation has also been appropriately raised in this proceeding. The OCA submits that the evidence in this case presented by OCA witness Colton and CAUSE-PA witness Miller support allocation of universal service costs to all customers. The arguments of PECO, PAIEUG, and OSBA are without merit and should be rejected.

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110 Columbia Gas at 260-261.

3. This Natural Gas Base Rate Proceeding is the Proper Forum to Consider PECO's Natural Gas CAP Allocation of Universal Service Costs.

PECO and PAIEUG also argued that the issue of cost allocation is not appropriately raised in this base rate proceeding. PECO M.B. at 115; PAIUEG M.B. at 34-36. Company witness Colarelli recommended that the issue of the allocation of universal service costs be addressed in the next PECO *electric* base rate proceeding because the PECO natural gas customer CAP is much smaller than the PECO electric CAP. PECO M.B. at 115, citing PECO St. 10-R at 12; PECO M.B. at 115. PAIUEG supported PECO's proposal. PAIEUG M.B. at 34. The OCA submits that consistent with the final CAP Policy Statement and the Commission's Final CAP Policy Statement Order, the issue of cost allocation of universal service costs for PECO has been appropriately raised in this base rate proceeding.[111] The Columbia Gas case also affirmed that the universal service cost allocation issue was appropriately raised in the base rate proceeding. [112]

PECO's proposal to address the issue in the next electric base rate proceeding is flawed. PECO M.B. at 115. Importantly, the proposal will not address the allocation of universal service costs in natural gas distribution rates. See, OCA St. 5-SR at 15-17. As OCA witness Colton testified, the proposal is flawed in several other respects. OCA St. 5-SR at 16-17. First, the proposal is inconsistent with the specific directives of the Commission's Final CAP Policy Statement Order that the companies be prepared to address the issue in "their next individual rate case proceedings."[113] See also, OCA St. 5-R at 15-16. As OCA witness Colton testified, "[i]t is not at all clear that proposing to postpone a decision on the allocation of universal service costs to a future electric base rate proceeding is 'addressing' the 'recovery of customer assistance program

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111 52 Pa. Code § 69.265(b); Final CAP Policy Statement Order at 72-73.

112 Columbia Gas at 260.

113 Final CAP Policy Statement Order at 110.

costs (and other universal service costs).'" OCA St. 5-SR at 16. Second, the proposal would indefinitely postpone this issue with no defined timeline. OCA St. 5-SR at 16. Third, even if the Company were to file an electric base rate case in the near term, the decisions regarding electric rates could not automatically be applied to the allocation of natural gas costs. OCA St. 5-SR at 16-17. As OCA witness Colton explained, this would delay "the presentation of the universal service cost allocation *for gas customers* to the next natural gas base rate proceeding subsequent to that electric base rate proceeding." OCA St. 5-SR at 17. Fourth, even if PECO's universal service costs were allocated amongst all customer classes in the next electric base rate proceeding, the decision could not *a priori* be applied retroactively to PECO's natural gas rates. OCA St. 5-SR at 17. Finally, OCA witness Colton testified:

> Ms. Colarelli's reasoning should be rejected because it proves too much. Given the disparate size between PECO Gas operations and PECO Electric operations, accepting Ms. Colarelli's rationale with respect to universal service costs would further justify postponing any decision that would affect both electric and natural gas customers to PECO Electric base rate proceedings. Establishing the precedent that any decision affecting both gas and electric operations would be postponed to an electric base rate proceeding would be an inappropriate and unreasonable way to approach natural gas ratemaking for PECO Gas.

OCA St. 5-SR at 17.

The OCA submits that the allocation for PECO's natural gas universal service costs should be addressed in this proceeding. For the reasons set forth in the OCA's Main Brief and below, the OCA submits that the allocation of universal service costs to all ratepayers is consistent with the law and should be approved in this base rate proceeding. See, OCA M.B. at 181-206.

4. The Allocation of Universal Service Costs to All Customer Classes is Consistent with Sound Ratemaking Principles.

In its Main Brief, PAIEUG relied upon a cost causation argument tied to participation in a specific program. PAIEUG M.B. at 30-32. PAIEUG argued that commercial and industrial customers should not have to pay the costs of the programs because the programs were created to benefit the residential customer class. PAIEUG M.B. at 31. What PAIUEG ignores is the "public good" nature of the universal service costs and the broad-based benefits of the universal service programs. The OCA submits that the allocation of universal service costs to all customer classes is consistent with sound ratemaking principles.

As OCA witness Colton testified, a well-accepted tenet of ratemaking is that certain expenses incurred by a utility are "public goods." OCA M.B. at 198-203; see also, OCA St. 5 at 84-90. All customers receive the benefits from the public goods, and the costs should be spread over all customer classes. Universal service programs are a public good. The Pennsylvania General Assembly specifically identified the universal service charge as non-bypassable.[114] This designation clearly establishes the universal service programs as a public good because they cannot be avoided by ratepayers by switching suppliers. As discussed in OCA witness Colton's and CAUSE-PA witness Miller's testimony, Pennsylvania's CAP programs provide direct and indirect benefits to all customer classes by helping low-income customers maintain service. OCA M.B. at 200-203; OCA St. 5 at 84-89; CAUSE-PA M.B. at 41-48. Some of the benefits identified by Mr. Colon include, *inter alia*, addressing utility payment problems; reducing housing abandonment; improving educational attainment; improving adverse health outcomes for payment-troubled customers; reducing the need for local government services such as public health services and public safety costs; increasing available income to be used in the retail economy that drives additional job creation, income generation, and economic activity; helping to off-set low wages

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[114] 66 Pa. C.S. §2203(6).

paid by businesses; increasing employee productivity; decreasing employee turnover; and decreasing time missed from work due to family care responsibilities and illness. OCA M.B. at 184-198; OCA St. 5 at 58-83.

The OCA submits that it is also significant that ten other states (Maine, Maryland, New Hampshire, New Jersey, Ohio, Illinois, Colorado, Washington, Oregon, and Nevada) have determined that universal service program costs should be allocated to all customers, consistent with sound ratemaking principles. See, OCA St. 5 at 88; CAUSE-PA St. 1 at 41-42. OCA witness Colton testified there are some similarities to program design structure. OCA St. 5 at 88. For example, OCA witness Colton noted that the eight states identified in his testimony all have Percentage of Income Payment Programs (PIPPs) and allocate the costs to all customer classes. Id. OCA witness Colton also analyzed the economic impact of the allocation of universal service costs to all customer classes. OCA St. 5-SR at 31-32. Mr. Colton found that the practice of allocating universal service costs across customer classes has not impacted businesses in other states. Id. Arguments to the contrary ignore the substantial benefits to communities, businesses, the general economy, and the utility system that can arise from rate affordability programs and the results achieved in other states.

The OCA submits that allocation of universal service costs to all ratepayers is consistent with sound ratemaking principles. Universal service programs are a public good whose many direct and indirect benefits redound to all ratepayers. The ratemaking treatment that should be accorded costs incurred for the public good is one of broad-based allocation to all ratepayers.

5. Poverty is Not Just a Residential Class Problem.

In its Main Brief, PAIEUG argued that only those who can benefit from the program should fund the program. PAIEUG M.B. at 31. The Final CAP Policy Statement Order reached a different conclusion and stated that poverty is "not just [a] residential class problem."[115] The OCA submits that the Commission's statement was correct. OCA witness Colton examined the economic factors throughout PECO's service territory that contribute to inability-to-pay of PECO's low-income customers and using the Commission-identified factors completed an analysis of the impact of poverty on all customer classes. OCA St. 5 at 56-83. These Commission-identified factors are not limited to the residential class.

The Final CAP Policy Statement Order correctly identified that "poverty, housing stock, and other factors" that contribute to low-income and near-poor customers' inability to sustain their own utility service are not simply a residential class problem. OCA witness Colton identified the various aspects and how each of these aspects are not "caused" by the residential class. See, OCA M.B. at 184-198. In particular, OCA witness Colton discussed the impact of other factors, including the wage levels throughout the Company's service territory, that demonstrate that the residential class is not the "cause" of the need for CAP. See, OCA M.B. at 187-198; OCA St. 5 at 65-83; OCA St. 5-SR at 19. OCA witness Colton testified:

> I conclude that the observation in my Direct Testimony remains accurate, that "the Pennsylvania PUC was correct when it observed in September 2019 that Poverty is a broad-based social problem not associated with any particular customer class, including specifically not being associated with the residential class exclusively. I find that a substantial number of wage-earning customers participate in PECO's universal service programs. I find further that one reason that these customers income qualify for PECO's universal service programs is because a substantial number of people throughout the PECO service territory are working at Poverty wages." (OCA St. 5, at 71).

OCA St.5-SR at 19.

[115] Final CAP Policy Statement Order at 94.

As the Final CAP Policy Statement Order correctly identified, poverty is not just a residential customer class problem, and the economic factors throughout PECO's service territory contribute to the inability of customers to pay utility bills. The universal service programs are often provided to low-wage earners. Those low-wage earners are able to maintain service because of the universal service programs.

6. The Parties' Additional Arguments Lack Merit.

OSBA and PAIEUG also raised several additional arguments about why universal service costs should not be allocated to all ratepayers. OSBA and PAIEUG argued that such an allocation would essentially be a tax on other ratepayers. OSBA M.B. at 21-23; PAIEUG M.B. at 30-32. OSBA and PAIEUG also raised issues regarding the impact of COVID-19 on businesses. OSBA M.B. at 20-21; PAIEUG M.B. at 32-34. OSBA and PAIEUG also argued that the OCA's proposed cost recovery mechanism is flawed. OSBA M.B. at 23-24; PAIEUG M.B. at 34-36. For the reasons set forth below, the parties' arguments lack merit.

a. Arguments That Universal Service Programs are a Tax Are Inapposite.

In its Main Briefs, OSBA and PAIEUG argued that the universal service programs are essentially a tax model. OSBA M.B. at 21-23; PAIUEG M.B. at 30-32. In its Main Brief, PAIEUG adopted the arguments of OSBA witness Knecht. PAIEUG M.B. at 31-32. In his Rebuttal Testimony, OSBA witness Knecht made several arguments, many also made by PAIUEG in its brief and addressed above, including that the OCA and CAUSE-PA proposal was akin to treating the universal service charge as a tax or insurance model. OSBA St. 1-R at 23-24.

As OCA witness Colton noted, OSBA witness Knecht "approaches the issue of universal service as though it is newly being determined whether such programs are appropriate or not." OCA St. 5-SR at 20-21. It is not a newly determined issue. The OCA submits that OSBA's and

PAIEUG's arguments are not consistent with the statutory requirements for universal service programs under Section 2203(6)-(8) of the Public Utility Code.[116] Universal service programs are required by the Natural Gas Choice and Competition Act and must be funded through utility rates. As the Commission noted in its Final CAP Policy Statement Order:

> Universal service and energy conservation" is a collective term for the "policies, protections and services that help low-income customers to maintain service" as mandated by statute. The four universal service programs are: (1) CAPs, which may provide discounted pricing, arrearage forgiveness, and/or other benefits for enrolled low-income residential customers; (2) Low-Income Usage Reduction Programs (LIURP), which provide weatherization and usage reduction services to help customers reduce their energy utility bills; (3) Customer Assistance and Referral Evaluation Services (CARES), which provide information and referral services for low-income, special needs customers; and (4) Hardship Fund programs, which provide grants to help customers address utility debt, restore service, or stop a service termination. EDCs and NGDCs are required to offer these universal service programs in each distribution territory and to submit updated USECPs every three years for Commission approval.[117]

The OCA submits that the Natural Gas Choice Act requires universal service programs. Arguments regarding whether such costs constitute a tax are irrelevant to the consideration of this issue.

b. A Determination About Allocation of Universal Service Costs Should Not be Delayed.

PAIEUG argued that "even if the Commission were to consider the OCA'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

116 66 Pa. C.S. §§ 2203(6)-(8).

117 Final CAP Policy Statement Order at 3.

COVID-19 pandemic." PAIEUG M.B. at 32, citing PAIEUG St. 1-R at 12-13. OSBA and PAIEUG raised concerns regarding the timing of the proposal during the COVID-19 Pandemic. OSBA M.B. at 20-21; PAIEUG M.B. at 32.

In consideration of COVID-19, OSBA requested that the matter be deferred until a later time. OSBA M.B. at 21. Regarding the impact of COVID-19 on businesses, OCA witness Colton testified:

> There is no question that businesses in Pennsylvania are being adversely affected by the COVID-19 pandemic. Many businesses have been ordered to close, or to substantially curtail, their operations during this time of public health emergency. However, residential customers are also impacted by the economic difficulties but still are responsible for universal service costs. Many of the residential customers paying the costs of the program are also low-income or near poverty and experiencing a similar economic impact that businesses are experiencing. The economic difficulties faced by business during this health emergency is not reason, unto itself, to decline to allocate universal service costs amongst all customer classes for all the reasons I have outlined above.

OCA St. 5 at 83.

PAIEUG also cited to the impact of allocation of the costs to large industrial customers, including hospitals. PAIEUG M.B. at 32. OCA witness Colton responded to PAIEUG's argument:

> The argument that bearing their share of universal service costs "makes the business environment less sustainable" is contrary to all of the ways in which industrial and academic researchers have found to the contrary. Ms. LaConte's argument that transportation customers, including hospitals, "do not benefit" from the universal service programs is simply a restatement of her argument that "PECO's other customer classes do not receive the benefits of USFC. . ." (PAIEUG St. 1-R, at 12).
>
> In fact, Ms. LaConte's choice to use hospitals as an illustration of a type of customer who would be harmed by paying their share of PECO Gas' universal service costs is particularly misplaced. Hospitals have a disproportionate share of low wage workers who

> would be harmed by the lack of PECO Gas universal service programs. Moreover, hospitals have a disproportionately high share of total costs that are employee-related, the very costs that would be reduced by addressing the financial stress of its low-wage workers. Moreover, as discussed in my Direct Testimony, the provision of universal service programs helps ***improve*** the health outcomes of customers served through such programs. To the extent that hospitals may struggle with capacity shortages attributable to COVID-19, offering universal service programs to financially-stressed employees (just as offering other employee-based wellness programs) would benefit hospitals, not burden them, by helping to address the health problems contributing to their capacity issues.

OCA St. 5-SR at 28-29. The OCA does not agree that a determination regarding the allocation of universal service costs should be delayed until a later time.

The allocation of universal service costs in other states has not impacted the ability of businesses to continue to operate. OCA witness Colton presented testimony regarding the economic impact of universal service costs on businesses in states that allocate universal service costs to all customers. OCA witness Colton testified:

> The Table below shows the difference between the 2019 Quarter 4 and the 2020 Quarter 3 Gross Domestic Product by state for nine states (using the same states I identified in my Direct Testimony). (OCA St. 5, at 88). In this Table, only Pennsylvania allocates universal service costs exclusively to the residential class. As can be seen in this Table, whatever drives economic performance in a state, it is not the allocation of utility universal service costs amongst customer classes.

Difference Between 2019 Q4 and 2020 Q3 Gross Domestic Product (GDP) By State	
Nevada	-4.3%
Pennsylvania	-4.2%
Maine	-4.2%
New Jersey	-3.9%
Ohio	-3.5%
New Hampshire	-3.4%
Illinois	-3.0%
Maryland	-2.6%
Colorado	-2.0%

OCA St. 5-SR at 30-31 (footnote omitted).

OCA witness Colton also presented a study from the Brooking Institute. Mr. Colton testified about the Brookings Institute study that reached similar conclusions:

> Work from the Brookings Institute reinforces the conclusions from the above data. If Ms. LaConte were correct that the allocation of universal service costs to all customer classes is the factor that makes the difference in the economic recovery after COVID-19, we would be able to see that difference between Pennsylvania and Ohio, Pennsylvania's next-door-neighbor. Ohio allocates its universal service costs amongst all customer classes, while Pennsylvania does not. The Brookings Institute has compared the impact of the COVID-19 recession on key economic indicators in 53 very large metropolitan areas (with population over 1 million). The data for Ohio and Pennsylvania are set forth below. Brookings color-coded the "performance" of each metropolitan area. Red-shaded cells show weaker performance, while green-shaded cells show stronger performance. Grey-shading is in the middle.

Impact of the COVID-19 recession on key economic indicators (green = stronger, red=weaker, grey=middle)					
Metro area	Jobs	Unemployment Rate	Job Postings	Small Biz Hours	Small Biz Open
Cincinnati	-5.0%	-1.5%	+10.3%	-28.7%	-20.1%
Cleveland-Elyria	-8.2%	+2.5%	+0.9%	-24.3%	-23.5%
Columbus	-6.9%	+1.5%	+11.2%	-18.3%	-21.6%
Philadelphia-Camden-Wilmington	-7.3%	+3.3%	+24.0%	-38.9%	-32.5%
Pittsburgh	-7.5%	+1.8%	+32.0%	-38.4%	-30.3%

> As can be seen, Ms. LaConte's assertions are not borne out by the data. As can be seen from the above data, regarding jobs, unemployment rate, small business hours, and small business openings, the allocation of utility universal service costs is not the factor that drives economic metrics in a state or metropolitan area. The PUC's previous rejection of the argument that allocating universal service costs over all customer classes will harm Pennsylvania's business environment is supported by the data.

OCA St. 5-SR at 31-32 (footnote omitted).

PAIEUG and OSBA also overlook the public health benefits provided by continued natural gas service for low-income customers during the COVID-19 pandemic. As CAUSE-PA stated in its Main Brief:

> Universal service programming, such as CAP and LIURP help provide affordable service to low-income customers, which reduces the risk that they will forego food and medicine or keep homes at unsafe temperatures. (Id. at 41-42). Additionally, once the current moratorium on service terminations is lifted, these programs will be relied upon to help low-income customers maintain natural gas service. Continued access to natural gas service is vital in the face of the pandemic because it is necessary for hot water to wash and sanitize and heat for working/schooling from home; both of which are vital to helping curb the spread of disease, including COVID-19. Thus, universal service programs benefit all utility consumers and

> the economy by helping battle the pandemic by helping prevent further spread of COVID-19 in low-income and minority communities.

CAUSE-PA M.B. at 36.

The OCA submits that a determination about the allocation of universal service costs should not be delayed due to COVID-19. COVID-19 has created a public health crisis that has impacted all ratepayers, including residential ratepayers who are near-poor, low-wage customers, or low-income and not otherwise enrolled in CAP. Public health will be benefited from maintaining universal service programs and more broadly allocating the costs to reflect the wide ranging benefits of the programs.

c. The OCA's Proposed Cost Allocation Proposal Should be Adopted.

In its Main Briefs, OSBA and PAIEUG opposed the OCA's proposed cost recovery method. OSBA M.B. at 23-24; PAIEUG M.B. at 34-35. PAIEUG also proposed an alternative cost recovery method. PAIEUG M.B. at 35. The OCA submits that OSBA's and PAIEUG's concerns about the OCA's cost recovery method are without merit. The OCA also submits that PAIEUG's proposed alternative cost recovery proposal is not reasonable.

In its Briefs, OSBA and PAIEUG argued that the OCA did not provide specifics regarding its cost allocation proposal. OSBA M.B. at 23-24; PAIEUG M.B. at 34. To the contrary, OCA submits that OCA witness Colton proposed a simple, clear, administratively easy cost allocation methodology that is competitively neutral as required by the Natural Gas Choice and Competition Act.[118] OCA witness Colton proposed:

> I recommend that universal service charges be allocated between customer classes on a competitively neutral basis. The allocation of universal costs among customer classes should be based on the percentage of revenue provided by each customer class at base rates. This approach reflects the fact that these universal service costs are

[118] 66 Pa. C.S. § 2203(6).

> being treated as a distribution-related expense. In addition, many of the benefits and savings of the programs are captured in the distribution component of the base rates. Finally, a cost allocation based on class contribution to total revenues at base rates would be administratively easy to apply. These revenues are identified in the Company's filing.

OCA St. 5 at 90.

In its Main Brief, OSBA argued that only OSBA witness Knecht evaluated the impact of including an alternative allocation of universal service costs in the context of overall revenue allocation. OSBA M.B. at 21. The OCA submits that OSBA's critiques are without merit and based upon a flawed cost allocation methodology. As OCA witness Colton testified:

> Mr. Knecht attempts to piggyback his overall cost of service methodology into the discussion of the allocation of universal service costs. Mr. Knecht does not dispute this. He states: 'Specifically, I <u>*started with my estimate*</u> of the cost-based increase needed to <u>*move rates into line with allocated cost from my GCOSS*</u>, and I adjusted those values for the cost changes show [sic] in [the Table] above. . .As shown, the OCA cost allocation change would have only a small impact on <u>*my revenue allocation proposal*</u>." (OSBA St. 1-R, at 29) (emphasis added). Given that OCA witness Watkins has explained why several aspects of Mr. Knecht's overall cost-of-service methodology are inappropriate with which to begin, Mr. Knecht's conclusions flowing from the use of that methodology are equally flawed. The Commission should not use a flawed methodology as a basis to upon which to make universal service cost allocation decisions.

OCA St. 5-SR at 24-25 (emphasis in original).

In the alternative that the Commission determines to allocate the costs of universal service to all customers, PAIEUG witness LaConte proposed that the Commission should allocate the $5.9 million of the universal service program costs across the total number of PECO customers. PAIEUG M.B. at 35. Using this methodology, Ms. LaConte determined that no customer should pay more than $10.85 per year. PAIEUG M.B. at 35.

The OCA submits that PAIEUG's proposed alternative $10.85 per customer per year methodology is fatally flawed. PAIEUG witness LaConte's proposal treats universal service costs as though they are a static figure established in a rate case and fails to recognize that universal service cost recovery is reconcilable. OCA St. 5-SR at 33. As OCA witness Colton explained:

> While Ms. LaConte estimates universal service costs to be $5.9 million (PAIEUG St. 1-R, at 13), PECO's estimated universal service costs (including CAP credits) are simply estimates. (PECO St. 3, at 7). While, as I note in my Direct Testimony, my recommended cost allocation methodology has the advantage of being "administratively easy to apply," (OCA St. 5, at 90), Ms. LaConte's proposal would involve extraordinary complexity. Reconciliation could involve changes in her recommended per customer charge of fractions of a cent on a monthly basis. (see, OCA-III-19). Ms. LaConte does not explain how such a monthly charge could be imposed which would provide PECO Gas full cost recovery.

OCA St. 5-SR at 34.

PAIEUG witness LaConte's proposal also treats the number of customers as though it is a static figure from month-to-month, or year-to-year. OCA St. 5-SR at 34. OCA witness Colton identified the flaw in this logic:

> PECO Gas data demonstrates that this figure would not be constant. (OCA-III-16, OCA-III-6(c)). The process of adjusting PECO universal service cost recovery based on changes in the number of customers would add yet another layer of complexity to Ms. LaConte's recommendation that she neither acknowledged nor considered. In contrast, the cost allocation recommended in my Direct Testimony would not generate such complexity.

OCA St. 5-SR at 33.

The OCA submits that OCA witness Colton's approach is competitively neutral as required by the Natural Gas Choice and Competition Act; reflects that the costs are being treated as a distribution-related expense; captures the benefits and savings of the programs in the distribution component of base rates; and is administratively easy to apply because the revenues are already identified in the Company's filing. PAIEUG's proposed alternative methodology is fatally flawed and should not be approved. For the reasons set forth above and in the OCA's Main Brief, the OCA submits that the OCA's proposed universal service cost allocation methodology should be approved.

D. Tariff Structure.

1. Residential Customer Charge.

As stated in its Main Brief, the Company seeks approval to increase its residential customer charge, *inter alia*, by $4.25 per month, from $11.75 to $16.00 per month. PECO M.B. at 116. The Company argues that it is proposing to increase the customer charge to more closely align the charge with the Company's customer-classified costs and thereby removing intra-class subsidies. PECO St. 7 at 12-14.

In its Main Brief, the OCA recommended that the Commission adopt the recommendations of OCA witnesses Watkins and Colton and limit the increase in the residential customer charge to $13.00 per month, or an increase of $1.25 per month. OCA M.B. at 207-216; see also OCA St. 4 at 31. As Mr. Watkins testified, the Company's proposed increase represents an approximately 36% increase in the residential fixed customer charge, which is unreasonable. OCA St. 4 at 30. That is, PECO's residential customer charge is unavoidable and would have to be paid each month regardless of usage and increasing it to such an extent would negatively affect residential customers currently experience financial hardship as a result of the COVID-19 Pandemic. OCA St. 4 at 30. Moreover, a 36% increase violates the principals of gradualism and is contrary to the promotion of energy conservation. OCA St. 4 at 31. Likewise, OCA witness Mr. Colton argued that any increase to the residential customer charge will disproportionately impact low-income and near-poor customers. Thus, he agreed with the recommendation of OCA witness Watkins to limit the residential customer charge increase to the $13.00.

In the Company's Main Brief, PECO argued that the recommendation of Mr. Watkins should be denied and that his arguments should not be considered persuasive. See PECO M.B. at 117-18. In support of its position, the Company argues that Mr. Watkins has not provided any evidentiary support to cap the residential customer charge increase at 10 percent and the Company's proposal to increase the residential customer charge would not constitute rate shock. Id. In response, the OCA continues to submit that a 36.6% increase in the residential customer charge is excessive and inconsistent with principles of gradualism. See OCA St. 4 at 30. Moreover, as Mr. Watkins testified, it will make it harder for customers to conserve energy and reduce their bill:

> As stated earlier, PECO's Residential rate structure is comprised of a fixed monthly customer charge and a volumetric distribution usage charge. If more revenue is collected from fixed monthly customer charges, then less revenue will be collected from volumetric charges. As a result, these lower than appropriate volumetric charges do not provide an appropriate incentive to conserve natural gas usage.
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> ***
>
> …By having a disproportionately larger increase in unavoidable fixed charges (relative to volumetric charges) means that customers have less ability to control their natural gas bills. This is simply because the fixed charge must be paid each and every month regardless of the amount of natural gas consumed.

OCA St. 4 at 31. Thus, the OCA submits that the Commission should adopt the recommendation of Mr. Watkins and cap any increase to the residential customer charge to $13.00, if the Commission grants a rate increase in this proceeding.[119]

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[119] As further discussed above in this Reply Brief, the Company asserts that the residential customer charge should be excluded from any scale back if a smaller increase is granted by the Commission. See OCA R.B., Section X.B.3; see also PECO M.B. at 115. As the OCA submits, however, the residential customer charge should be scaled back proportionally if the Commission grants a rate increase request that is smaller than originally requested.

In its Main Brief, PECO similarly disagreed with OCA witness Colton's and CAUSE-PA witness Miller's concerns regarding the impact of the proposed rate increase on low-income and near-poor customers. PECO M.B. at 118-119.[120] PECO raised two issues in its Main Brief regarding OCA witness Colton's testimony. First, PECO argued that OCA witness Colton failed to acknowledge that the Company's proposal to increase the residential customer charge will provide a "relative benefit" to high-use, low-income customers by decreasing the impact of the overall rate increase. PECO M.B. at 118. Second, PECO also argued that OCA witness Colton's testimony related to the Low Income Home Energy Assistance Program (LIHEAP) is not relevant because LIHEAP is a federal program and PECO is not involved with establishing the funding levels. PECO M.B. at 118, citing PECO St. 7-R at 10.

The OCA submits that PECO is incorrect on each of these points. OCA witness Colton responded directly to PECO witness Bisti's testimony that low-income customers with high use would have a "relative benefit." See OCA St. 5-SR at 5. As the evidence presented by OCA witness Colton demonstrated, low-income customers are also disproportionately, on average, low-use customers who cannot otherwise off-set the proposed fixed customer charge. OCA M.B. at 211-215; OCA St. 5 at 40-55. As discussed below, PECO also has misunderstood the OCA's comparison of the amount of the proposed customer charge increase to LIHEAP. OCA M.B. at 209-210; OCA St. 5 at 32. Moreover, as the OCA discussed in its Main Brief, PECO did not respond to or refute in its Main Brief or testimony OCA witness Colton's testimony that the

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[120] In its summation of the OCA witness Colton's position, PECO only cited to OCA witness Colton's Direct testimony at OCA St. 5, pages 29 to 32 and 55 and Surrebuttal Testimony at pages 4 to 6. The OCA notes that PECO omitted from its citation the remainder of OCA witness Colton's testimony on this issue on pages 33 to 36 of his testimony. The OCA submits that PECO appears to have misunderstood the intent of the OCA's testimony on this issue. PECO erroneously addressed the OCA's low-income customer testimony as a universal service issue in Section IX(B) rather than as an issue related to the impact of the proposed customer charge on low-income customers. See, PECO M.B. at 83, citing OCA St. 5 at 33-36. Mr. Colton's testimony on the impact of CAP enrollment levels on low-income customers should be considered as a part of the OCA witness Colton's analysis of the impact of the customer charge on low-income customers and not as a separate universal services issue.

proposal will: (1) increase the depth and breadth of customer arrears; (2) increase the incidence of service disconnections and threat of disconnections; (3) reduce the ability of low-income customers to respond to their inability-to-pay through usage reductions; and (4) increase the Home Energy Insecurity. OCA M.B. at 209-210; see, OCA St. 5 at 33; OCA St. 5-SR at 14. Moreover, the OCA submits that in this time of the economic crisis created by the COVID-19 Pandemic, a $4.25 increase in the fixed customer charge is not appropriate.

Moreover, OCA witness Colton directly responded to PECO witness Bisti's testimony on the issue of "relative winners or losers." OCA witness Colton acknowledged that there would be "relative winners or losers," but Mr. Bisti did not refute the extensive evidence presented by OCA witness Colton that low-income customers are disproportionately low-use customers and would, disproportionately, and on average, be amongst the losers. OCA witness Colton testified:

> [Mr. Bisti's Rebuttal Testimony] does not attempt to counter the extensive analysis presented in my Direct Testimony that low-income customers in the PECO Gas service territory disproportionately, and on average, tend to be low use customers. Thus, while I agree with Mr. Bisti that "any division of cost between fixed and volumetric components in a customer class will have relative winners and losers," (PECO Gas St. 7-R, at 10), the evidence in this case is that low-income customers will, disproportionately and on average, be amongst the losers from the PECO Gas proposal to increase its residential customer charge.

OCA St. 5-SR at 5. While Company witness Bisti does not agree with OCA witness Colton's conclusions, the Company has not presented any evidence to rebut Mr. Colton's detailed analyses.

In its Main Brief, PECO argued that OCA witness Colton's reference to the level of LIHEAP grants received by PECO was not relevant because LIHEAP is a federal program and PECO is not involved with establishing the LIHEAP funding levels. PECO M.B. at 118, citing PECO St. 7-R at 10. The OCA submits that PECO has missed the point of Mr. Colton's testimony. The point of OCA witness Colton's testimony is not about increasing LIHEAP dollars or LIHEAP funding. The reference to the LIHEAP dollars received by PECO is a metric for comparison of the size of the proposed customer charge to low-income customers and that low-income customers will not otherwise be able to eliminate the impact of the increase.

The Company never directly addressed OCA witness Colton's testimony regarding the LIHEAP grants or that the proposed increase would exceed the amount of LIHEAP cash grants that PECO's gas low-income customers receive. OCA M.B. at 209. As the OCA discussed in its Main Brief, the amount of the increase to the customer charge will exceed the amount of the LIHEAP grants received by the Company. OCA M.B. at 209-210; OCA St. 5 at 32. An increase of $4.25 per month in the fixed customer charge would represent an increase of $51.00 per year ($4.25 x 12 months = $51.00) for a residential customer. OCA witness Colton testified that PECO reported having approximately 74,914 estimated low-income customers. OCA St. 5 at 32. Mr. Colton testified that "[u]sing that number, PECO's proposed customer charge increase, standing alone (i.e., without taking into account any other aspect of the PECO Gas rate increase, will draw $3,812,614 a year out of the Company's low-income population ($4.25/month x 12 months x 74,914 = $3,812,614)." OCA St. 5 at 32. PECO received between $3.3 million and $3.9 million in LIHEAP grants annually between 2017 through 2020. OCA St. 5 at 31-32, Table 5.

OCA witness Colton directly responded to Mr. Bisti's testimony that PECO does not control the level of funding. OCA witness Colton explained:

> Mr. Bisti's dismissal of my discussion of LIHEAP in my Direct Testimony indicates that he is not recognizing the impact of the PECO Gas proposal on those customers who can least afford to pay the increase in the PECO Gas unavoidable fixed customer charge. While Mr. Bisti is correct when he asserts that "PECO is not involved in the establishment of LIHEAP funding levels," (PECO Gas St. 7-R, at 10), that observation does not detract from the fact that the proposed increase in the unavoidable fixed charge proposed by PECO Gas will have the same impact on PECO Gas low-income customers as reducing LIHEAP benefits to $0. The low-income

> customers of PECO Gas receive federal assistance to help pay their PECO Gas bills. The PECO Gas proposal to increase its fixed monthly customer charge, standing alone, effectively reduces the benefits of LIHEAP assistance to nothing. (See OCA St. 5, at 31). For every dollar in assistance that LIHEAP delivers to PECO Gas low-income customers, PECO Gas is effectively proposing to remove a dollar through its proposed increase to the fixed monthly residential customer charge.

OCA St. 5-SR at 5.

The OCA submits that OCA witness Colton has conclusively demonstrated that low-income customers are disproportionately, on average, low-use customer and would be disproportionately impacted by the proposed customer charge increase. The scale would be tipped against the low-use, low-income customers, and they would become the "relative losers" in PECO witness Bisti's purported "relative winners and losers" comparison. The increase would, in fact, exceed the amount of LIHEAP cash grants that PECO's gas low-income customers receive. These low-use, low-income customers would not have the ability to otherwise avoid the impact of the $4.25 increase to the fixed customer charge. PECO has been unable to refute the impact the proposed increase will have on low-income, low-use customers. The OCA submits that in this time of the economic crisis created by the COVID-19 pandemic, a $4.25 increase in the fixed customer charge is not appropriate and any increase to the residential customer charge should be capped at $13.00.

2. <u>Non-Residential Customer Rate Design</u>.

a. <u>Rate GC Customer Charge</u>.

The OCA does not offer a position on this issue.

b. <u>Rage GC Declining Block Volumetric Charge Differential</u>.

The OCA does not offer a position on this issue.

c. <u>Rate TS-F and TS-I Volumetric Charge Differential</u>.

The OCA does not offer a position on this issue.

d. Elimination of Rate IS Margin Sharing.

As discussed in the OCA's Main Brief, OCA witness Watkins and OSBA witness Knecht recommended that the Company remove its practice of margin sharing for Rate IS revenues. See OCA M.B. at 216-219. In the Company's Main Brief, it agreed to propose the elimination of the disputed Rate IS sharing mechanism on or before December 1, 2021, as part of its next annual PGC reconciliation filing. PECO M.B. at 123. The OCA supports this position and the Commission should require the Company to propose to eliminate its Rate IS sharing mechanism as part of the Company's next annual PGC reconciliation filing.

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

The OCA does not offer a position on this issue.

3. DSIC Cost Allocation.

The OCA does not offer a position on this issue.

4. Negotiated Rate Service.

As discussed in the OCA's Main Brief, OCA witness Watkins recommended that the Commission require the Company to reevaluate the terms and rates for each of the three negotiated rate service (Rate NGS) contracts identified in the Direct Testimony of OCA witness Watkins. See OCA M.B. at 219-221; see also OCA St. 4 at 32-34 (Confidential). In its Main Brief, PECO agreed with the recommendation of OCA witness Watkins, stating it is amenable to providing the analyses requested by Mr. Watkins in its next base rate proceeding. PECO M.B. at 126-127. Thus, the OCA continues to submit that the recommendation of Mr. Watkins' regarding the Company's Rate NGS customers is appropriate and should be adopted in this proceeding.

5. Theft/Fraud Investigation.

In its filing, PECO proposed to increase the Company's Theft/Fraud Investigation Charge in its proposed Tariff Rule 17.7 by $90 from $370 to $460. OCA St. 5 at 109; PECO St. 7, Exh. JAB-2, PECO Energy Co. Gas Service Tariff, Pa. P.U.C. No. 4, Original Page No. 27, Tariff Rule 17.7. In Rejoinder Testimony, PECO witness Schlesinger amended the proposal to strike references to fraud from the proposed Tariff Rule 17.7 language. Tr. at 202. In its Main Brief, PECO argued that PECO witness Schlesinger has addressed each of OCA witness Colton's concerns about Tariff Rule 17.7. PECO M.B. at 128-129. The Company's assessment of the OCA's position in this case is incorrect. As the OCA discussed in its Main Brief, the OCA submits that Tariff Rule 17.7 is overly broad, fatally flawed, and should not be approved. OCA M.B. at 221-228. Moreover, the OCA submits that the Company has not met its burden to demonstrate that the proposed $90 increase to the charge is cost-based and should be applied as proposed to both customers and "applicants."

First, PECO argued that OCA's concerns are resolved because Mr. Schlesinger amended his proposal to only apply Tariff Rule 17.7 in the case of confirmed active gas theft only and to strike references to fraud from the rule. PECO M.B. at 128. PECO also argued that a specific definition of the term "theft" is not appropriate because the "means by which tampering occurs evolves over time." PECO M.B. at 128. While the OCA supports the removal of the references to fraud, the removal of the fraud language alone does not cure the concerns that the OCA raised in his testimony. As the OCA discussed in its Main Brief, OCA witness Colton's concerns applied to *both* the fraud and the theft language, and the deletions of the fraud language cannot address how overbroad the theft language remains. OCA M.B. at 223-224.

The OCA submits that under the language of the tariff, the charge is "applicable if the Company alleges that its equipment has been interfered with 'by any means whatsoever.'" OCA

St. 5 at 110. As OCA witness Colton testified, "[n]ot only is there no limit on what might deem to be 'interference,' but there is no limit on what activities PECO deems to be covered by the charge. Moreover, while the proposed tariff references meter tampering, the charge is not limited to meter tampering." Id. The language of the tariff still does not require the Company to provide any factual demonstration that the customer has engaged in meter tampering or "interference" with PECO's metering equipment. OCA M.B. at 224. OCA witness Colton also identified a concern that the tariff language, "unauthorized conditions at the premises," is also undefined and is at the discretion of the Company to define. OCA St. 5 at 111.

Second, PECO argued that Mr. Schlesinger's explanation in his Rejoinder Testimony of the circumstances under which an "applicant" could be assessed the proposed $460 charge should resolve Mr. Colton's concerns about applying Tariff Rule 17.7 to "applicants." PECO M.B. at 129; see, Tr. at 203. PECO witness Schlesinger used the example of a hypothetical customer whose service had been terminated pursuant to Tariff Rule 17.7 and then applied for service at a different address as an "applicant." Id. The OCA submits that the hypothetical example does not address the OCA's concerns about the breadth of Tariff Rule 17.7 and its application to "applicants." OCA M.B. at 225-226. In particular, the hypothetical does not address the concern identified by OCA witness Colton that:

> the $460 charge may be assessed by PECO Gas whether or not the person had any involvement with, or any responsibility for, whatever objectionable behavior PECO Gas is alleging (whether it be meter tampering, "interference with other equipment by any means whatsoever," "theft/fraud," or "unauthorized conditions").

OCA St. 5 at 112; see also, OCA M.B. at 226.

The consequences of not paying the fee are severe for both customers and "applicants." As OCA witness Colton explained, "applicants" are at risk that the Company will refuse to connect service to a new customer unless the proposed charge is paid. OCA M.B. at 226; OCA St. 5 at 113. OCA witness Colton also identified concerns that low-income customers will be disproportionately impacted by the proposed fee and accusations of theft and unauthorized use. OCA M.B. at 226; OCA St. 5 at 113.

Finally, PECO claimed that PECO witness Schlesinger has resolved OCA witness Colton's concerns about the potential double recovery of "allocated overheads and administrative costs." PECO M.B. at 226. PECO witness Schlesinger's testified that the Company has made a $10,000 revenue adjustment that was based on the actual 2019 gas revenues collected in order to address the double recovery concern. PECO M.B. at 226, citing PECO St. 8-R at 3; Tr. at 202. Tariff Rule 17.7 states that the theft "charges listed below include allocated overheads, all investigative costs and administrative cost [sic] deemed necessary by the Company to correct any and all unauthorized conditions at the premise." PECO St. 7, Exh. JAB-2, PECO Energy Co. Gas Service Tariff, Pa. P.U.C. No. 4, Original Page No. 27, Tariff Rule 17.7. PECO witness Schlesinger's testimony still does not explain how the proposed $10,000 off-set is connected to the actual overhead and administrative charges included in base rates and in the investigation charge. OCA M.B. at 225.

The OCA submits that Tariff Rule 17.7 is overly broad and fatally flawed. The OCA submits that the Company has not met its burden that the proposed $90 increase to the charge is cost-based and should be applied as proposed to both customers and "applicants." PECO has also not adequately explained how the inclusion of overhead and administrative costs will be off-set by the proposed $10,000 adjustment to base rate revenues, and why there will still not be a double-recovery of these costs. For the reasons set forth above in the OCA's Main Brief, Tariff Rule 17.7 should not be approved. OCA M.B. at 221-228.

E. Summary and Alternatives.

For the reasons set forth above and in its Main Brief, the OCA submits that the Commission should adopt the following recommendations of the OCA regarding rate structure: (1) adoption of OCA Watkins' COSS and use of the P&A Method to allocate distribution mains, (2), adoption of OCA Watkins' proposed revenue allocation if any rate increase is approved in this proceeding, (3) adoption of OCA witness Colton's recommendation to allocate universal service program costs across all customers classes, (4) adoption of OCA witness Watkin's recommendation to eliminate Rate IS – Interruptible Service margin sharing, (5) require PECO to reevaluate the terms and rates for each of the three negotiated rate contracts identified in the Direct Testimony of OCA witness Watkins and provide its findings in its next gas base rate case, and (6) deny the Company's proposed changes with respect to proposed Rule 17.7.

XI. CONCLUSION

For the reasons set forth in this Reply Brief, the OCA respectfully requests that the Commission deny any rate increase to PECO at this time. As demonstrated by the OCA, under a "business as usual" ratemaking approach, the Commission should reduce PECO's rates as it is currently earning above a market-derived return on equity. Moreover, when considering the societal and economic hardships currently facing PECO's customers as a result of the continuing COVID-19 Pandemic, it is clear that no rate increase is justified at this time.

Respectfully submitted,

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Dated: March 15, 2021
305152

<u>APPENDIX A</u>

OCA REVISED RATE CASE TABLES

TABLE I
PECO Energy Company - Gas Division
INCOME SUMMARY
Docket No. R-2020-3018929

	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates (Revised) (1)	OCA Adjustments	OCA Pro Forma Present Rates	OCA Revenue Increase	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	590,014	0	590,014	0	590,014	(11,382)	578,632
Expenses:							
O & M Expense	370,135	0	370,135	(9,282)	360,853	(40)	360,813
Depreciation	86,146	0	86,146	(7,827)	78,319	0	78,319
Amortization of Regulatory Expense	2,812	0	2,812	0	2,812	0	2,812
Taxes, Other	7,545	0	7,545	(248)	7,297	(35)	7,262
Income Taxes:			0				
State	(4,151)	0	(4,151)	4,739	588	(1,130)	(542)
Federal	(13,868)	0	(13,868)	10,079	(3,789)	(2,137)	(5,926)
Total Expenses	448,619	0	448,619	(2,539)	446,080	(3,342)	442,738
Net Inc. Available for Return	141,395	0	141,395	2,539	143,934	(8,041)	135,893
Rate Base	2,463,555	0	2,463,555	(306,520)	2,157,035		2,157,035
Rate of Return	5.74%		5.74%				6.30%

(1) Company Main Brief

TABLE I(A)
PECO Energy Company - Gas Division
RATE OF RETURN
Docket No. R-2020-3018929

	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			1.92%		
Long-term Debt	50.00%	3.84%	1.92%		1.92%
Short-term Debt	0.00%	0.00%	0.00%		
Preferred Stock	0.00%	0.00%	0.00%	0.711079	0.00%
Common Equity	50.00%	8.75%	4.38%	0.711079	6.16%
	100.00%		6.30%		8.08%
Pre-Tax Interest Coverage	4.21				
After-Tax Interest Coverage	3.28				

TABLE I(B)
PECO Energy Company - Gas Division
REVENUE FACTOR
Docket No. R-2020-3018929

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.00347200
PUC, OCA, OSBA Assessment Factors (*)	0.00308000
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.993448
State Income Tax Rate (*)	0.09990000
Effective State Income Tax Rate	0.09924546
Factor After Local and State Taxes	0.89420254
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.18778253
Revenue Factor (100% - Effective Tax Rates)	0.70642001

(*) Company Main Brief

TABLE II
PECO Energy Company - Gas Division
SUMMARY OF ADJUSTMENTS
Docket No. R-2020-3018929

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	$	$	$	$	$	$	$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	(193)						
Taxes (Table V)	8						
O & M (Table VI)	(306)						
Adjustment to FPFTY Plant in Service	(270,970)						
Remove Pension Asset from Rate Base	(35,059)						
REVENUES:							
		0				0	0
EXPENSES:							
Annualize FPFTY Payroll			(2,447)			244	463
Revise Benefits Expense			(315)			31	60
Annualize Postretirement Benefits Expense			(486)			49	92
Annualize Pension Expense			0			0	0
Remove Advance Recovery of MGP Remediation			(287)			29	54
Normalize Injuries and Damages Expense			(464)				
Normalize Rate Case Expenses			(208)				
Normalize Regulatory Initiative Costs			0				
Remove Recovery of Cost to Achieve			(370)				
Normalize EBSC Charges			(997)				
Adjustment to Normalize R&D Expense			(138)				
Reflect Annual Regulatory Commission Expense			(462)				
Normalize Contracting Expenses			(367)				
Annualize Employee Activity Expenses			(71)			7	13
Annualize Travel Meals & Entertainment Expense			(178)			18	34
Remove Increase in Energy Efficiency Costs			(2,492)			249	471
Annualize Depreciation Expense			0	(7,827)		0	0
Remove Inflation Escalation From Property Taxes			0		(61)	0	0
Remove Inflation Escalation From Payroll Taxes			0		(187)	0	0
Interest Synchronization			0			0	0
TAXES:							
Interest Synchronization (Table III)						268	507
TOTALS	(306,520)	0	(9,282)	(7,827)	(248)	895	1,694

TABLE III
PECO Energy Company - Gas Division
INTEREST SYNCHRONIZATION
Docket No. R-2020-3018929

	Amount $
Company Rate Base Claim	2,463,555
OCA Rate Base Adjustments	(306,520)
OCA Rate Base	2,157,035
Weighted Cost of Debt	1.92%
OCA Interest Expense	41,415
Company Claim (1)	44,098
Total OCA Adjustment	2,683
Company Adjustment	0
Net OCA Interest Adjustment	2,683
State Income Tax Rate	9.99%
State Income Tax Adjustment	268
Net OCA Interest Adjustment	2,683
State Income Tax Adjustment	268
Net OCA Adjustment for F.I.T.	2,415
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	507

(1) Company Main Brief

TABLE IV
PECO Energy Company - Gas Division
CASH WORKING CAPITAL - Interest and Dividends
Docket No. R-2020-3018929

Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	$2,463,555	$2,463,555	Company Rate Base Claim	$2,463,555
OCA Rate Base Adjustments	($306,520)	($306,520)	OCA Rate Base Adjustments	($306,520)
OCA Rate Base	$2,157,035	$2,157,035	OCA Rate Base	$2,157,035
Weighted Cost of Debt	1.92000000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
OCA Annual Interest Exp.	$41,415	$0	OCA Preferred Dividends	$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
OCA Daily Interest Exp.	$113	$0	OCA Daily Dividends	$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
OCA Working Capital	($5,995)	$0		$0
Company Claim (1)	($5,802)	$0	Company Claim (1)	$0
OCA Adjustment	($193)	$0		$0
Total Interest & Dividend Adj.	($193)			

(1) Company Main Brief.

TABLE V
PECO Energy Company - Gas Division
CASH WORKING CAPITAL -TAXES
Docket No. R-2020-3018929

Description	Company Proforma Tax Expense Present Rates	OCA Adjustments	OCA Pro forma Tax Expense Present Rates	OCA Allowance	OCA Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
PUC Assessment	$0	$0	$0	($35)	($35)	($0.10)	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	$895	$895	($1,130)	($235)	($0.64)	0.00	$0
Federal Income Tax	$0	$1,694	$1,694	($2,137)	($443)	($1.21)	0.00	$0
	$0	$2,589	$2,589	($3,302)	($713)			

OCA Allowance	189
Company Claim (1)	181
OCA Adjustment	8

(1) Company Main Brief

TABLE VI
PECO Energy Company - Gas Division
CASH WORKING CAPITAL -- O & M EXPENSE
Docket No. R-2020-3018929

Description	Company Pro forma F.T.Y. Expense	OCA	OCA Pro forma Expenses	Lag Days	Lag Dollars
Payroll (Dist Only)	$ 42,209	$ (2,447)	$39,762	13.67	$543,551
Pension Expense	2,513	-	2,513	14.00	$35,182
Commodity Purchased - Gas	226,710	-	226,710	36.51	$8,277,182
Payment to Suppliers	63,454	-	63,454	56.21	$3,566,749
Other Expenses	96,118	(6,836)	89,282	37.54	$3,351,640
	$0	$0	$0	0.00	$0
	$431,004	($9,282)	$421,721	37.40	$15,774,304

OCA Average Revenue Lag	43.2	
Less: OCA Avg. Expense Lag	37.4	
Net Difference	5.8	Days
OCA Pro forma O & M Expense per Day	$1,155	
OCA CWC for O & M	$6,661	
Less: Company Claim (1)	$6,967	
OCA Adjustment	($306)	

(1) Company Main Brief