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November 28, 2022

**VIA ELECTRONIC MAIL**

Hon. Michelle L. Phillips, Secretary  
New York State Public Service Commission  
3 Empire State Plaza  
Albany, New York 12223-1350  
secretary@dps.ny.gov

**Re: Pennsylvania Electric Company Waverly District – Electric Rates**

Dear Secretary Phillips:

Enclosed please find an electronic copy of the revised Leaf Nos. 1, 12, 63, 101, 105, 109, 110, 113, 117, 122, 127, 129, 130, and 131 of P.S.C. No. 7 - Electricity, Pennsylvania Electric Company Schedule for Electric Service Applicable in Waverly District, issued November 28, 2022, to be effective May 1, 2023 (“Tariff Leaves”).

The proposed Tariff Leaves will increase the total monthly bill of a residential customer using 1000 kilowatt hours from \$138.69 to \$144.52, or 4.20%. The proposed change will increase Pennsylvania Electric Company's (“Penelec” or the “Company”) New York jurisdictional normalized annual base revenues by \$300,000. The filing does not constitute a major rate increase under the New York Public Service Commission's (“NYPSC”) procedures; therefore, a hearing is not required.

**Penelec's Waverly District**

Penelec is a wholly owned subsidiary of FirstEnergy Corp. and serves a total of 590,000 customers across New York and Pennsylvania. Penelec's New York operations are referred to as the “Waverly District,” which includes service to approximately 3900 customers in the Village of Waverly and portions of the Town of Barton in Tioga County along New York's southern tier. Penelec has served the Village of Waverly, New York, and the surrounding vicinity since 1956 following Penelec's merger with Northern Pennsylvania Power Company, as a result of Penelec's lease of the territory held by its subsidiary, The Waverly Electric Light and Power Company (“Waverly Electric”).<sup>1</sup>

**Penelec's New York Rate History and Need for Increase**

Current distribution base rates for the Waverly District became effective on June 1, 2018 by order issued May 18, 2018 in Case No. 17-E-0685. The 2018 minor increase of \$300,000 in annual electric revenues was the first increase in base rates in more than 30 years. In that rate

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<sup>1</sup> On November 22, 2022, the NYPSC issued an order authorizing the intra-corporate merger of Waverly Electric into Penelec. As of the date of this filing, the Company is working to effectuate this merger and upon completion will submit a letter confirming Waverly Electric and Penelec have been merged.

case, the Company could demonstrate that an increase that exceeds \$300,000 would be prudent and reasonable but, to mitigate administrative costs and avoid rate shock, Penelec limited the request to \$300,000. Prior to 2018, distribution base rates for the Waverly District became effective on January 1, 1988 at Case No. 29667 by order issued November 10, 1987. In the 1987 decision, the NYPSC used Penelec's 1987 Pennsylvania rate proceeding at Docket No. R-860413 for the extension of rates to the Waverly District. Historically, the NYPSC had accepted the Pennsylvania Public Utility Commission's ("PaPUC") most recently approved ratemaking for Pennsylvania retail customers as an appropriate basis for Waverly District rates. Even prior to the rate increase approved in 1987, the approach of utilizing the most recently approved Pennsylvania ratemaking and rate allocators for application to the Waverly District had been approved by the NYPSC.

Penelec management has successfully controlled expenses, which has enabled the Company to extend the period between base rate cases, to the benefit of its customers. As a result, the base distribution rates for Waverly District customers are significantly lower when compared to the rates charged by other New York electric utilities. However, the Company must continue to make investments in new plant and existing infrastructure during a period of ever-increasing operation and maintenance expenses. The amount requested by this filing is designed to allow the Company to recover costs incurred to furnish safe and reliable distribution service and to provide it an opportunity to earn a return on its investment in distribution assets, albeit at a level significantly below its cost of equity. Accordingly, it is important that the Company receive the rate relief it is requesting in this case to continue benefitting customers with continued safe and reliable electric service.

### **The Proposed Rate Increase**

The distribution base rate filing is based on a historical test year for the twelve months ended June 30, 2022. The Company is proposing a general rate increase of \$300,000 to its distribution rates for its Waverly District, effective May 1, 2023.

Penelec allocated its expenses and plant assets to its Waverly District consistent with the jurisdictional allocations used during its most recent Pennsylvania base rate case, which allocations were adopted under the settlement approved by the PaPUC forming the basis for Penelec's Pennsylvania distribution rates today. The same jurisdictional allocations that were accepted by the PaPUC to exclude the Waverly District's costs from the Company's Pennsylvania jurisdictional revenue requirement calculation were utilized to allocate revenues, expenses, and plant assets to its customers in New York, except where specific direct assignment was appropriate such as Waverly District base rate revenues.

For purposes of determining the cost of service for this increase request, Penelec relies upon the most current cost of service study that it performed, which also formed the basis for its most recent Pennsylvania base rate increase request and, ultimately, the resultant rates approved by the PaPUC and in effect as of January 27, 2017 in Pennsylvania.

Again, similar to the 2018 minor rate increase proceeding described above, while the Company could demonstrate the reasonableness of an increase in excess of \$300,000, it is filing a non-

major case for a proposed distribution revenue requirement increase of only \$300,000 for its New York territory. By limiting its request, Penelec is recognizing the ratemaking principle of gradualism with respect to the impact of the rate increase that Waverly District customers will experience. Limiting the amount requested is also expected to result in a more efficient regulatory process for all parties involved.

The amount requested is just and reasonable because, even if approved without modification, the return it would provide is less than the return on equity in recently litigated or settled New York distribution rate cases. In fact, if Penelec were to propose to apply a ROE of 9.2%, which is in line with recent rates approved for other NYPSC jurisdictional utilities, Penelec's current request would increase from \$300,000 to \$507,000.

The filing contains detailed documentation supporting the Company's request, including:

Penelec Exhibit 1 - Normalized Rate Base as of June 30, 2022  
Penelec Exhibit 2 - Statement of Operating Income for the twelve months ended June 30, 2022  
Penelec Exhibit 3 - Jurisdictional Allocation Factors  
Penelec Exhibit 4 - Proof of Revenue Analysis  
Penelec Exhibit 5 - Bill Comparison  
Penelec Exhibit 6 - Rate Comparison  
Penelec Exhibit 7 - LED Streetlighting Schedule  
Penelec Exhibit 8 - Revised Tariff Leaves  
Affidavit of Kimberlie L. Bortz  
Affidavit of Stephanie R. Zieger

### **Customer Notice**

Notice will be made to the public in local newspapers for four consecutive weeks to notify customers of the rate case filing for the Waverly District. Notice will also be made in the same local newspapers for four consecutive weeks following the issuance of the NYPSC order in this proceeding.

Penelec will also provide all customers with notice of the change in distribution retail rates via messages on their customer bills. This notice will enable customers to analyze how the distribution rates will affect their individual bills.

If you have any questions regarding the enclosed documents, please feel free to contact Kimberlie Bortz, Rates Advisor, [kbortz@firstenergycorp.com](mailto:kbortz@firstenergycorp.com), or the undersigned.

Respectfully submitted,



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Enclosures