

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Wellsboro Electric Company 2007	:	
Distribution Base Rate Filing	:	
	:	Docket No. R-00072350
Supplement No. 31 to Tariff	:	
Electric - Pa. PUC No. 8	:	

STATEMENT OF REASONS

Wellsboro Electric Company ("Wellsboro" or "Company") hereby files with the Pennsylvania Public Utility Commission ("PUC" or "Commission") proposed Supplement No. 31 to Tariff Electric - Pa. PUC No. 8, with an issued date of April 30, 2007, and a proposed effective date of July 29, 2007. The Tariff Supplement reflects an increase in Wellsboro's distribution rates. The Statement of Reasons provides a background of the filing and an explanation of the reasons necessitating the proposed distribution rate increase.

In addition, attached to this Statement of Reasons are the following documents in support of the proposed changes:

Tab A	Responses to 52 Pa. Code § 53.52(a)
Tab B	Responses to 52 Pa. Code § 53.52(b)
Tab C	Responses to 52 Pa. Code § 53.52(c)
Tab D	Rate of Return Information
Tab E	Proposed Tariff Supplement No. 31 to Tariff Electric - Pa. PUC No. 8
Tab F	Summary Chart of Proposed Distribution Rate Changes
Tab G	Customer Letter
Tab H	Notice advertisement appearing in the weekly <i>Wellsboro Gazette</i>
Tab I	Press Release
Tab J	Affidavit of Craig C. Eccher, President and Chief Executive Officer of Wellsboro

I. DESCRIPTION OF COMPANY

Wellsboro is a small investor-owned Electric Distribution Company ("EDC") providing service in the Borough of Wellsboro, Pennsylvania and surrounding areas in Tioga County. Wellsboro is wholly-owned by C&T Enterprises, Inc. ("C&T"). C&T is a holding and management services company that currently owns the majority of the stock of Citizens' Electric Company of Lewisburg, PA ("Citizens"), and all of the stock of Valley Energy, Inc. ("Valley Energy").

Wellsboro's service territory is predominantly rural and is surrounded by the service territory of Pennsylvania Electric Company ("Penelec") and Tri-County Rural Electric Cooperative. As of December 31, 2006, Wellsboro served 5,920 customers, of whom 4,834 were residential, 1,065 were commercial, 15 were industrial, and 4 were sales for resale. The documentation attached at Tab B-3 shows the total customers served by Wellsboro on December 31, 2006, and the number of customers projected to be served as of December 31, 2007. Wellsboro does not anticipate a substantial increase in its customer base.

Electric distribution service remains a service that is regulated by the Commission pursuant to traditional ratemaking processes under Chapter 13 of the Public Utility Code, 66 Pa. C.S. § 1301, et seq. Wellsboro continues to have the obligation to act as the Provider of Last Resort ("PLR") for all of the customers in its service territory in conformance with requirements set forth in the Competition Act, 66 Pa. C.S. § 2807, and actually provides generation supply service to all of its customers as of the date of this filing.

II. EXPLANATION OF PROPOSED DISTRIBUTION RATE INCREASE

Wellsboro conducted an analysis of whether the rates for its unbundled distribution service are sufficient to compensate the Company for the costs that it incurs to provide electric

distribution service, including a reasonable rate of return. As part of this analysis, Wellsboro segregated its costs and revenues related to distribution service, by deducting from total costs and revenues the portion paid or received for generation supply. As a result of that study, the Company determined that an overall distribution rate increase of \$900,537 is necessary.

The proposed increase is approximately 27% of Wellsboro's annual distribution revenues. See Tab B, Response to § 53.52(b)(4). The increase is approximately 9.4% of Wellsboro's total annual revenues (distribution and generation supply). See id. The summary spreadsheets supporting the Company's analysis are attached in Tabs A, B, C and D of this filing. Attached at Tab F is a chart showing the current and proposed distribution rates for each of Wellsboro's Service Schedules. With the exception of the portion of the increase attributable to universal service costs, the rate increase was allocated "across the board" to the customer classes.

If the Company's entire request is approved by the PUC, the total bill for a residential customer using 700 kWh per month would increase from \$62.09 to \$68.55, or by 10.40%. The total bill for commercial and industrial customers will vary depending on demand. For example, the bill for a commercial customer with an average monthly billing demand of 10 kW using 2,920 kWh per month would increase from \$254.11 to \$279.24, or by 9.89%. The bill for a commercial customer with an average monthly demand of 25 kW, using 10,950 kWh per month would see an increase in their monthly bill from \$903.92 to \$984.31, or by 8.89%. Finally, the bill for a typical industrial customer using 36,500 kWh per month with an average monthly billing demand of 100 kW would increase from \$2,916.80 to \$3,157.08, or by 8.23%. The percentage increase for individual customers (including those on other rate schedules) will vary based on usage characteristics.

In addition, Wellsboro proposes to reset its State Tax Adjustment Surcharge ("STAS") to 0.00% in light of the requested rate increase. As a result of a resetting of the STAS, the Generation Supply Service Rate ("GSSR") will also increase slightly. Wellsboro's GSSR will also decrease slightly to reflect the removal of certain distribution related costs that are currently being recovered through the GSSR. Wellsboro will submit an appropriate tariff supplement to implement the changes to the GSSR on the same day that the new distribution rates take effect.

The proposed distribution rates are just, reasonable, and in full compliance with the requirements of Chapter 13 of the Public Utility Code. The rates will enable Wellsboro to recover its known and measurable costs of providing regulated distribution service and a reasonable rate of return. At the same time, the rates will support Wellsboro's continuing efforts to upgrade its distribution system (as discussed below) to the benefit of customers.

III. REASONS FOR RATE INCREASE

Without the requested increase, the Company will earn a rate of return on its distribution business of 3.27%. See Tab C, Response to § 53.52(c)(1). This is obviously a low rate of return that will not support continuation of the Company's efforts to improve the distribution system. If the full request is granted, it will enable Wellsboro to earn a return of approximately 8.85%. See id. Wellsboro believes that this is an appropriate return for its regulated distribution service in line with the current expectations of investors in the marketplace, especially investors in smaller utilities, which are generally viewed as being more risky due to their susceptibility to larger revenue fluctuations due to weather-related usage variations, loss of customers and other factors.

Wellsboro's system has historically been served through a single substation, parts of which are between 60 to 80 years old. Wellsboro continues to take proactive steps to maintain and upgrade its electric distribution system to ensure safe and reliable service for customers. For

example, in July 2005, Wellsboro completed phase one of the construction of a new substation, the excavating of the site and the installation of a new transformer. As a result, the transformer is currently used and useful for public service. The second phase, which the Company anticipates will commence within the next two to five years, will be the purchase and installation of a second transformer. This transformer will account for the additional growth on Wellsboro's system in the coming years, as well as provide support for the first transformer. With this redundancy, the Company will also be able to perform maintenance on the first transformer without interrupting service to customers. The third phase, which Wellsboro anticipates completing concurrent with the second phase, will provide for the construction of a transmission line to replace the current Penelec radial line, which interconnects with PJM Interconnection, LLC ("PJM") at the Wellsboro aggregate bus and feeds to the substation.

For an EDC of Wellsboro's size, such considerable upgrades such as constructing a new substation are a substantial investment. Wellsboro must strive for financial conditions that permit the accomplishment of the phases two and three of this project. The Company's current return is insufficient to allow this to happen. Wellsboro's total revenues in 2006 were \$9,607,592, of which \$6,350,642 were directly attributable to payments by customers for generation supply service.

To enable Wellsboro to undertake the future stages of the substation and transmission line project, it is critical for the Company to be permitted to earn a fair return on its existing rate base consistent with the assumptions used to develop the proposed rate increases. Small utilities such as Wellsboro face unique issues when trying to accomplish major construction projects such as this that increase the investment risk for potential investors in the utility and, as a result, the return that investors in the marketplace expect on the investment. The rate of return

assumptions developed by the Company's expert witness appropriately reflect those risks through the assumed capital structure and return on common equity.

In addition to the construction of the new substation, Wellsboro has been systematically rebuilding and replacing distribution equipment to enhance service reliability. Over the last three years, the Company has made considerable investments in capital improvements for planned upgrades and/or replacements necessitated by storms. The proposed increase will enable Wellsboro to continue this effort and commitment to provide quality service to its customers.

Moreover, various operations and maintenance costs have increased since the Company's last base rate case in 2004. This includes costs related to wages, employee benefits, and other expenses necessary to run the distribution system. Although the Company has also experienced some expense reductions, proposed changes in this filing are necessary to adjust distribution rates to account for the net overall expense increases.

IV. EXPLANATION OF PROPOSED TARIFF CHANGES

In addition to the overall increases in distribution rates, the Company also proposes to make certain changes to the terms and conditions of service in its Tariff. The majority of the changes are minor housekeeping changes. Each of the major changes is summarized below.

A. Rate Schedule EU – Exchange Service

Wellsboro's current Exchange Service Rate Schedule continues to bundle together distribution and generation service into a single charge. This service schedule applies to borderline customers and emergency energy provided to other utilities (sometimes referred to as sales for resale in the attached calculations). Wellsboro proposes to unbundle this rate schedule so that the distribution component is adjusted in this proceeding. Going forward, Wellsboro will

have a per kWh charge for distribution service, and a separate generation supply charge that would be adjusted based on any change in the GSSR.

B. Rules and Regulations No. 16 - Returned Check Charge

In order to remain current with new developments in technology and efficiency, and because of new customer payment options offered by Wellsboro such as electronic funds transfer, Wellsboro proposes to modify Rule No. 16, the Returned Check Charge. Specifically, the language will be modified to include the alternative methods of payment now accepted by the Company. This change is merely to align the Company's tariff with its continued innovations in customer service.

V. NOTICE PROCEDURES AND EFFECTIVENESS OF PROPOSED RATE CHANGES

Wellsboro has elected to proceed under the provisions of Section 53.45(b)(4) of the Commission's regulations in providing notice to its customers of its rate change. See 52 Pa. Code § 53.45(b)(4). Wellsboro will include a bill insert in the format shown in Tab G in customer bills for the monthly billing cycle after this filing. Wellsboro also placed a copy of this notice in conspicuous places in the Company's office where payments are accepted. Wellsboro will also place an advertisement in the form shown in Tab H in its local newspaper *The Wellsboro Gazette*. Finally, Wellsboro issued today a press release in the format shown in Tab I.

VI. ADDITIONAL INFORMATION

The Company has engaged Black & Veatch to prepare the supporting information and cost analyses submitted with this filing. To the extent evidentiary hearings are convened regarding this matter, representatives from Black & Veatch will testify in support of the calculations. In addition, the Company may rely on testimony from various personnel as necessary during this process.

VII. APPEARANCE OF COUNSEL

Wellsboro will be represented regarding this filing by the following attorneys:

Pamela C. Polacek
Adam L. Benshoff
McNees Wallace & Nurick LLC
100 Pine Street
Harrisburg, PA 17108-1166
717.232.8000 (phone)
717.260.1736 (fax)
ppolacek@mwn.com
abenshof@mwn.com

All inquiries or pleadings regarding this filing should be directed to Ms. Polacek at the address and telephone number noted above. The Company encourages interested parties to informally contact its attorneys to discuss any questions or concerns related to the filing.

VIII. CONCLUSION

WHEREFORE, Wellsboro Electric Company requests that the Pennsylvania Public Utility Commission review and approve its proposed Supplement No. 31 to Tariff Electric - Pa. PUC No. 8, with proposed effectiveness on July 29, 2007.

Respectfully submitted

McNEES WALLACE & NURICK LLC

By 

Pamela C. Polacek, I.D. No. 78276
Adam L. Benshoff, I.D. No. 200498
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
Telephone: (717) 232-8000
Facsimile: (717) 260-1736

Counsel to Wellsboro Electric Company

Dated: April 30, 2007